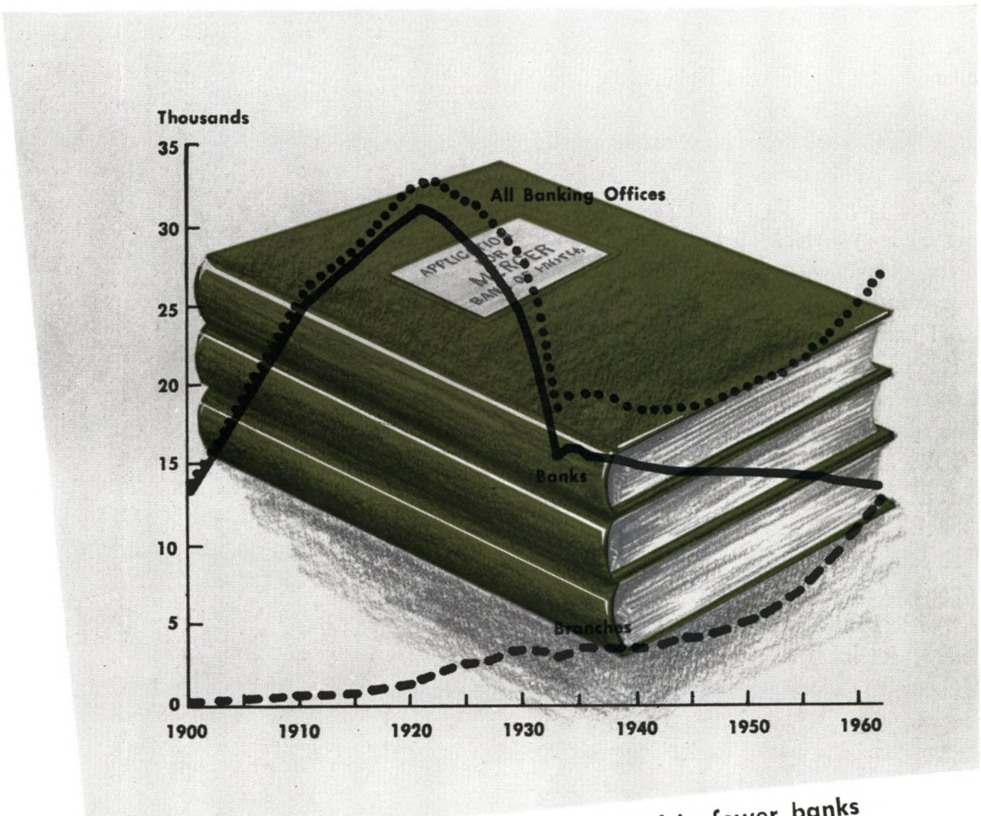
MONTHLY REVIEW



Recent banking changes have resulted in fewer banks but more banking offices.

FEDERAL RESERVE BANK OF RICHMOND JULY 1963

THE NEW LOOK IN BANKING STRUCTURE

Changes in the banking system of the United States in the past decade have been sufficient to cause widespread public interest and some concern. This interest has resulted in a growing public discussion devoted to an appraisal of the adequacy of the country's banking system and involving proposals for changing both the legal framework within which banks operate and arrangements for bank regulation and supervision. Some of these proposals already have led to significant Federal and state legislation.

Although the history of banking in the United States is a chronicle of change, the changes of the past decade have differed somewhat from those of earlier periods. The number of commercial banks in this country increased about two and one-half times in the first two decades of this century, and by 1920 they numbered almost 30,000. Many of these were small banks located in small towns. This period of overexpansion was followed by a large number of suspensions and mergers in the 1920's and the virtual collapse of the commercial banking system in the early 1930's. By 1933, the number of commercial banks in the United States had fallen to 14,500, less than half the 1921 figure.

Recent changes in the banking system have involved an increase in the number of commercial banking offices and a growth in banking combinations, with a decline in the number of independent banks. The controversy arising from these developments reflects the powerful forces at work, with forces of change growing out of underlying economic and social development and the forces of restraint based on the traditional American fear of concentrated economic power, especially in the financial field.

FORCES FOR CHANGE Economic growth is a process of change and the growth in our economy in the past decade significantly changed the environment in which our banking system functions. Population increased and per capita income rose. New industries developed, others shifted their geographic locations, and the average size of business units increased. Not only did population increase, but it shifted regionally, from rural to urban areas, and from central cities to the suburbs.

Growth in per capita income contributed to changes in saving and consumption patterns and created a need for increased banking services and for new kinds of banking services. Population shifts centered these new demands on areas served inadequately or not at all by existing banks. Similarly, changes in the industrial and commercial structure led to needs for additional and different banking services in new areas. Finally, increasing costs and automation provided additional incentives for expansion.

NATURE OF THE CHANGES In the decade ending December 1962, the number of commercial banks in the United States declined by 619, as the number of new banks organized was insufficient to offset decreases resulting from suspensions, consolidations, voluntary liquidations, and other changes. In spite of the decline in the number of banks, however, total banking offices increased by 6,175 as the number of branches and additional offices rose by 6,794.

Mergers and the growth of branch banking may have been the most important aspects of the changes in the banking system in recent years, but they were by no means the whole story. Important changes not reflected in these statistics include the growth of systems involving the linking together of banking units through stock ownership. The growth and development of nonbank financial institutions also provided added financial facilities.

The manner in which additional services were provided in a particular area was influenced to an important degree by the legal framework within which the change occurred. Commercial banks in the United States operate in a unique legal framework, with federally and state-chartered banking systems operating side by side in each state, and with both Federal and state laws applying to most types of bank expansion. State law determines the status of branch banking in each state for national as well as for State banks. Most bank mergers fall under the provisions of the Bank Merger Act of 1960 which requires the approval of one of the three Federal supervisory agencies, and the Bank Holding Company Act of 1956 requires approval of holding company acquisitions by the Board of Governors of the Federal Reserve System. Chain banking is not specifically controlled by law, but various types of acquisitions may be subject to provisions of the anti-trust laws. Differences in the banking laws of the several states go far toward explaining differences in state banking structures.

BRANCH BANKING Branch banking exists when a single bank, having one charter and one corporate existence, carries on business through multiple offices. It has long been a source of controversy in the United States and recent changes in banking structure, along with proposals to change branching laws, have given the controversy new life.

Advocates of branch banking claim it strengthens the banking system. In past periods of widespread bank failures, a great many of the failing banks were small unit banks, often with poorly trained managerial personnel and with resources and markets too limited to permit diversification of assets. Proponents of branch banking argue that with greater resources and larger markets, branch systems can achieve the diversification needed for soundness. Further, larger organizations may permit the development and retention of more capable management.

It is said that branch banks facilitate the transfer of funds from surplus areas to areas where funds are in short supply, thus achieving a more complete mobilization of resources than would be possible in a unit banking system. Also, branch organizations are said to enjoy economies of scale which lower operating and overhead costs. Advocates of branch banking maintain that because of the ability to centralize some functions, and because it is unnecessary to erect expensive buildings for each office, a branch system can provide full banking services in areas which could not support even a small unit bank offering limited services.

On the other side of the argument, the claim that branch banking leads to monopoly carries great weight in this country because of a traditional fear of concentrations of economic power. Opponents say that branch banking results in fewer banks and that fewer banks mean reduced competition. A closely related argument is that expansion tends to become an end in itself, and a few rapidly expanding institutions engage in a competitive struggle for new markets. In the process they are said to coerce and intimidate small independent bankers into selling out to them.

Opponents of branch banking also claim that branch banking would lead to a sacrifice of local interest to that of the head office city. Branch managers, they say, are likely to be uninformed as to the credit needs of the community and must operate according to strict rules laid down by the head office. To the claim that branch systems mobilize the supply of funds and facilitate the flow of credit within the economy, opponents argue they drain needed capital out of local communities into the cities. Finally, a branch manager is considered likely to be more impersonal than a local banker in considering loan applications, and it is feared he might give too little consideration to such things as character of the applicant and the needs of the community.

It is not the purpose of this article to evaluate these arguments. All of them have been disputed, however. For example, while it is unquestionably true that our unit banking system has had a great many more failures than branch banking systems in other countries, it may be argued that the unsound banks have been eliminated from our system and that deposit insurance and basic changes in our financial and economic systems make it highly unlikely that bank failures will ever again be a serious problem.

On the other hand, many deny the assertion that branch banking leads to monopoly. The typical unit bank operates in a loan market limited in size to the local community. Since a great many communities are served by only one bank, and many others by only two or three, it is argued that in these limited market areas, a high degree of monopoly might exist even in a unit banking system. Indeed, it is often said that the establishment of a branch, either *de novo* or through merger with an existing bank, may well

CHANGES IN THE NUMBER OF COMMERCIAL BANKS AND BRANCHES, 1952-1962

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	Cumulative Change
All Commercial Banks											
Increase	67	75	116	123	91	97	145	135	113	184	1,146
Primary organizations	64	73	116	123	89	97	117	135	112	183	1,109
Unclassified	3	2	......	......	2	......	28	......	1	1	37
Decrease	132	216	240	199	163	164	172	137	153	189	1,765
Suspensions	4	3	4	3	3	8	3	2	9	2	41
Consolidations and absorptions:											
Converted into branches	92	175	204	166	134	126	148	106	126	164	1,441
Other	23	31	27	23	23	25	18	25	13	18	226
Voluntary liquidations	10	7	5	7	3	5	3	4	5	4	53
Unclassified	3	......	......	......	......	......	......	......	......	1	4
Net change	− 65	−141	−124	− 76	− 72	− 67	− 27	− 2	− 40	− 5	− 619
Branches and Additional Offices											
De novo branches established	280	341	442	522	501	540	584	771	788	874	5,643
Banks converted into branches	92	174	203	166	134	126	148	107	126	164	1,440
Discontinued branches	19	28	44	36	30	30	48	52	53	47	387
Other changes	......	− 6	+ 1	......	+ 1	+ 9	+ 91	+ 2	......	......	+ 98
Net change	+353	+481	+602	+652	+606	+645	+775	+828	+861	+991	+6,794

increase rather than reduce competition in a given locality.

ESTABLISHMENT OF BRANCHES Branches may be established by merging two banks and operating one of the banks as a branch of the other, or through the establishment of a branch *de novo*. Although state banking laws generally govern the establishment of branches within a state, Federal banking agency approval is also necessary in most cases.

National banks in a given state are permitted to establish new branches, subject to approval by the Comptroller of the Currency, to the extent that state law permits branching by State banks. State banks that are members of the Federal Reserve System need the approval of the Board of Governors, and insured nonmembers need the approval of the Federal Deposit Insurance Corporation.

In establishing branches by use of the merger technique, approval of the merger itself is necessary. The Bank Merger Act of 1960 provides that if the continuing bank is to be a national bank, approval of the Comptroller of the Currency is required; if it is to be a State member bank, approval of the Board of Governors is required; and if it is to be an insured nonmember bank, the FDIC must approve. If the continuing bank is to be a state-chartered bank, application for approval must be made to the state as well as the Federal authority. Restrictive state laws on branch banking do not rule out mergers, of course, if the combining banks merge their assets and operate from one location. Since most mergers and consolidations result in the establishment of a branch, however, not many mergers occur in states prohibiting or severely restricting branch banking.

In the past decade, 7,083 branches and additional offices of commercial banks were established. Of these, 5,643 were *de novo* branches and 1,440 were conversions of banks into branches through merger or consolidation. Discontinuances and other changes reduced the number of branches by 289, resulting in a net addition of 6,794 branches in the decade. In approximately 86% of the consolidations and absorptions, the acquired bank was converted into a branch.

BANK HOLDING COMPANIES In contrast to branch banking are the systems involving control over separate banking units through stock ownership. Group banking is a term sometimes applied to ownership of stock in one or more banks by a holding company. Chain banking refers to stock ownership in several banks by an individual or a small group of individuals, often a family. Branch, group, and chain banking are not mutually exclusive, however, since branch systems may be included in groups or chains.

A bank holding company is a corporation organized under the laws of a state. In most cases the holding company does not engage in banking, but some banks do act as holding companies. Banks in a holding company system are separately chartered institutions, each with its own board of directors and officers and subject to the same laws as other banks in the same jurisdiction. Because holding company systems are made up of separately chartered banks, they are more decentralized than branch systems and may possess more organizational flexibility. Since directors of subsidiary banks are often local citizens, each bank is able to retain its local character.

The extent of control exercised by the holding company management over the activities of subsidiary banks varies greatly from one system to another. Sometimes the directors and senior officers of the holding company are included on the boards of affiliated banks, and occasionally directors of affiliated banks serve, somewhat as representatives of their respective banks, on the board of the holding company. In any event, directors of each subsidiary bank represent the stockholders of the bank, and in most cases the holding company is the dominant stockholder.

Perhaps more often than not the directors and officers of the individual banks make decisions on individual loan applications, with the holding company establishing general loan policy. Investment activities, on the other hand, are subject to much more centralized control by the holding company. It is not unusual for the holding company to provide an investment service to subsidiary banks involving almost complete supervision of portfolios.

Bank holding companies can provide a number of valuable services to subsidiary banks. In addition to investment services, these may include centralized purchasing; legal, accounting, and tax services; and assistance in improving operations. Sometimes the leading bank of a group serves as a training ground for future management personnel in other banks of the system. Frequently, the holding company conducts periodic examinations of subsidiary banks, analyzes their operations, and reports to the directors of the bank and the holding company.

While the holding company organization has certain advantages in comparison with other forms, it lacks the flexibility of the branch organization in loan and deposit operations. The group is composed of separate banking units and the legal loan limit for each bank in a group is determined by its own capital resources. In branch systems, however, the loan limit for each branch is the same as that for the whole system.

It is sometimes argued that group organization permits a subsidiary bank to lend in excess of its legal limit because of the ease of arranging for other banks in the group to participate in a loan. Because of a provision of the Holding Company Act which has been interpreted to require participating subsidiary banks to join at the outset in making a loan, however, it may be easier for an independent bank to arrange a participation with a correspondent than for two subsidiary banks in a holding company system to do so.

One of the advantages of the branch organization is the ability of the system to mobilize and transfer funds within the system. Because the group is composed of separate banking units, and because members of a group are not permitted to lend to the holding company or to other banks in the group, some of this mobility of funds is absent.

The holding company organization is sometimes regarded as little more than a means of getting around restrictions on branch banking. It is true that in states which prohibit or severely restrict branching, group or chain banking may be a substitute for multiple office banking, but the holding company is also found in states having little or no restrictions on branch banking.

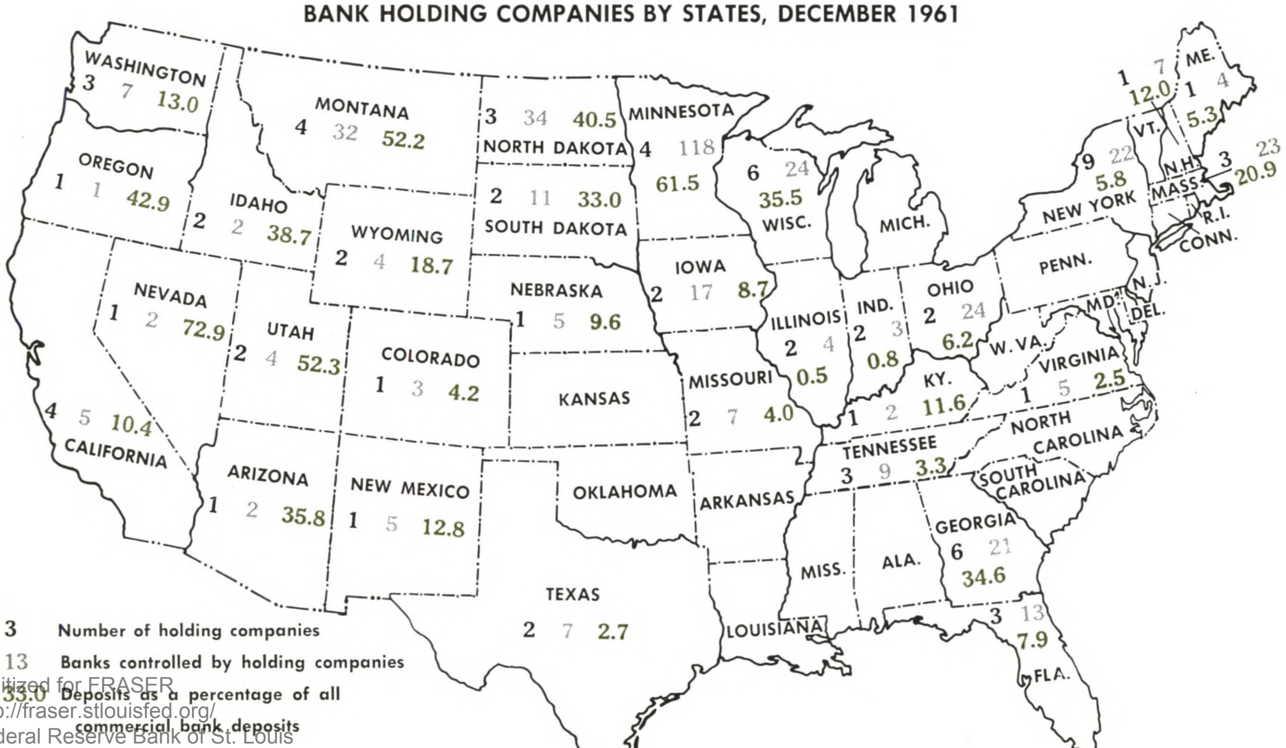
It is also true that, unlike branch systems, holding company groups may operate across state lines. On June 30, 1962, 12 holding companies controlled banks in more than one state. One controlled banks in 11 states with deposits of $5.3 billion, an amount equal to 13.1% of all commercial bank deposits in the 11 states. State law may prohibit group banking within a particular state, however, and the Bank Holding Company Act provides that an out-of-state holding company can acquire shares or assets of a bank only if the state into which it wishes to expand specifically authorizes such acquisitions by an out-of-state bank holding company. Since no state has specifically authorized such acquisitions, the effect has been to prevent registered holding companies from making new acquisitions across state lines.

EXTENT OF GROUP BANKING As the accompanying map shows, the importance of group banking varies geographically. At the end of 1961, 46 bank holding companies having subsidiary banks in 31 states were registered under the provisions of the Bank Holding Company Act. In addition, a number of holding companies are not subject to the registration requirements and are not included in these figures.

Bank holding companies are relatively most important in the Midwestern and Pacific regions. Over half of the deposits of all commercial banks in Nevada, Montana, Utah, and Minnesota are held by holding company subsidiaries. In seven other states, six of which were in these two regions, 33% or more of total deposits of commercial banks were held by holding company subsidiaries.

SUMMARY In recent years a significant feature of bank expansion has been a growth of branch and group banking accompanied by a reduction in the number of banks. The pace at which change is taking place is quickening. Proposals are being made to change the laws pertaining to bank expansion but just what legal changes will be made, if any, are not apparent at this time.

BANK HOLDING COMPANIES BY STATES, DECEMBER 1961



Wholesale Prices

Changes in the over-all level of prices and changes in the price structure influence the economy at every level. Commodities flow through a stream of transactions, each of which involves determination of a price. The economic forecaster is interested in price measures at the various transactions levels as well as in particular economic sectors.

This article discusses measures of prices at the production level. A subsequent article in this series will consider measures of prices at the retail level and prices of goods and services making up gross national product.

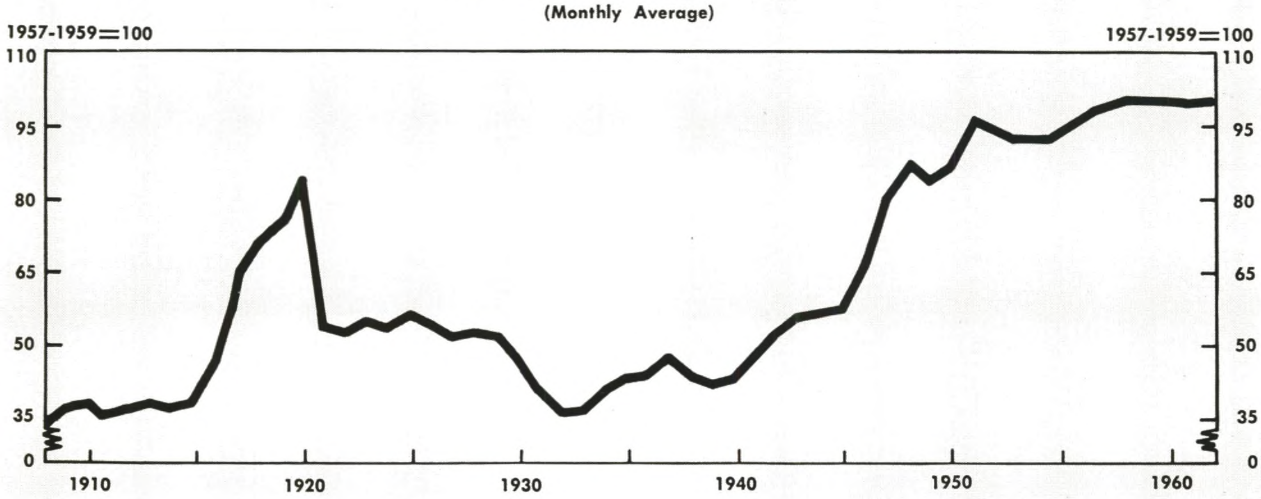
WHOLESALE PRICE INDEX The most comprehensive measure of the general commodity price level is the monthly index of wholesale prices, compiled by the Bureau of Labor Statistics. The Wholesale Price Index is designed to measure changes in prices of all commodities sold in the country's primary markets. Thus it focuses on prices paid by the first large-volume class of buyer. The index is not designed to measure prices received by wholesalers, jobbers, or distributors.

The official BLS index of wholesale prices is available back to 1890. Since that time there has been no change in the basic purpose of the index, which is to measure price changes on primary markets. There have been, however, a number of modifications in the calculation methods and the scope of the index.

COVERAGE Prices are currently collected for more than 2,000 commodities, ranging from raw materials to finished products. Precise specifications are drawn for each commodity. Insofar as possible, the index measures price changes other than those occasioned by modifications in quality, quantity, or in terms of sale. The prices relate to a particular

INDEX OF WHOLESALE PRICES

(Monthly Average)



day of the month, usually Tuesday of the week containing the 15th. Commodities are selected on the basis of an analysis of each industry and its important products. All must be established products, in both the technical and the market sense.

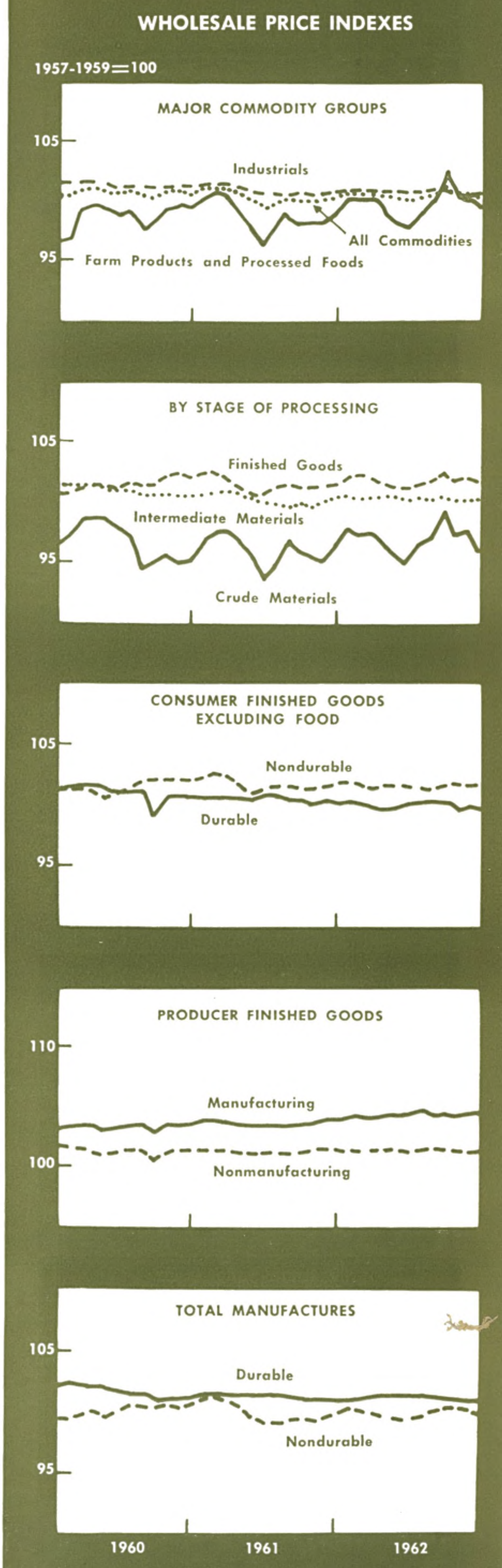
COMPONENT INDEXES Because of the breadth of the index, it is possible to publish a large number of component price series. The comprehensive monthly index is subdivided into two main categories: (1) farm products and processed foods, with a separate index for each; and (2) all commodities other than farm products and foods. The latter category is further subdivided into 13 major product industry groups. Separate indexes are also computed for numerous subgroups, product classes, and individual products. When disclosure is not involved, the unit prices of individual commodities are also published.

Three series of special purpose indexes are prepared by regrouping commodities included in the comprehensive index. One set relates to additional commodity groupings, such as "all foods" and "construction materials." The second set, which breaks all prices down by stage of processing, has three main categories, subdivided according to end-use and durability, as illustrated in the second, third, and fourth charts on this page. The third set, which groups all prices by durability of the product, is available for all commodities, for total manufactures (illustrated in the fifth chart), and for total raw or slightly processed goods.

The indexes for the major commodity groups and subgroups are available from 1890; those on product classes, from 1947 forward. Indexes for two special commodity groups—all foods and construction materials—have been extended back to 1926. Indexes for the other special commodity groups, for the various stages of production, and for durable and nondurable goods are available from 1947.

CONSTRUCTION OF THE INDEX The individual price series are combined into indexes by a method of "weighting." The weights represent the relative importance in terms of value of sales of the individual series to the total value of all commodities flowing into primary markets during a selected period. Each series is assigned its own weight plus the weight of commodities it was selected to represent. Effective with the January 1961 indexes, the weights are based on 1958 sales values, adjusted for price changes between 1958 and December 1960. The weighting structure is revised periodically when data from the industrial censuses become available. The current base period, 1957-59=100, was instituted with the January 1962 data. The index is not adjusted for seasonal variation.

THE WEEKLY INDEX As an interim measure, a weekly wholesale price index is calculated as an estimated percentage change from the latest monthly comprehensive index and converted to index form for publication. The weekly index is based on Tuesday prices of approximately 200 of the commodities included in the monthly index and on estimated prices of the others. Component indexes are published weekly for farm products, processed foods, and industrial commodities. The weekly indexes are not maintained as a continuous series.



THE NEW SILVER LAW

On June 4, 1963, the President signed into law a piece of legislation which marked another milestone in the long history of silver as a monetary metal. Since 1900, when the Gold Reserve Act placed the United States officially on the gold standard, silver has played a secondary role in the monetary system. It has been used in silver dollars and subsidiary coin and as backing for silver certificates. Today less than 3% of the United States money stock (coins, paper money, and demand deposits adjusted) rests on a silver base. The bulk of this is represented by some $2 billion of silver certificates which are composed almost entirely of $1 bills. While silver is relatively insignificant quantitatively, it provides the basis for the "convenience" money—the $1, 50-cent, 25-cent, and 10-cent denominations—without which no monetary system could function smoothly.

PROVISIONS OF THE ACT The new legislation provides for the replacement of silver certificates by permitting the Federal Reserve to issue notes in $1 and $2 denominations. The silver certificates presumably will be retired only as fast as their silver backing is needed for coinage. Therefore, the transition from silver certificates to Federal Reserve notes can be expected to take place gradually over a period of many years.

To insure the maintenance of adequate silver backing during the transition period, the new law requires the Treasury to hold an amount of silver equal in monetary value ($1.2929 per ounce) to the face amount of all silver certificates outstanding. This provision enables the holders of silver certificates to exchange them for silver dollars or, at the option of the Secretary of the Treasury, for an equivalent amount of silver bullion.

The law also restricts the use of "free" silver, or silver which the Treasury holds in excess of the amount necessary to redeem outstanding certificates. It forbids Treasury sales of free silver in the open market at a price lower than its monetary value ($1.2929 per ounce) but allows sales at a lesser price to Government agencies and departments. It envisages the eventual use of most free silver for the coinage of silver dollars and subsidiary coins.

In addition, the new law repeals the silver purchase legislation under which the Treasury has maintained a floor under the price of domestically mined silver since 1934. The Silver Purchase Act of 1934, as amended in 1946, required the Treasury to purchase newly mined domestic silver at 90½ cents per ounce and permitted the purchase of foreign silver at the world market price and the sale of free silver from Treasury stocks at a price of not less than 90½ cents per ounce, plus handling charges. The rise in the price of silver above the Treasury's buying price in 1959 made the purchase provision of the old legislation inoperative, and the sales provision has been inoperative since November 1961 when the President instructed the Secretary of the Treasury to make no sales of silver at less than its monetary value of $1.29 per ounce. The new law, therefore, removes from the books a piece of legislation rendered obsolete by market developments over the past few years. As a corollary to the repeal of silver purchase laws, the new law also revokes the 50% transfer tax on silver bullion which was designed to discourage speculation.

NEED FOR THE NEW LEGISLATION The changes which the new law makes in the role of silver in the monetary system and in the Treasury's methods of dealing in the metal were dictated by changed conditions in the silver market that have been in process for some time. During the decade of the 1950's, the free world's consumption of silver consistently exceeded its production and the New York price for silver fluctuated near the Treasury's selling price of 91½ cents per ounce most of the time. In early 1959 the market price moved above the Treasury's selling price for the first time in a generation, and users of silver turned to the Treasury as a source of supply. As market prices continued upward, Treasury sales of free silver became progressively heavier and free silver stocks were reduced from 202 million ounces at the beginning of 1959 to about 25 million ounces when the President ordered the Treasury to stop sales in late November 1961.

With the suspension of sales, the price of silver in the New York market rose immediately to about $1.00 per ounce and by the end of the year reached a level of $1.05 per ounce. For the first seven months of 1962 the price fluctuated between $1.01 and $1.05, but from the beginning of August through mid-October, the price rose rapidly to about $1.20

where it stabilized for the rest of the year. Since the first of 1963 the price has taken another sizable jump to a level of about $1.28, which is only slightly below silver's monetary value of $1.29.

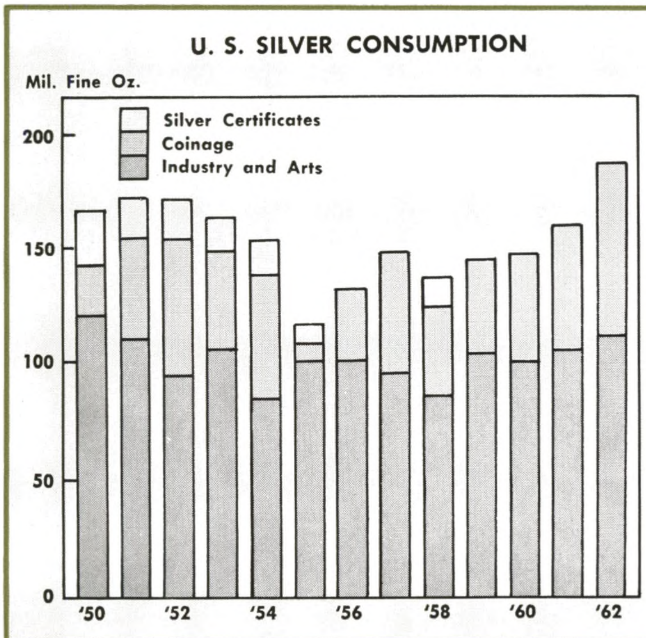
In the absence of Congressional action, the price of silver would probably have continued to rise due to steadily increasing world consumption of silver, primarily for use in industry and the arts. In addition, the Treasury would soon have found it necessary to enter the market to purchase silver for its coinage needs, which currently amount to about 75 million ounces per year, and to meet the nation's growing requirements for $1 certificates.

Since the President's executive order of November 1961, the Treasury has been retiring silver certificates in denominations of $5 and above. This move will eventually free some 285 million ounces of silver, making it available for coinage. According to recent testimony by the Secretary of the Treasury before the Committee on Banking and Currency, this silver, plus the Treasury's free stock of about 30 million ounces, would have been exhausted sometime in 1965 had the new law not been enacted. Thereafter, silver for coinage purposes would have been available only through the world market at world market prices. Since domestic production of silver normally falls far short of domestic industrial consumption, all purchases would have had to be made abroad. Assuming prices of $1.29 per ounce and yearly requirements of 75 million ounces for coinage and 38 million ounces for backing for $1 certificates, this would have added some $146 million per year to the country's balance of payments deficit.

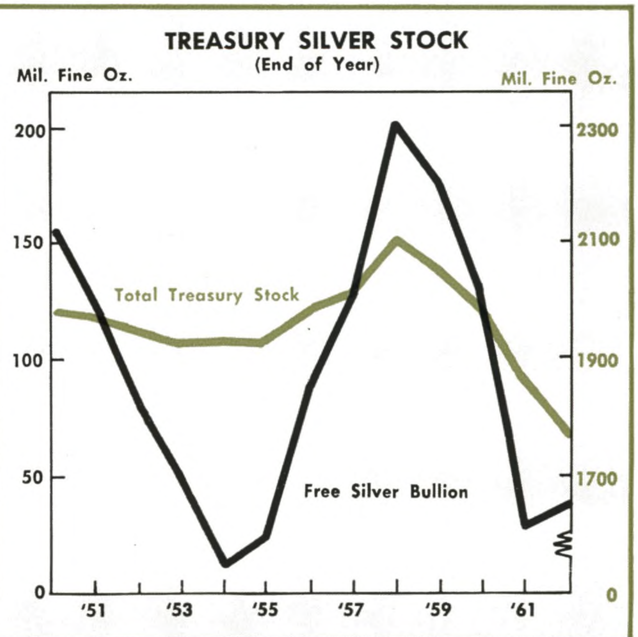
The replacement of $1 silver certificates with Federal Reserve notes, as provided for in the new law, will make available to the Treasury about 1.3 billion ounces of silver when the whole operation is completed. According to Treasury estimates, this amount plus existing free silver and the amount freed by retirement of higher denomination silver certificates, will meet coinage needs for the next 10 to 20 years.

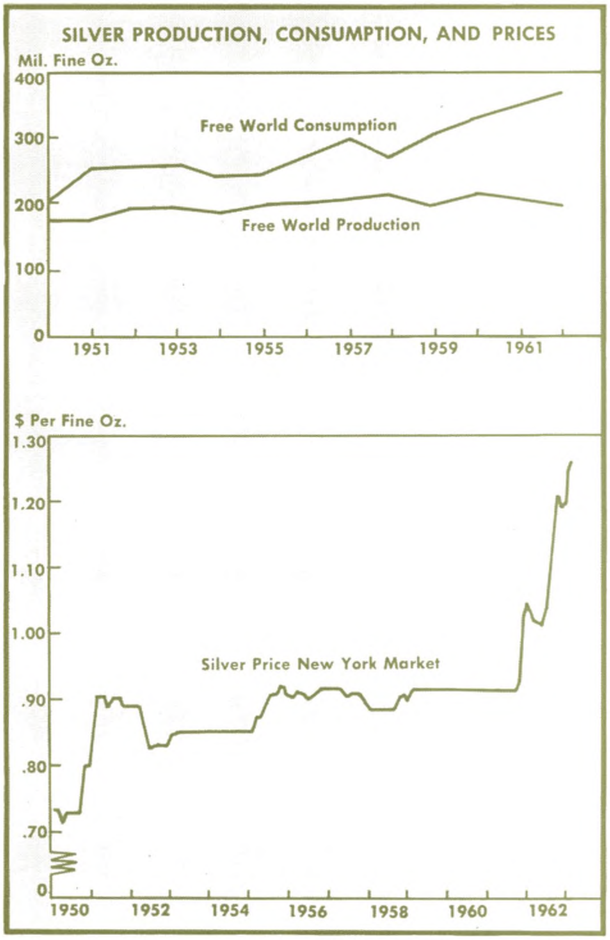
EFFECT ON VALUE OF OUR CURRENCY The removal of silver backing from part of our currency will not cause any change in the value of our money because for many years the value of silver certificates has not depended on the silver held as backing. Except for a brief period in late 1919 and early 1920, a dollar has always been worth more than the silver behind it. This is still true, even after the rapid increase in the price of silver which has taken place since November 1961. At the present price of about $1.28 per ounce, the 77/100 of an ounce of silver behind a $1 silver certificate is worth only 98½ cents. At the trough of the Great Depression in 1933, the commercial price of bar silver in New York averaged about 35 cents an ounce and the backing behind a $1 silver certificate was worth only 27 cents. Therefore, the value of these certificates and the value of all our currency has depended on public confidence in the financial and fiscal integrity of the Federal Government. The replacement of silver certificates with Federal Reserve notes will in no way debase our currency. For

The greater use of silver for coinage purposes has accounted for most of the increased consumption of silver during recent years.



Total Treasury silver stocks continued to fall in 1962 but free stocks rose due to the retirement of high denomination certificates.





Silver consumption has exceeded production for years but the price rose only after the Treasury suspended sales in late 1961.

many years most of our currency has been in the form of Federal Reserve notes and these have always been as readily acceptable to the public as silver certificates.

EFFECT ON FREE GOLD Since Federal Reserve notes must be backed 25% by gold, the substitution of Federal Reserve notes for silver certificates will result in a small reduction of our free gold, or that part of our gold stock not required as backing for Federal Reserve note and deposit liabilities. Since approximately $2 billion of silver certificates are currently outstanding, the shift will ultimately involve a reduction in free gold of about $500 million.

The shift will take place gradually, however, and will not reduce free gold by that amount immediately. Current Treasury plans call for the retirement of only about $100 million of silver certificates a year, the amount necessary to meet coinage needs. The resulting drain on free gold might accordingly amount to as little as $25 million per year. Secretary Dillon in his recent testimony before the Banking and Currency Committee estimated that the total drain probably will not exceed $35 to $40 million per year.

THE NEW PRICE CEILING FOR SILVER The requirement to redeem silver certificates, on demand, in silver dollars or equivalent silver bullion puts an effective lid on the market price of silver at $1.29 an ounce so long as existing Treasury stocks are available for such redemption. The maintenance of this ceiling, however, could lead to heavy losses of Treasury silver which otherwise could be used for coinage.

If there were no ceiling and if market forces should push the price of silver above $1.38 per ounce, it would then become profitable to melt down smaller silver coin, and the continued circulation of dimes, quarters, and half dollars would be threatened. The only solution would then be to reduce the silver content of the coins to make them less valuable as sources of bullion. As a matter of fact, such a solution was adopted in 1853, the year in which the present system of subsidiary coinage was established. In that year, soaring silver prices led to a general disappearance of small coins, with accompanying serious inconvenience in the nation's business community.

PERMANENCY OF THE PRESENT SOLUTION The permanency of the solution set forth in the new legislation depends, of course, on the conditions of demand and supply in the silver market. Should market forces put strong upward pressure on silver prices and consequent large-scale redemptions rapidly deplete Treasury stocks, Congress might be forced to reduce the silver content of subsidiary coin fairly soon.

If, on the other hand, the price of silver stabilizes around current levels, the recent legislation might provide an effective solution to the silver problem for many years to come. In the long run, there is some chance that recent high prices will stimulate greater production, and on the demand side the high prices are likely to stimulate greater utilization of substitutes.

For the shorter run, however, it appears certain that demand will continue to outpace additions to new output. Thus, significant price rises can be avoided only to the extent that unused supplies are either thrown on the market or allowed to diminish market demand. In recent months, price increases have been temporarily slowed down by sizable dishoardings of Chinese and Mexican silver. The new Treasury policy, which amounts to a significant diminution in demand since it removes the necessity of Treasury purchases, can be expected to have a larger effect in the same direction. The new policy is designed to hold the line on prices long enough to allow expanded output to match the pace of increased demand.

THE FIFTH DISTRICT

Fifth District business conditions have maintained a gradually upward course with most indicators, both general and specific, providing evidence of improvement. Favorable developments have continued to dominate the few statistical series that are available weekly. Thus, insured unemployment, reflecting broad coverage of the District economy, has continued to decline at a distinctly better than seasonal rate. Department store sales have been improving gradually since April, when a rather sharp decline occurred. And bituminous coal production and shipments have maintained good levels.

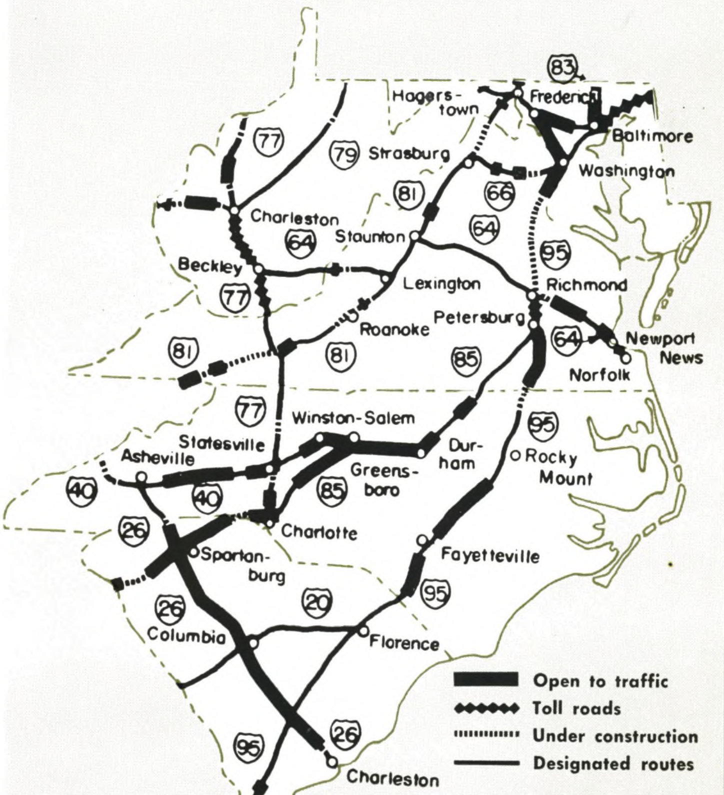
Other statistics also show that recent gains are probably firmly based. Seasonally adjusted nonfarm employment rose slightly in May as a result of a modest amount of new strength in the nonmanufacturing sector. As has rather frequently been the case, the principal gains occurred in services and service-type enterprises such as those engaged in transportation and related activities, financial and similar services, and government. The high level of construction employment remained unchanged in May, while jobs declined slightly in trade and mining. Employment in nondurable goods industries remained unchanged in May, but jobs in factories making durable goods declined slightly.

Although small reductions were typical of manufacturing employment, these were generally offset by increases in the length of the workweek. Thus, seasonally adjusted factory man-hours in May rose 1% in durables and nearly 2% in nondurable goods industries. Only three of the District's major industry groups (electrical machinery; stone, clay, and glass products; and paper) failed to contribute to the May rise.

STRAWS IN THE WIND Sources of statistical and more general information possessing certain predictive implications have also remained quite steadily favorable. For instance, a substantial rise in new construction contracts occurred in April. In the same month District building permits neared an all-time high and continued strong in May although at a somewhat lower level. Recent reports of modest increases in manufacturers' new orders, backlogs, and shipments accompanied by small declines in inventories also suggest continued strength. Steel and a few other industries, such as those mentioned parenthetically above, may well be exceptions to this generalization. But otherwise, if any significant weaknesses are developing in the current District situation, they remain effectively camouflaged.

SUMMER AND THE OPEN ROAD About this time of year residents of the Fifth District, along with people in other parts of the country, become unusually restless, in some cases even adventurous. The symptoms spread like a virus, eventually to epidemic proportions. The ailment is simply the urge to "get up and go," and it defies any sort of adjustment for seasonal variation. So, with at least as much effort as ever goes into a day's work, they make elaborate preparations and spend their hard-earned vacation time going places and doing things. Increasingly, travelers turn

THE INTERSTATE HIGHWAY SYSTEM IN THE FIFTH DISTRICT



to automobiles for freer expression of the urge to go. Last year set a record for new passenger car registrations in the Fifth District, exceeding the 1955 peak by 6%. And 1963 registrations through the first four months were running fully 18% ahead of 1962. Clearly, a new era of highway travel is in the making. This summer and in summers to come motorists generally will travel under more favorable conditions than ever before. The network of interstate highways being constructed as a cooperative Federal-state effort is the primary factor responsible for the change.

HIGHWAY STATUS As of the first of this year 1,200 miles of interstate highways were open to traffic within the boundaries of the Fifth District. Work had begun on an additional 1,000 miles, with 450 actually under construction and the rest in engineering or right-of-way stages. Another 1,200 miles were under preliminary study or planned, bringing total designated system mileage within the District to 3,400. The designated total includes about 350 miles in Maryland, 30 in the District of Columbia, 1,050 in Virginia, 530 in West Virginia, 770 in North Carolina, and 680 in South Carolina. Maryland has made the greatest relative progress toward completing its share of the system with 44% of the projected total open to traffic and another 48% under way. North Carolina actually has nearly half its designated mileage open to traffic but only an additional 27% under way. South Carolina has about one-third in use and one-fifth in process; West Virginia, one-fourth in use and one-fifth in process; and Virginia, one-fifth in use and two-fifths in process.

As the map on page 11 shows, the long sweep of Interstate Route 81, cutting diagonally across Virginia through the Shenandoah Valley, accounts for much of the state's relatively large share of the District's total system mileage. Within the District these routes fall basically into three classifications. Most of the District mileage represents highways fanning out to the South and West from the population concentrations along the upper East Coast. These are crossed by a series of arteries connecting the Midwest with Middle and South Atlantic centers of industry and trade. Finally, there are the shorter connecting roads and bypasses in the vicinity of the larger cities.

FINANCIAL FACTORS The Federal Government's share varies according to the type of highway. The interstate system is being financed 90% by Federal assistance and 10% by the states. Where Federal aid is available for construction or improvement of highways that are not part of the new system, costs are shared between Federal and state governments on a 50-50 basis. During 1962, the value of contracts awarded for highway construction involving no Federal aid at all made up one-fourth of the total in the District compared with one-sixth for the country as a whole.

Since 1956 Federal receipts from taxes on fuels, lubricating oils, and motor vehicle use have been earmarked in a Federal highway trust fund, and all disbursements are from this source. During 1961 such Federal tax collections totaled $212 million in the Fifth District. Highway contracts awarded involving Federal funds totaled $257 million in 1961 90% of which, about $231 million, will eventually be paid from the Federal trust fund. Contracts qualifying for Federal assistance in 1962 amounted to $259 million. According to present schedules the entire system will be completed by 1972.

ON THE SAME STREET Official statistics for 1961 report the total length of highways, roads, and streets in the United States at 3,573,000 miles. The District's share was 253,400 miles, 7% of the national total. The interstate system will increase total mileage by only 1.3% in the District and 1.1% in the nation.

With these figures in mind, it is interesting to speculate on the far-reaching effects of these spacious new arteries. Many a motorist has packed up his car, left his own familiar neighborhood, stopped from time to time in unfamiliar but friendly environs hundreds or even thousands of miles from home, and gained from the experience a perhaps unspoken realization that, despite their many differences, Americans in a very real sense all live on the same street. Completion of the new highway network will give this feeling a stronger foundation than it ever had before.

Tourists are already plentiful enough to make many inadequate stretches of highway look like Main Street on Bargain Day. Consequently, the opening of each new section of the interstate system is greeted with enthusiasm by both local and long-distance travelers. The economic implications of these developments, particularly with respect to the growing tourist trade, will be the subject of "The Fifth District" article in the August issue.

PHOTO CREDITS

8. Federal Reserve Bank of Richmond 11. Map—Committee on Public Affairs of the American Petroleum Institute.