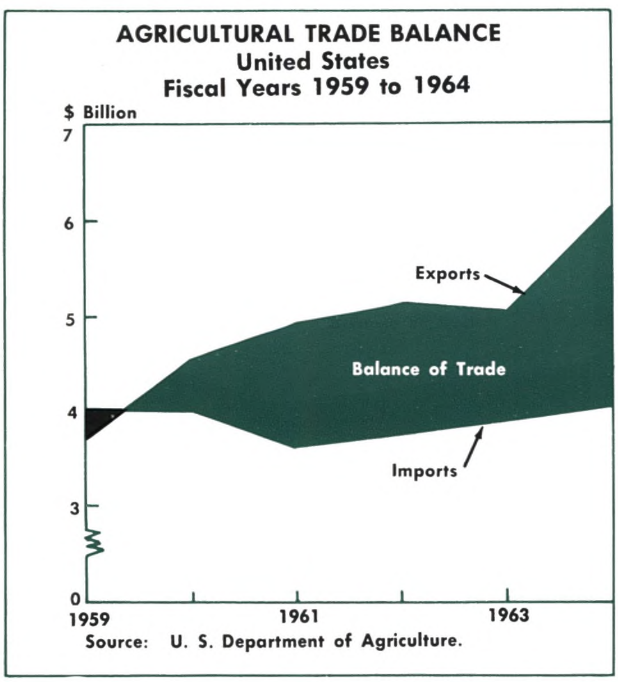
MONTHLY REVIEW

The United States is the world's largest exporter of farm products.

FEDERAL RESERVE BANK OF RICHMOND MAY 1965

UNITED STATES AGRICULTURAL EXPORTS

American farmers and nonfarm workers alike have a significant stake in the foreign market for agricultural products. Farm exports in fiscal year 1964 hit a record $6.1 billion, 20% or about $1 billion above a year earlier and more than double the 1953 low. The nation's agricultural trade balance also set an all-time record as exports outpaced imports, continuing the highly favorable uptrend of the past several years illustrated in the accompanying chart. (Except where otherwise indicated, all data used in this article are on a fiscal year basis.)

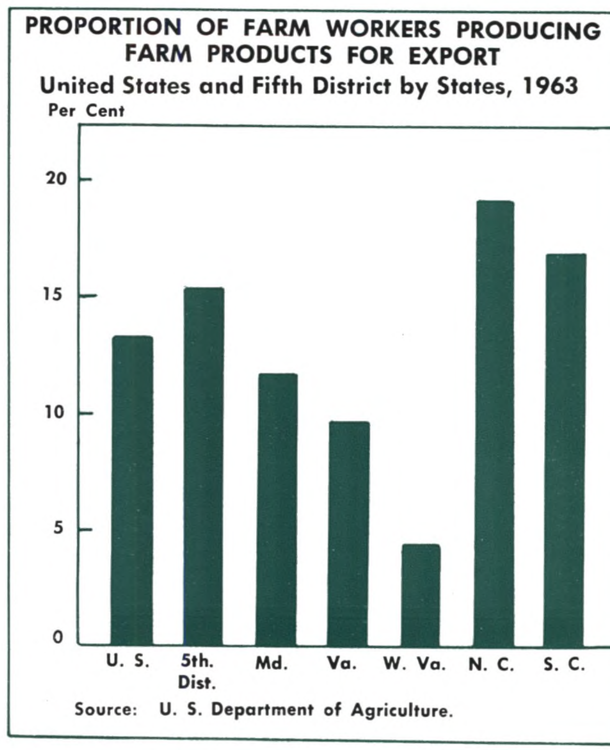


Importance of Farm Exports The United States is the world's largest exporter of farm products, supplying over one fifth of the world's agricultural exports in 1964. That year agricultural products accounted for 25% of the dollar value of our total exports—up sharply from 19% in the two years 1953 and 1954 and the 1941 low of 9%. Output of 80 million acres of the nation's cropland—one out of every four harvested acres—moved abroad in 1964.

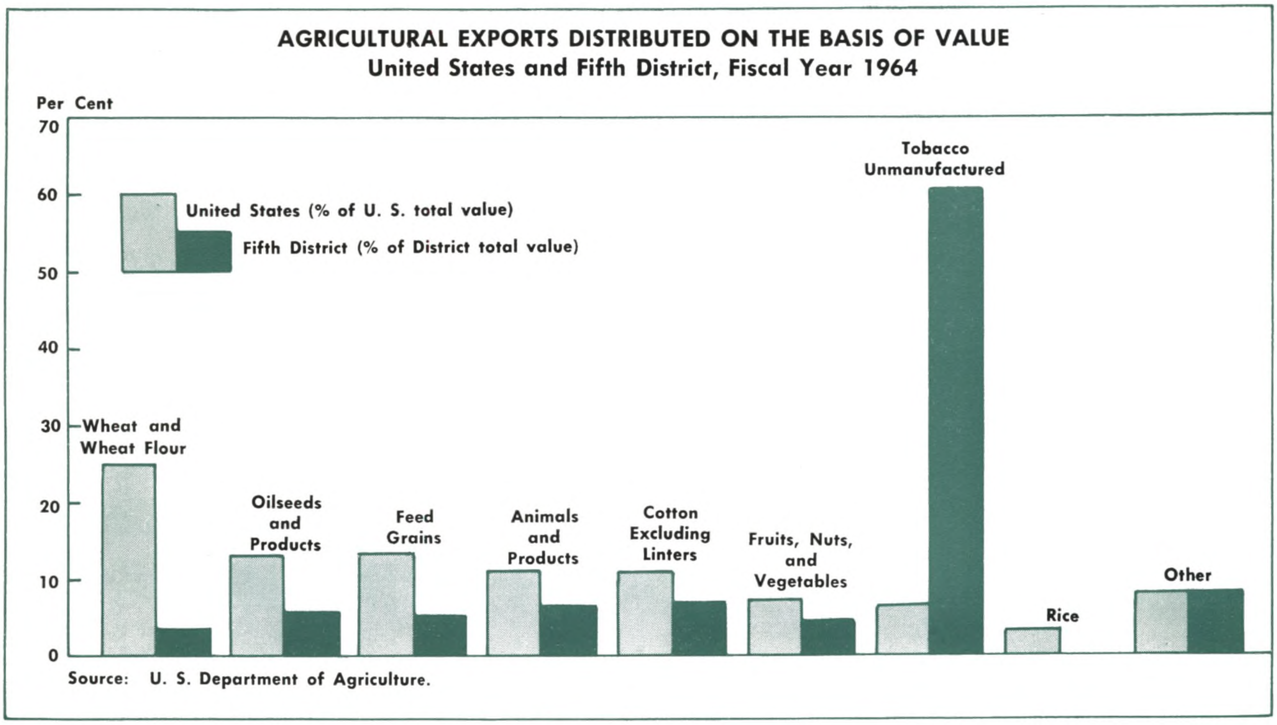
The export value of all farm products shipped during fiscal 1964 was equal to 16% of the nation's total cash receipts from farm marketings in calendar year 1963. By comparison, the value of agricultural exports from the Fifth District was equivalent to nearly 22% of farmers' total cash receipts from marketings in 1963. Comparable figures for District states were: North Carolina, 28%; South Carolina, 24%; Virginia, 14%; Maryland, 12%; and West Virginia, 5%.

A further measure of the importance of the agricultural export market is provided by statistics on farm employment. Farmers whose employment in calendar year 1963 was attributable to the production of farm products for export accounted for 13% of all farm workers in the nation. The comparable proportion for the Fifth District was 15%, ranging from a low of 4% in West Virginia to a high of 19% in North Carolina.

The proportions of the output of some of the nation's farm products which are exported are also



quite striking. In 1964, for example, the export market took three fourths of the nation's wheat production, partly because of the unusually heavy buying of Russia and other European countries; two thirds of its rice crop; three fifths of the nonfat dry milk; over two fifths of the tallow and soybeans; one third of its cotton, rye, and prunes; around one fourth of the tobacco, lard, and dried whole milk; one fifth of the cottonseed, raisins, and dry edible beans; and one sixth of the grain sorghums and barley.



Financing, storing, and shipping such quantities of exports demands tremendous financial, storage, and shipping facilities. The nation's farm exports in 1964 totaled 55 million long tons of cargo—enough to fill over 1.5 million freight cars or 5,500 cargo ships. In the movement of these exports, an average of 15 shiploads left the United States each day, many from Fifth District ports.

Geographical and Commodity Distribution All major farming sections of the country have an important stake in foreign markets for agricultural commodities. States with the largest shares of agricultural exports in 1964 were Illinois ($504 million), Texas ($484 million), California ($421 million), Kansas ($337 million), Iowa ($331 million), and North Carolina ($321 million).

With North Carolina ranking sixth in value of farm exports in 1964, the Fifth District as a whole accounted for $523.3 million, or about 9%, of the national total of $6.1 billion. Contributions of other Fifth District states were: South Carolina, $94.2 million; Virginia, $68.3 million; Maryland, $34.2 million; and West Virginia, $5.2 million.

Distribution of the nation's and the District's total value of farm exports by commodities and commodity groups is shown in the accompanying chart. Nationally, wheat and wheat flour account for 25% of the total, by far the biggest proportion. Next come feed grains and oilseeds and their products, both contributing around 13%; animals and animal products and cotton, each accounting for 11% of the total; and then fruits, nuts, and vegetables; tobacco; and rice. None of these last products account for very large percentages of the total value.

In the Fifth District, tobacco exports make up an overwhelming 60% of the total value of farm exports. Next in importance is cotton, followed closely by animals and animal products, and oilseeds and their products. Then come the feed grains; fruits, nuts, and vegetables; and, lastly, wheat and wheat flour.

Agricultural Exports in Retrospect American export trade in farm products began in Virginia with the first shipment of tobacco from the Virginia Colony to England in 1613. Rice and indigo were also exported in substantial amounts from the southern colonies, especially South Carolina, but tobacco was destined to become king of agricultural exports in the colonial period. Tobacco remained the United States' most important export crop until replaced by cotton in the period between the Revolution and the War Between the States.

Three commodities—wheat, cotton, and tobacco—have dominated the nation's agricultural exports through much of its history. Either wheat or cotton was the leading farm export during most of the past century. With the growing food shortages in Asia, however, wheat has recently moved well out in the forefront. Feed grains and soybeans have grown so much in importance since World War II that the United States now has five major agricultural export commodities—wheat, feed grains, cotton, soybeans, and tobacco.

Another first in the nation's farm export trade took place in the Fifth District in July 1964 when the first shipment of feeder cattle left Norfolk, Virginia, bound for Genoa, Italy. Other feeder cattle shipments since then have gone from Norfolk, Baltimore, and other southern ports.

Destination of Agricultural Exports The nation's farmers shipped commodities to over 150 countries in 1964, with slightly more than 60% of the total value of these exports going to ten countries. The top ten countries, as noted in the chart, were Japan, Canada, United Kingdom, the Netherlands, West Germany, India, Italy, UAR (Egypt), Belgium-Luxembourg, and France.

Europe with the European Economic Community, the European Free Trade Association, and the European Soviet Bloc was the chief market area in 1964. Europe was followed in order by Asia, Canada, Latin America, Africa, and Oceania (Australia and New Zealand). The EEC and the EFTA were the most important markets, together accounting for slightly more than one third of the total.

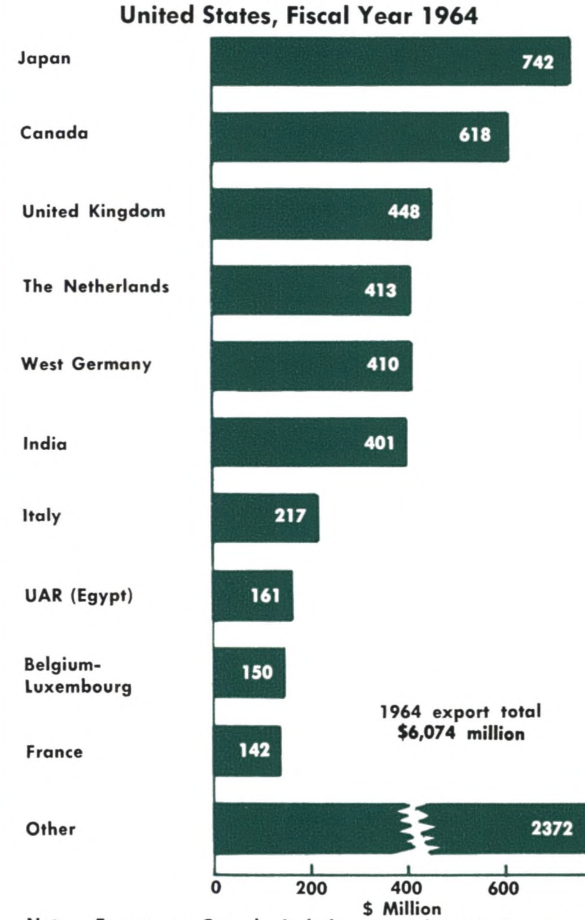
Farm Export Problems Persons engaged in the exportation of United States farm products are confronted with many problems. The most familiar, perhaps, are tariffs or import duties. A particular problem in recent years has been the policy of Common Market countries to maintain a common tariff against the products of outside countries while at the same time permitting commodities to move duty free within.

Then there are hosts of nontariff trade barriers. Some of the problems falling under this heading are quantitative restrictions; variable levies or duties and minimum import prices; and conditional imports, including domestic mixing regulations and controls making imports conditional upon a country's production, utilization, price, and so on. Other barriers of this nature are monopolies which operate under governmental authority to determine whether imports are to be permitted or not; advance deposits on imports; import discrimination as to source of supply, especially against the dollar area; and exclusion of countries not party to bilateral agreements.

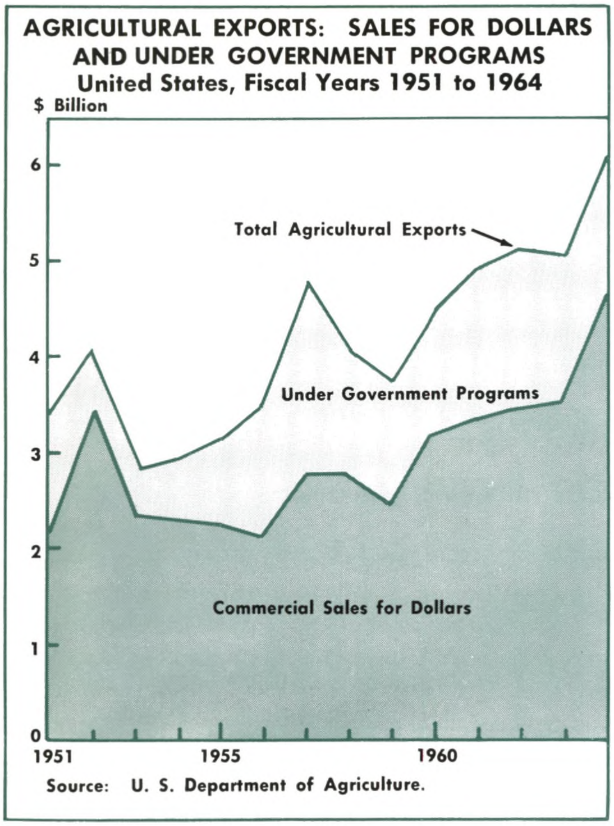
Still other problems confronting the nation's exporters of farm products are such factors as health and sanitary regulations which may be used to limit imports or to discriminate as to source of supply; variations in the quality of export products; price competition; the lack of foreign exchange on the part of some potential customers; and the supply situation for the product concerned.

Efforts to Reduce Tariffs The United States' policy of agricultural protectionism of the Twenties and early Thirties was alleviated in part by the passage of the Reciprocal Trade Agreements Act of 1934, which authorized the Government to engage in re-

AGRICULTURAL EXPORTS BY COUNTRY OF DESTINATION
United States, Fiscal Year 1964



Note: Exports to Canada include commodities in bonded storage awaiting shipment abroad through the St. Lawrence Seaway.
Source: U. S. Department of Agriculture.



ciprocal bilateral tariff reductions. Since then the United States has made many efforts to reduce its tariffs. The 1934 Act, in fact, was the beginning of a trend toward a series of bilateral tariff agreements that continued until the trend was interrupted by the Second World War.

After the war, the General Agreement on Tariffs and Trade, better known as GATT, was formed by many major trading nations of the world, including the United States. Out of negotiations under GATT came the resolution to expand international trade through a multilateral approach to the reduction of trade barriers. This multilateral approach in the United States gradually served to replace previous bilateral tariff and trade agreements.

Many sessions of GATT have been held, the first in 1947. Other sessions were held in 1949, 1951, 1956, and 1961, and during each session United States tariff levels were lowered reciprocally. Under authority of the Trade Expansion Act of 1962, the purpose of which, among other things, is to maintain and enlarge foreign markets for American products, the United States is now taking part in the sixth round of tariff negotiations under GATT.

Government Export Programs In addition to the efforts to reduce tariffs, the Government finances foreign aid and relief programs which increase agricultural exports. These special Government-financed programs use four major approaches: sales for foreign currency, famine relief and donations, barter, and long-term credit to encourage foreign nations to increase their purchases of United States farm products.

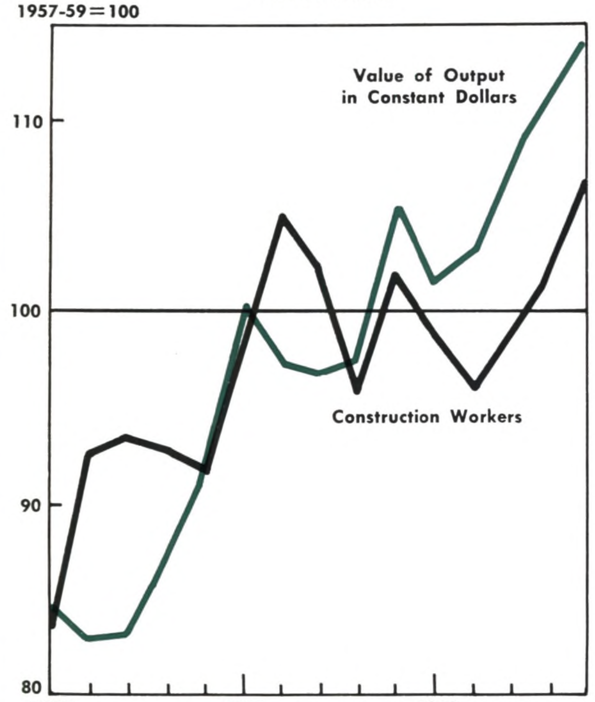
The two principal Government-financed programs are Public Law 480, or the Agricultural Trade Development and Assistance Act of 1954, and the Act for International Development of 1961 which superseded the Mutual Security Act of 1954. These Government-financed programs have helped to expand United States agricultural exports significantly, especially those to underdeveloped countries. During the ten fiscal years ending June 30, 1955 through 1964, these Government-financed programs accounted for $14.3 billion, or 32% of the $44.8 billion of all farm exports from the United States. Exports under Public Law 480 were by far the largest, contributing $12.2 billion or 27% of the total value of farm exports. Sales for foreign currency in this same ten-year period amounted to $7.7 billion, 17% of the total agricultural export value or 63% of all exports under Public Law 480.

Dollar Exports It is from the commercial sales for dollars, however, that the nation's balance of payments gets a healthy assist from farm exports. Out of the total export value of $6.1 billion in farm products in 1964, sales for dollars accounted for $4.5 billion or for 74% of the total. These dollar sales were about $1 billion or 28% above a year earlier and were nearly double the 1955 level, the first full year Public Law 480 was in operation. (See the accompanying chart.) In contrast, nearly 90% of Fifth District farm sales abroad in 1964 were for dollars.

Dollar exports of farm products have trended upward in recent years, and during the ten fiscal years since the passage of Public Law 480 commercial sales for dollars have amounted to $30.5 billion or 68% of the total value of all farm exports. A number of factors have contributed to this uptrend in agricultural exports for dollars. Among them are the economic advances made in Western Europe and Japan and the resulting increases in disposable income; stronger demand for meat and livestock consumer products as the result of shifts in dietary habits; growing livestock industries in Western European countries and Japan which have increased demand for feed grains, oilseeds, and high protein meal; competitive pricing of some United States farm exports; and extensive market development efforts by the United States in many foreign countries.

NATIONAL CONSRUCTION TRENDS

CONSTRUCTION LABOR AND OUTPUT INDEXES
UNITED STATES

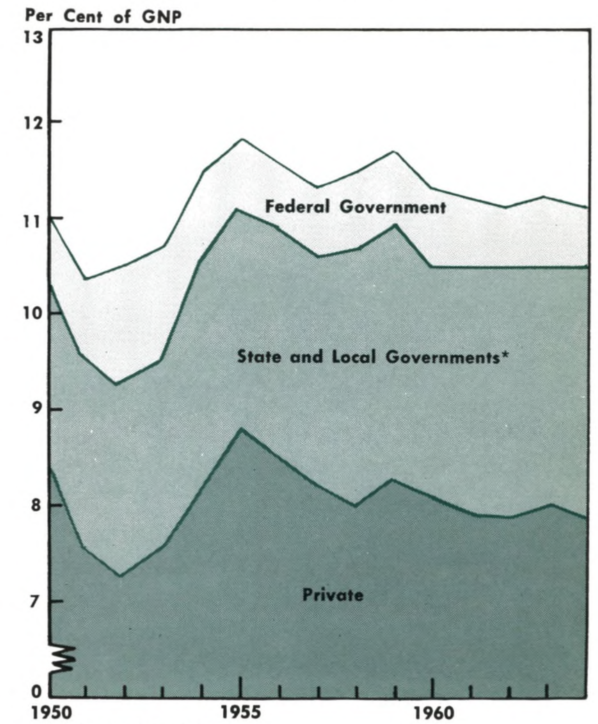


Source: U. S. Department of Commerce, Bureau of the Census, and U. S. Department of Labor, Bureau of Labor Statistics.

Outlays for private construction rose only about 4% per year over the last 14 years, compared with 8% for public construction. Residential nonfarm buildings continued to account for the major portion of private outlays, although they declined from 68% of the total in 1950 to 58% in 1964. Nonresidential buildings—the largest sector of private nonresidential construction—has shown the fastest growth, jumping from 15% of all private construction in 1950 to 28% in 1964. Public utility outlays have changed comparatively little, holding at about one tenth of private expenditures. Other types of private construction remained small in volume and declined rather sharply in relative importance.

Public construction expenditures almost tripled between 1950 and 1964. During the 14 years, outlays for highways rose from $2 billion to $7 billion, replacing nonresidential buildings as the largest category in the public sector. Outlays both for buildings and for water and conservation facilities rose to about two and one half times their 1950 level. These three classes of public construction accounted for 85% of the 1964 total leaving only 15% divided among military facilities, residential buildings, and other public construction.

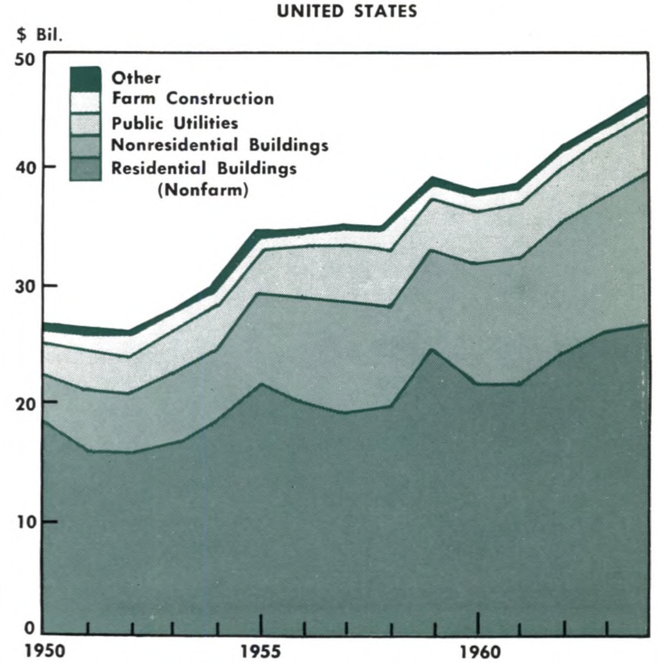
CONSTRUCTION OUTLAYS RELATED TO GNP
UNITED STATES



*Estimated for 1964.
Source: U. S. Department of Commerce.

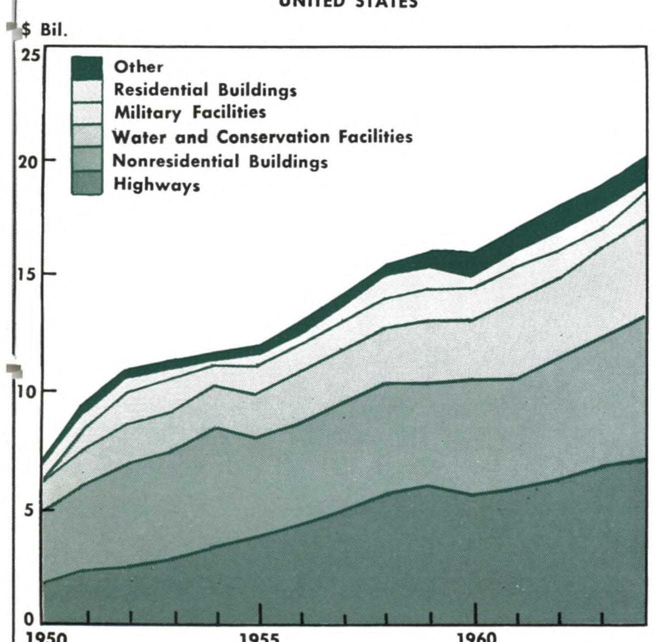
Rising productivity has been a significant development in construction in recent years. Between 1950 and 1964, the period covered in the above chart, output rose 35% while the number of construction workers increased 28%. During the first half of the period, however, construction worker employment rose more rapidly than output so that productivity declined. After 1957 output rose considerably faster than employment and productivity improved accordingly. Output per production worker increased about 13% in the final seven years shown on the chart.

PRIVATE CONSTRUCTION
UNITED STATES



Source: U. S. Department of Commerce, Bureau of the Census.

PUBLIC CONSTRUCTION
UNITED STATES



Source: U. S. Department of Commerce, Bureau of the Census.

During the last 14 years, total construction outlays ranged from a low of 10.4% of GNP in 1951 to a high of 11.8% in 1955. After a moderate decline, they rose again to 11.7% of GNP in 1959, then tapered off to 11.1% in 1964. Total public construction spending grew slowly and at a fairly steady pace over the 14 year period. The sharp fluctuations in total construction since 1950 are due to substantial shifts in the volume of private outlays. Since 1960, private construction plus state and local public construction has maintained a virtually constant ratio to GNP while the relative importance of Federal construction outlays has declined. Federal construction amounted to 1.2% of GNP at its peak in 1952 but has averaged only 0.7% in recent years.

THE MONEY MARKET

As a rule, economic units, such as banks, other business firms, governmental units, or even individuals, find that their inflow of cash receipts does not normally coincide exactly with their cash disbursements. The typical economic unit finds that on some days its cash holdings are building up because its receipts exceed its outlays. On other days, it might experience a sharp reduction in its cash balances because its spending outstrips its cash inflow.

One of the most important reasons for holding cash reserves is to bridge the gap between receipts and outlays and to insure that a planned stream of expenditures can be maintained independently of cash inflow. There are, of course, other reasons for holding reserves. In particular, commercial banks and certain other financial institutions must conform with legal reserve requirements.

Maintenance of cash reserves involves cost in the form either of interest paid, as in the case of borrowed balances, or of interest foregone, as in the case of nonborrowed balances. For many economic units, especially large financial and nonfinancial firms, these costs can assume significant proportions. To minimize such costs, economic units often seek to keep their cash holdings at a minimum consistent with their working needs and their legal requirements. This may be done by holding relatively riskless and highly marketable income-bearing assets instead of cash and by establishing and preserving their ability to borrow, at very short-term, at favorable interest rates. The institution of the "money market," so-called, has evolved to meet the needs of such economic units.

The Money Market The term "money market" occurs frequently in financial literature and in financial parlance but is seldom defined. In general, the term applies not to one but rather to a group of markets, although in early periods of United States financial history it was frequently used in a narrow sense to denote the market for call loans to securities brokers and dealers. At other times in the past, it has been employed broadly to embrace some long-term as well as short-term markets. In its current usage, it generally refers to the markets for short-term credit instruments such as Treasury bills, commercial paper, bankers' acceptances, negotiable certificates of deposit, securities dealer loans and repurchase agreements, and Federal funds. Each of these instruments has been the subject of articles in earlier issues of this *Review*.

In general, money market instruments are issued by obligors of the highest credit rating, with a correspondingly high degree of safety of principal. Maturities may run for as long as one year but usually are for 90 days or less, and as a practical matter can be arranged to run for only a few days or even one day. These instruments accordingly involve small risk of loss due to changes in interest rates. Moreover, the market for these instruments is extremely broad and on a given day can absorb a large volume of transactions with relatively little effect on interest yields. It also features highly efficient market machinery which allows quick and convenient trading in virtually any volume. Unlike organized securities or commodities markets, the money market has no specific location. Like other important financial and nonfinancial markets in this country, it centers in New York, but it is primarily a "telephone" market and is easily accessible from all parts of the nation as well as from foreign financial centers. No economic unit is ever more than a telephone call away from the money market.

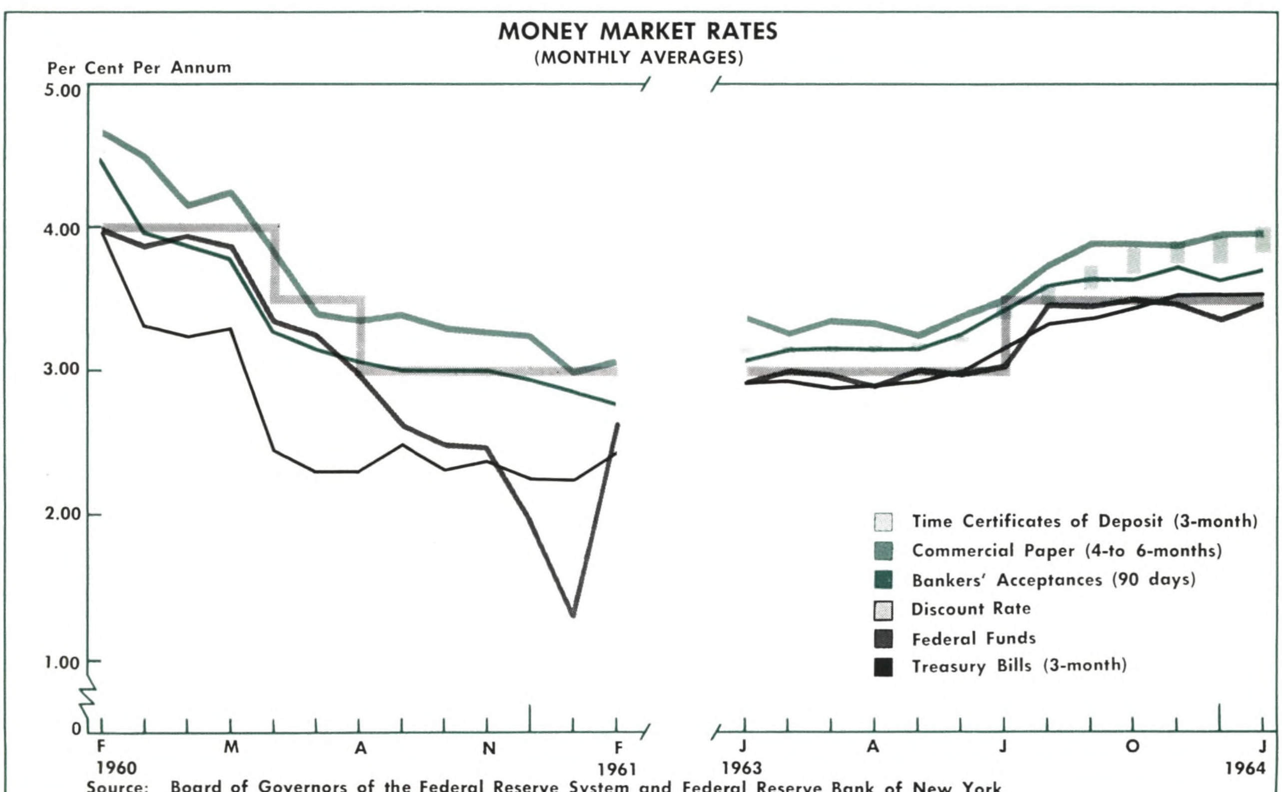
The heart of the money market's machinery is composed of some 45 or more "money market banks," including the large banks in New York and other important financial centers; some 20 Government securities dealers, some of whom are large banks; a dozen-odd commercial paper dealers; a few bankers' acceptance dealers; and a number of money brokers who specialize in finding short-term funds for money market borrowers and placing such funds for money market lenders. The most important of the last-mentioned group are the three major Federal funds brokers in New York.

Market Participants Apart from the groups that provide the basic trading machinery, money market participants usually enter the market either to raise funds or to convert temporary cash surpluses into highly liquid interest-bearing investments. Funds may be raised either through selling existing holdings of money market instruments or through issuing new instruments. The issue and sale of new money market instruments is, of course, a form of borrowing. Generally, money market rates are below rates on bank loans even for prime borrowers, and the ability to borrow funds on the open market is correspondingly advantageous. The U. S. Treasury, Government securities dealers, many commercial banks, large sales finance companies, and well-known nonfinancial corporations of unimpeachable credit standing borrow regularly in the money market by issuing their own short-term debt obligations, which comprise the standard money market instruments.

Suppliers of funds in the market are demanders of money market instruments. Potentially, these include all those economic units that can realize a significant gain through arranging to meet cash requirements by holding interest-bearing liquid assets in place of nonearning cash balances. The chief participants on this side of the market are commercial banks, state and local governments, large nonfinancial businesses, and nonbank financial institutions like insurance companies and pension funds. Foreign bank and nonbank businesses are increasingly important suppliers of funds.

By far the most important market participant is the Federal Reserve System. Through the Federal Open Market Trading Desk at the New York Federal Reserve Bank, which executes the directives of the Federal Open Market Committee, the Federal Reserve is in the market on a virtually continuous basis, either as a buyer or as a seller, depending on financial conditions. The System's purpose in entering the market is quite different from that of other participants. As noted in greater detail below, the Federal Reserve buys and sells in certain parts of the money market not to manage its own cash position more efficiently but rather to supply or to withdraw funds. The point of this is to provide appropriate monetary and credit conditions for the country at large. In addition, the Federal Reserve enters the market on an agency basis, sometimes as a buyer and sometimes as a seller, for the accounts of foreign official institutions and for the U. S. Treasury. Overall, the operations of the Federal Reserve dwarf those of any other money market participant.

The Market's Significance For individual economic units, the money market provides an important source of short-term borrowing on advantageous terms. Since there is a continuous flow of loan funds through the market, it is possible for borrowers,



through successive "roll-overs" or renewals of loans, to raise funds on a more or less continuous basis and in this fashion to finance not only their immediate cash requirements but also their working capital and some of their other capital needs. By bringing together, quickly, conveniently, and to their mutual advantage those units with cash surpluses and those with cash deficits, the market promotes a more intensive use of the aggregate cash balances held in the economy.

The market is especially important to commercial banks in managing their money positions. To this end, banks in the aggregate are large-scale buyers and sellers of most money market instruments, especially Federal funds. In general, an efficient money market mechanism makes for a more intensive use of bank reserves and enhances the ability of the commercial banking system to meet the credit requirements of the country at large. By allowing banks to operate with lower margins of excess reserves, it also makes the banking system more sensitive to central bank policy actions.

Finally, conditions in the money market provide an important guide for monetary policy. The money market is an eminently free and competitive market, and the yields of money market instruments react instantaneously to changes in supply and demand. As a result, behavior of the market provides perhaps the most immediately available indication as to whether or not credit is available in sufficient amounts to meet demands in the economy at large. Changes in rates on money market instruments, in flows of funds through strategic sectors of the market, in the ability of Government securities dealers to finance their inventories, and other objective money market indicators, usually figure importantly in assessments of current credit conditions.

The Federal Reserve and the Money Market The Federal Reserve System influences the money market not only through open market operations conducted at the New York Bank but also through the discount windows at all 12 Federal Reserve Banks. Commercial banks that are members of the Federal Reserve System borrow at the Federal Reserve as an alternative to selling money market securities or borrowing Federal funds to cover cash and reserve deficiencies. Similarly, banks with cash or reserve surpluses can repay outstanding borrowings at the Federal Reserve rather than invest the surplus in money market instruments. Thus, for member banks the Federal Reserve discount window is an operational part of the market mechanism for matching surpluses and deficiencies. For this reason, the Federal Reserve's discount facilities must be considered part of the money market.

Use of the discount window by banks as an alternative to other money market facilities may have important implications for credit conditions. When banks, on balance, add to their borrowings from the Federal Reserve, new bank reserves are created. By contrast, when banks raise money elsewhere in the money market, existing reserves are simply shifted about in the banking system. Thus, in making reserve adjustments, the choice by bankers between the discount window and other parts of the money market will affect the total volume of reserves in the banking system and may alter overall credit conditions in the economy. The relationship between the discount rate, which bankers pay on Federal Reserve borrowings, and other money market rates influences bankers' choices in this regard. Because of this, money market developments that affect this relationship can also affect the outstanding volume of bank reserves. Member banks, within limits, are free to move between the discount window and other parts of the market to take advantage of any differential that may exist and their shifts between these two sources of funds bring money market rates into line with the discount rate. It is largely for this reason that money market rates tend to move closely with the discount rate, as shown in the chart on page 9. It is also for this reason that changes in the Federal Reserve discount rate have important implications for the money market.

Of even greater significance for the money market are the daily operations of the Federal Open Market Trading Desk in two important subdivisions of the market: the Treasury bill market and the bankers' acceptances market. Generally, the Federal Reserve enters these markets on a more or less daily basis, either to provide new bank reserves through purchases or to withdraw bank reserves through its sales. To a large extent, Federal Reserve operations are undertaken to compensate for the effects of other factors affecting the flow of bank funds into and out of the money market. To a lesser extent, operations are undertaken to insure the smooth technical functioning of the market mechanism. But the operations of the greatest importance from the standpoint of the economy are those undertaken to change basic money and credit conditions in the country as a whole.

Thus, in addition to its other functions, the money market also serves as the mechanism through which the Federal Reserve undertakes to influence basic money and credit conditions.

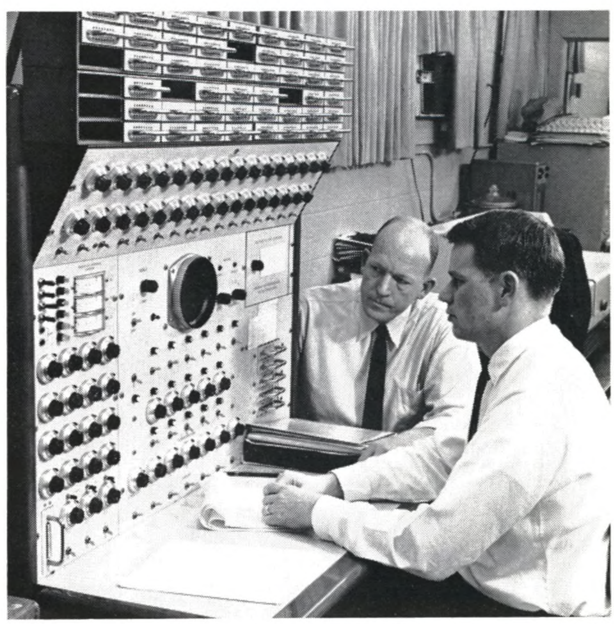
Fifth District business apparently continues to advance at a brisk pace, and most indicators are at record levels. Nonfarm employment and factory man-hours still show strongly upward trends, and bank debits, at last report, were rising to new high levels. New business incorporations during the first two months were running 8% above year-earlier levels and were particularly strong in February, usually the year's low month. Business failures in January and February occurred about one fifth less frequently than in the same months of last year, but a few large ones pushed total liabilities of failed businesses well above 1964 levels. Broadly viewed, the District business picture is bright, although the slower rate of new business bookings in the past few months in the construction industry dims the outlook slightly.

More Workers, More Time Nonfarm employment has increased substantially in every month so far this year and has not declined in a single month since April 1964. Recent gains have been consistently widespread but were strongest in February when employment rose in every major nonfarm category.

Manufacturing man-hours registered gains in eight of the past twelve months. Recently, a strong February rise was followed in March by a more limited increase, a result of moderate gains in the Carolinas tempered by mild declines in Maryland and West Virginia. Man-hours have increased somewhat more in durable than in nondurable goods industries even though textile mill man-hours (which account for over one fourth of the District total) have advanced in every month since September.

Construction Signals Mixed District contractors experienced good business during most of the past two years, and employment expanded vigorously as the large volume of new business pushed some firms beyond normal capacity. In January, the rise was interrupted for the first time in six months when the seasonally adjusted job count dropped 1.4%, but a large part of the decline was reversed in the following month. Unlike employment, the behavior of contract award statistics has been somewhat erratic and difficult to characterize. Generally, the series has not been as strong as it was last spring and summer but has not fallen much below those high average levels. For perspective, last year's contract award values exceeded comparable 1963 levels by 6% in the first quarter, 4% in the second quarter, and 17% in the third, but dropped in the fourth quarter 10% below the previous year's figure. This year, January and February contract awards approximately equaled last year's fourth quarter averages and exceeded the comparable year-earlier levels by narrow margins.

Strength in Manufacturing Production has continued to set new records in most of the District's principal manufacturing industries. The enduring strength of furniture demand has produced strong and steady gains for more than two years. Volume so far this year has been running about 12% above 1964. The increase compares quite favorably with 1963 and 1964 gains which averaged 11%. During the past six years the dollar value of District furniture sales has increased more than 60% with only a minor rise in prices. The recent strength of the furniture upswing is reflected in industry man-hours which



The color computer, a new aid to textile processing, provides the correct dye mixture to achieve any shade or combination of colors.

have risen in every recent month, beginning with a 4% leap in October and advancing nearly 14% by March.

Textile mills are also operating close to top speed. In contrast to the furniture story, however, textile prosperity is a relatively recent development. The pickup in the cotton sector of the industry began last summer, a few weeks after enactment of the one-price cotton law. The law authorized equalization payments through the Department of Agriculture to offset most of the difference between domestic and world cotton prices. The difference between these prices was the result of export subsidy payments on cotton initiated for the purpose of reducing the domestic surplus. Passage of the bill was followed by only a slight decline in prices. After a period of uncertainty, buyers of cotton goods decided that further reductions were unlikely, and a flood of pent-up demand was released. Although new orders began rising last summer, man-hours fluctuated unevenly until early fall, when the strength of demand became well established. Between last October and March of this year, regular monthly increases raised man-hours a total of more than 8%, an impressive gain in so large an industry.

Textile Investment Soars Rising outlays for modernization and expansion continue to be an outstanding feature of textile progress. From a level of $500 million in 1960, national plant and equipment expenditures rose to $760 million last year, and are currently estimated at more than $1 billion for 1965. This represents a 36% gain over 1964, well ahead of both the 18% investment rise expected in nondurables generally and the 16% increase forecast for all manufacturing industries. Plant and equipment outlays planned for 1965 by textile producers represent around 17% of the industry's total net worth at the beginning of the year—probably the highest current modernization and expansion rate of any major industry.

The data on planned spending do not distinguish between expansion and replacement, but industry sources suggest that the bulk of the new equipment will replace less economical capacity. Where completely new mills are being built (as is the case with several large companies) the primary aim is to cut costs on standard, large-volume items by taking full advantage of recent developments in mechanization and engineering. Investment per employee in these new mills is said to be in the vicinity of $50,000.

New Tools for Management Greater efficiency and lower costs also stem from the use of computers. With more and better information, management and marketing procedures have become more scientific and much more effective than was the case just a few years ago. New sources of financing are also helping to keep costs down during the current wave of new investment. With notable success, textile firms have recently offered bonds to the public at large instead of relying almost solely on insurance companies.

Despite one-price cotton and much new equipment, it may still be difficult in the competitive textile industry to earn returns equal to those of manufacturing industries in general. Textile earnings on stockholders' equity have apparently remained below 10% compared to rates ranging between 10% and 12% for all manufacturing.

Looking Ahead Beyond the generally favorable, if somewhat paradoxical, conditions of the present and the near future lies a considerable amount of uncertainty. Right now the industry seems hard pressed to satisfy demand despite the addition of much new equipment and some 19,000 workers since this time last year, but there are several potential problems. One is foreign competition, which domestic producers hope to meet with the help of lower costs on standard fabrics and with a wider variety of fabrics more imaginatively styled.

The immediate problem, however, is the uncertainty surrounding this year's cotton law. A change in cotton marketing regulations would almost certainly have a significant impact on the industry. The bill enacted last year runs until July 31, 1966. But orders for future delivery of many cotton fabrics already extend into the second quarter of next year, and the terms under which mills will be able to acquire cotton following expiration of the present bill are rapidly becoming a matter of current concern. Efforts have been made to launch a new cotton bill, but so far without success. Differences of opinion among divergent interests have blocked progress, just as they did last year. Recent press reports suggest that another month may pass before a bill can be drafted by the Administration and sent to Congress where additional time will be needed before a final decision can be reached. There may be a few months left before uncertainties developing around this situation become as critical as they were a year ago. Nevertheless, the textile industry may soon find its demand and supply patterns shaken up again while still recovering from last year's jolts.

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11. Burlington Industries, Inc.