MONTHLY Review

FEDERAL RESERVE BANK
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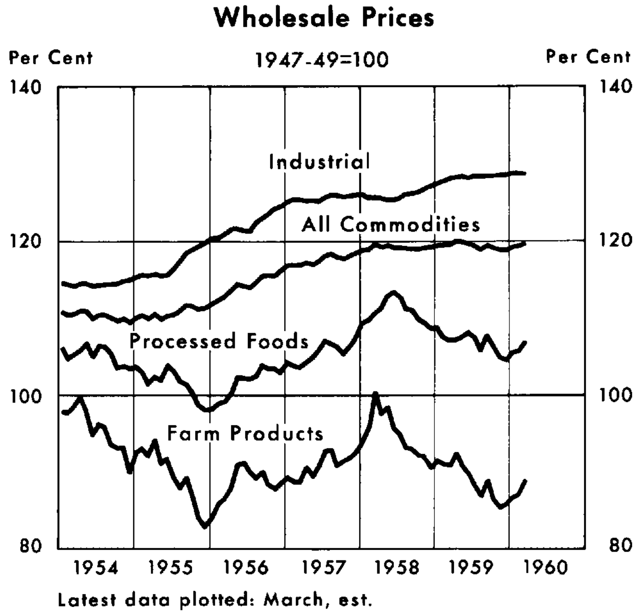
Some Influences in the Behavior of Prices since the 1957-58 Recession

DURING THE LAST RECESSION there was little or no decline in average prices and when recovery began in the spring of 1958 there were widespread expectations that price increases would follow. Price developments since the turn have not yet demonstrated whether these expectations will be confirmed. In fact, the wholesale price index in February of this year was at 119.4 per cent of the 1947-49 average, as compared to a level of 119.3 in April, 1958. The consumer price index has risen from 123.5 per cent of the 1947-49 average in April, 1958, to 125.6 for February of this year. Prices of some materials and finished products have increased, and prices of services in the consumer price index have continued their climb. On the other hand, there appears to be less confidence that cost increases can be passed on without loss of markets than there was in 1955 and 1956.



Some influences affecting nonfarm commodity prices

In some respects the prospects of avoiding price increases in commodities are better than they were after the 1953-54 recession. There has been a tremendous increase in productive capacity in this country, with perhaps an even greater relative increase in capacity abroad. There has recently been an increasing tendency for imported goods of many kinds to compete effectively in the American market, moderating price rises here. From some discussions of administered prices and the so-called cost-push inflation it might seem that producers can set any prices they choose. Actually the availability of imports and the growth of capacity and productivity act as limits on price-setting power that may well become more effective.

Steel

The steel price situation provides examples of several contrary influences that can also be observed in some other industries. On the one hand the recent labor agreement is expected to result in increases in employment costs per hour, whether union or company estimates of the cost are used. On the other hand, the expected cost increases appear to be much smaller than those resulting from the previous contract signed in mid-1956. One contract clause which may be of considerable significance is a limit on cost-of-living increases. Maximums of 3 cents on December 1, 1960, and of

3 cents on October 1, 1961 were provided. The preceding contract provided semiannual increases and no maximums, so that escalator adjustments amounted to 17 cents an hour by July, 1959.

The sales of steel currently are large, which might make a price increase possible without much loss of volume to the industry. But part of the demand in the first quarter of this year has been for replenishment of inventories of steel and steel products depleted during the strike. According to industry sources, the re-stocking of steel by users has been more rapid than had been expected, and so steel output has gradually declined from the near capacity rates reached in December. Furthermore, deliveries of some types of foreign steel are being made in this country at prices reportedly well below those quoted by domestic producers. Aluminum and other materials are being substituted for steel in some uses. The compact automobiles have won a substantial part of the market for domestically produced cars. The average amount of steel used per car, therefore, has declined. All of these influences suggest that a determined effort will be made to hold the line on steel prices in order not to suffer market losses.

Farm commodity prices

Farm commodity price movements have been a major factor in the behavior of consumer prices during the three postwar business cycles. Food price changes were a major factor in the price declines after the recession troughs in 1949 and 1954, and the stability of prices following the 1958 trough. Food price changes in each of these periods can be traced to changes in farm commodity prices which are closely related to changes in supplies and probably have little relationship to the business cycle. Supplies of food generally increased after each recession, depressing prices, and such changes in supply can be traced to livestock cycles and weather conditions.

In 1959 the food supply situation was favorable to over-all price stability again. Farm commodity prices declined for most of the year under the pressure of increased supplies of meat, fruit, and fresh vegetables. Marketings of livestock in the fourth quarter were about 10 per cent larger than they had been a year earlier. Livestock prices fell in November to the lowest level since the winter of 1956-57 and were about 20 per cent lower than a year earlier.

Since the turn of the year livestock prices have risen again, and are about 20 per cent higher than last autumn, although still about 5 per cent below a year ago. Hog slaughter has declined sharply in recent weeks, in part because of bad weather. The spring pig crop is expected to be considerably smaller than the one of last year so total meat supplies for 1960, including poultry, are not expected to grow as they did in 1959. Beef supplies, however, should be large (for more details, see article on page 9).

There is more involved here than accidental timing of the hog and beef cycles. Although farm product prices rise and fall from year to year they have on the whole been working downward since 1951. Output per manhour on the farm has more than doubled since 1947, an increase far exceeding the one occurring in manufacturing in the same period. Thus, some of the results of productivity growth are appearing in the decline of farm prices. This productivity growth in agriculture appears likely to be a considerable force for over-all price stability for some time to come, unless, of course, public policy in some way prevents the passing on of these benefits to the consumer.

Services

In part the rise of service prices is a result of urbanization and rising living standards that tend to increase demand for services such as medical care and the maintenance of appliances, automobiles, and houses. In part the rise results from the difficulty of increasing the supply of some services, or of increasing the efficiency with which they are produced. Furthermore, there are problems of comparability in measuring the prices. For example, how does one compare the cost of say three

(Continued on page 11)

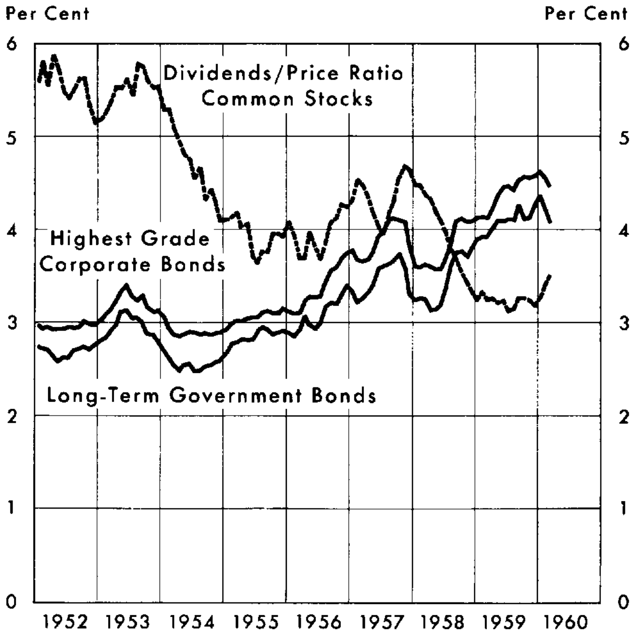
FINANCIAL HIGHLIGHTS

Securities Markets

HISTORICALLY, yields on common stocks have usually been above interest rates on long-term high-grade bonds. The spread is partly accounted for by the financial risk differential between these two types of securities. However, the spread between returns on stocks and bonds fluctuates as economic conditions change and as investors change their evaluations of the relative merits of the two investment media.

Since the holding of stocks or bonds represent alternative investment opportunities there exists a degree of substitutability between these assets in the portfolios of some investors. Partly because of this substitutability yields of these securities frequently move

Stock Yields and Interest Rates



Latest data plotted: March, est.

in opposite directions. As shown in the above chart, yields on common stocks have been declining in recent years while bond yields have been increasing. As a result, stock yields have fallen below interest rates on high-grade corporate bonds. The decline in stock yields reflected, in large measure, the attractiveness of stocks as a hedge against anticipated price rises. Also investors have been optimistic about the outlook for business profits. On the other hand interest rates have been rising in recent years chiefly because the demands for funds have been rising.

In early 1960 bond prices rose (yields declining) while stock prices fell precipitously (yields rising). This reversal of recent experience may be explained in part by the following factors: 1) investors may feel that inflationary forces have been weakened; 2) the outlook for business activity, although still bright, did not appear to be as exuberant as it did in late 1959; and 3) bond yields were relatively attractive compared with stock yields.

After March 8 the stock market developed a better tone. By March 23 average prices had recovered about 30 per cent of the loss suffered earlier in the year. However, interest rates on bonds continued to decline (prices up) during the mid-March period.

District Banking

Loans

In the four weeks ending March 9, the volume of loans held by Eighth District weekly reporting member banks declined $3 million. Normally, loans decline more at these banks at this season. Business loans rose about $9 million, with the growth centering in advances to producers of metal and metal products, and to textile, apparel and leather firms. Usually commercial and industrial concerns make net repayments at this time of year. "Other", including consumer, loans decreased slightly in contrast to large net reductions on the average in the corresponding periods of recent years. On the other hand, outstanding advances on real estate decreased about seasonally, and financial institutions made large net repayments.

ASSETS AND LIABILITIES
ALL MEMBER BANKS IN THE EIGHTH DISTRICT
(In Millions of Dollars)

Assets	March 9, 1960p Amount Outstanding	Change from February 10 Total	Weekly Reporting Banks	Other Banks
Loans	$3,041	$+ 4	$— 3	$+ 7
Real Estate			— 1	
Security			— 1	
Commercial and Industrial			+ 9	
Banks			-0-	
Other Financial Institutions			— 9	
Consumer and Other			— 1	
Government Securities	1,833	— 83	— 31	— 52
Other Securities	556	— 8	— 6	— 2
Cash Assets	1,367	— 95	— 52	— 43
Total Assets[1]	$6,869	$—187	$— 96	$— 91
Liabilities				
Demand Deposits	$4,560	$—211	$—111	$—100
Time Deposits	1,565	+ 11	+ 5	+ 6
Borrowings	79	+ 7	+ 7	-0-
Total Liabilities and Capital[1]	$6,869	$—187	$— 96	$— 91

The decline in total credit (Loans, Governent Securities, and other Securities) of $87 million in the current semi-monthly period compared with a $60 million decline in the corresponding period a year ago.

1 Includes some miscellaneous items not itemized.

p—Preliminary

Securities

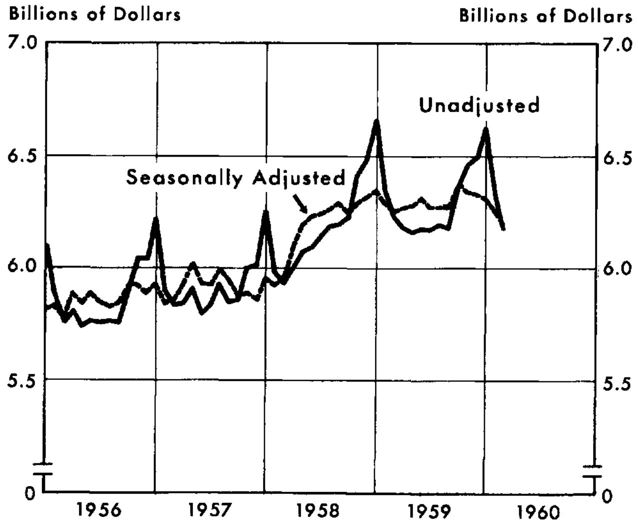
During the four-week period the district weekly reporting banks reduced their holdings of Government and other securities by $37 million. As a consequence, total credit outstanding at the thirty large banks contracted somewhat more than it usually does at this time.

Deposits

Between February 10 and March 9, demand deposits at district weekly reporting banks fell $111 million, compared with an average of $19 million in the comparable periods of the two previous years. The decline in deposits, which reflected the bank credit contraction and a net outflow of funds, centered in accounts of businesses, individuals and other banks. U. S. Government and other balances were off moderately. Conversely, time deposits rose about $5 million.

Total Deposits

All Eighth District Member Banks



Latest data plotted: February

Debits

During February the volume of checks paid and other debits to demand deposit accounts (except interbank and U. S. Government) at reporting district banks amounted to $5.6 billion. This was an increase of 13 per cent from the corresponding month a year ago. Nineteen of the twenty-two reporting centers shared in the gain, with the largest increases recorded at Helena, Arkansas, Jackson, Tennessee, Cape Girardeau, Missouri, and Memphis, Tennessee. Although district debits were smaller in February than in January, the decline was less than seasonal.

BANK DEBITS[1]

	Feb. 1960 (In millions)	Feb. 1960 compared with Jan. 1960	Feb. 1959
Six Largest Centers:			
East St. Louis — National Stock Yards, Ill.	$ 132.0	—10%	— 1 %
Evansville, Ind.	165.2	—11	+ 8
Little Rock, Ark.	228.0	— 6	+ 4
Louisville, Ky.	889.1	— 4	+ 7
Memphis, Tenn.	859.3	—10	+18
St. Louis, Mo.	2,658.8	— 1	+16
Total—Six Largest Centers	$4,932.4	— 4%	+13 %
Other Reporting Centers:			
Alton, Ill.	$ 44.9	+ 1%	+14 %
Cape Girardeau, Mo.	20.3	—16	+21
El Dorado, Ark.	33.0	+ 4	+ 3
Fort Smith, Ark.	58.2	— 8	-0-
Greenville, Miss.	32.8	—16	+ 9
Hannibal, Mo.	12.8	— 9	+ 6
Helena, Ark.	12.5	—35	+24
Jackson, Tenn.	31.6	— 2	+23
Jefferson City, Mo.	116.1	—30	+17
Owensboro, Ky.	52.0	—13	—17
Paducah, Ky.	35.7	— 4	+13
Pine Bluff, Ark.	46.5	—16	+11
Quincy, Ill.	47.4	— 3	+ 8
Sedalia, Mo.	17.8	—13	+ 9
Springfield, Mo.	107.9	—11	+ 9
Texarkana, Ark.	22.3	—13	+ 3
Total—Other Centers	$ 691.8	—14%	+ 8 %
Total—22 Centers	$5,624.2	— 5%	+13 %

INDEX OF BANK DEBITS — 22 Centers
Seasonally Adjusted (1947 - 1949=100)

1960 Feb.	1960 Jan.	1959 Feb.
202.2	186.9	179.3

1 Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

District Member Bank Earnings in 1959

RECORD YIELDS on loans and securities pushed net operating earnings of district member banks to an all-time high. However, profits declined slightly from the 1958 level as losses were incurred on the sale of securities. The declining prices of securities reflected the rise in interest rates which prevailed throughout most of the year. As a group, district member banks had a good year and profits after taxes were second only to those of 1958.

The higher interest rates during 1959 reflected a strong demand for funds relative to the growth in savings and bank credit. Funds were sought to finance governments and consumers, and business expenditures for inventories, plant, and equipment. Under these circumstances interest rates were pushed to a higher level than in 1958.

Earnings

Total operating earnings for 1959 were $264 million, 11 per cent higher than the previous record set in 1958. About 90 per cent of the gain was a result of higher returns from earning assets. Revenues from earning assets increased by $25 million, or 11 per cent over the previous year. On the average, banks received a 4.2 per cent rate of return on their loans and investments last year as compared with 3.9 per cent in 1958.

The higher returns were primarily a result of higher interest rates, but a shift in the composition of earning assets from short-term Government securities to higher-yielding loans was a contributing factor. This shift reflected: 1) an increased demand for bank loans as business activity rose from the recession of 1957-58; and 2) bank liquidation of securities to obtain funds to grant the loans.

Income from service charges on deposit accounts, trust departments, and various other miscellaneous accounts continued to rise. These revenues accounted for 12 per cent of total earnings.

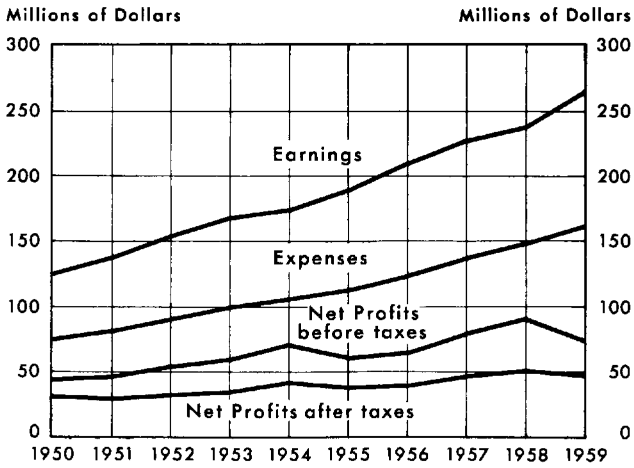
Expenses

The cost of doing business rose less than current earnings. Expenses of district member banks were 8 per cent higher during 1959 than in the previous year, as compared with an 11 per cent gain in earnings.

The most abrupt increase in a major expense item was a rise of almost 14 per cent in interest payments on time deposits. This was the seventh straight year of substantial increases in the amount of interest paid on time accounts. The rise resulted from an increase in time and savings accounts plus a rise in the rate paid on these accounts by many banks.

Earnings and Expenses

Eighth District Member Banks



1959 preliminary

All other expense items of district member banks increased during 1959. Wages and salaries, the largest expense, increased by 5 per cent. Some banks found it necessary to borrow in order to meet the loan demands of their customers, and they paid substantially higher rates on these loans. Interest payments on borrowed funds by district member banks increased by $1.4 million.

Net Profits

Net operating earnings advanced to a record $103 million, an increase of about 17 per cent. The ratio of net current earnings to capital increased from 13.6 per cent in 1958 to 15.2 per cent in 1959.[1] The net operating earnings were partially offset by $29 million of net losses and charge-offs. In 1958 banks had a net gain of over $2 million on the sale of securities. As a result of the losses incurred on the sale of securities net profits (before taxes) fell to $73.5 million or 19 per cent below those of 1958.

Income taxes took 35 per cent of net profits in 1959 compared to 45 per cent the previous year. Taxes took a smaller portion of net profits in 1959 in part because banks held more tax exempt municipal securities and banks suffered losses on the sale of securities. Net profits after taxes amounted to $48 million in 1959, only $2 million less than in the record-breaking year of 1958. Net profits after taxes as a per cent of capital decreased by almost one percentage point between 1958 and 1959, to a level of 8.0.

Cash dividends on common stock amounted to almost $21 million or 44 per cent of net profits after taxes. The ratio of dividends to capital remained about the same in 1959 as in the previous year. While approximately the same amount of dividends was paid in 1958, the relative share of net profit was smaller, 41 per cent.

Retained earnings amounted to 56 per cent of net profits (after taxes) in 1959, 3 percentage points below 1958 and 4 points below 1957. Largely as a result of retained earnings the capital to deposits ratio increased. It is primarily through retained earnings that banks in postwar years have built up their capital accounts.

Earnings and Expenses
Eighth District Member Banks
(In Millions of Dollars)

	1957	1958	1959p
Interest and Discount on Loans	139.6	141.4	160.5
Interest on Government Securities	47.6	51.6	56.3
Interest on Other Securities	12.7	14.9	15.7
Service Charges on Deposits	9.3	10.6	11.7
Other Current Earnings	18.0	18.5	19.9
Total Current Operating Earnings	**227.2**	**237.0**	**264.1**
Salaries and Wages	63.7	66.4	69.9
Interest on Time Deposits	22.6	27.0	30.8
All Other Expenses	50.7	55.2	60 5
Total Current Operating Expenses	**137.0**	**148.6**	**161.2**
Net Current Operating Earnings	**90.2**	**88.4**	**102.9**
Net Losses and Charge-offs	11.5	— 2.2	29.5
Net Profits Before Taxes	**78.7**	**90.6**	**73.5**
Taxes on Net Income	33.1	40.4	25.6
Net Profits After Taxes	**45.6**	**50.2**	**47.8**
Cash Dividends on Common Stock	18.2	20.7	20.9

p—Preliminary

[1] A table of Operating Ratios for Eighth District Member Banks for 1959 and 1958 is available. Copies of these tables have been sent to member banks in the Eighth District and to others who have requested them. Copies can be obtained from the Research Department, Federal Reserve Bank of St. Louis.

AGRICULTURAL DEVELOPMENTS

Farm Income in 1959

FARMERS in the Eighth District in 1959 apparently did as well financially as in the previous year despite a substantial downturn in farm income nationally. Furthermore, farm cash receipts in district states in 1958 were relatively high compared to levels of recent years. Cash receipts from farm marketings in Eighth District states rose from $6.4 billion in 1958 to $6.5 billion last year. Nationally, cash receipts declined from $33.6 billion to $32.8 billion.

CASH RECEIPTS FROM FARMING
EIGHTH DISTRICT STATES

(In millions of dollars)

	From Crops		From Livestock		Total	
	1959	1958	1959	1958	1959	1958
Arkansas	$ 472	$ 365	$ 223	$ 231	$ 695	$ 596
Illinois	819	783	1,163	1,301	1,983	2,084
Indiana	379	341	649	748	1,028	1,090
Kentucky	293	250	282	298	575	548
Mississippi	355	278	261	266	616	544
Missouri	373	333	721	759	1,093	1,092
Tennessee	273	217	247	272	519	489
Eighth District States ...	$ 2,964	$ 2,567	$ 3,545	$ 3,876	$ 6,510	$ 6,443
United States ..	$14,441	$14,259	$18,336	$19,301	$32,777	$33,560

(Detail may not add to totals due to rounding.)

Source: U. S. Department of Agriculture, *The Farm Income Situation.*

Realized net farm income in the nation declined from $13.1 billion to $11.0 billion or almost 20 per cent from 1958 to 1959. Realized net income per farm declined from $2,767 to $2,364. Realized net income per farm in three of the seven district states was greater for 1959 than in the previous year, according to preliminary estimates by the United States Department of Agriculture.

REALIZED NET INCOME PER FARM
EIGHTH DISTRICT STATES

(In dollars)

	1959	1958
Arkansas	$2,286	$1,874
Illinois	3,187	4,056
Indiana	2,188	2,736
Kentucky	1,650	1,611
Mississippi	1,472	1,393
Missouri	2,075	2,351
Tennessee	1,385	1,396
United States	$2,364	$2,767

Source: U. S. Department of Agriculture, *The Farm Income Situation.*

The major factor in the increased income in district states was larger crop sales, particularly in the cotton producing states of Arkansas, Mississippi, and Tennessee. An excellent cotton crop generated sufficient income to increase cash receipts from crops in each of these states more than 25 per cent above 1958 levels. Cash receipts from crops were also somewhat greater in the other four district states. A decline in livestock marketings, however, was sufficient to offset crop gains in Illinois and Indiana so that a drop occurred in total farm commodity sales in these states. Total sales in the other five district states remained the same as or greater than in the previous year.

Livestock and Poultry Inventories

LIVESTOCK and poultry numbers on the nation's farms at the beginning of 1960 were almost 4 per cent higher than a year earlier and the second highest on record according to the United States Department of Agriculture.[1] Total numbers of livestock on farms, combined so as to reflect differences in value, were 20 per cent above totals at the beginning of the 1950 decade but 4 per cent below the record in 1944. Numbers of meat animals (beef cattle, hogs, and sheep) were up 4 per cent from levels of a year earlier. Cattle kept for milk were unchanged and poultry numbers were down 4 per cent.

Cattle and Calves—The total number of cattle and calves in the United States reached a new high of 101.5 million head on January 1, 1960, an increase of 5 per cent during the past year. This was 13 per cent more than the 1949-58 average and 5 per cent higher than the previous record on January 1, 1956.

All states except Maine, Vermont, Massachusetts, Rhode Island, and Delaware showed an increase in cattle numbers during the year. Increases in the Eighth District states ranged from 3 per cent in Illinois to 7 per cent in Tennessee. Other large percentage gains occurred in the southern part of the district with Arkansas and Mississippi showing increases of 5 and 6 per cent respectively. The major cattle feeding states of Illinois, Indiana, and Missouri had gains of 3, 4, and 4 per cent, respectively, for the year.

Hogs and Pigs—Hogs and pigs at the beginning of the year totaled 58.5 million head, which was 3 per cent more than a year earlier, 7 per cent above the 1949-58 average, and the largest total since 1952. Compared with a year earlier hog numbers increased in all regions of the nation. The largest percentage increases, however, occurred in states outside the Corn Belt. Hog numbers were up only about 1 per cent in the North Central states, which have about 73 per cent of the hogs and pigs in the nation. Of the Eighth District states, greatest percentage increases were reported in Arkansas, Mississippi, Missouri, and Tennessee—each reporting gains of 15 per cent or more for the year. Illinois had an increase of 4 per cent, and hog numbers declined 6 per cent in Indiana.

[1] United States Department of Agriculture, *Livestock and Poultry Inventory, January 1.*

Sheep and Lambs—Sheep and lamb numbers in the country increased 2 per cent in the past year to 33.6 million head on January 1, 1960, the largest number on farms at the beginning of any year since 1948. Eighth District states, however, moved counter to the national trend, with declines averaging about 4 per cent.

Chickens—Chickens at the beginning of the year totaled 366.9 million, a decrease of about 4 per cent from a year earlier. Most Eighth District states followed the national trend; the exceptions were Arkansas and Mississippi, with increases of 4 and 20 per cent, respectively.

Conclusion—Translating livestock and poultry numbers into farm commodity output in 1960, the nation may expect some decline in per capita meat production, about the same quantity of milk, and fewer eggs. Production per animal unit has increased steadily in recent years, and 1960 is not expected to be an exception since feed supplies are more than adequate, and favorable relationships between feed prices and livestock commodity prices encourages liberal feeding. A smaller spring pig crop is expected to offset gains in other meat products.

LIVESTOCK AND POULTRY ON FARMS
UNITED STATES

(Data as of January 1)
in thousands

	1960	1959	Average 1949-58
Cattle	101,520	96,560	89,612
Cows—2 years old and older kept for milk[1]	21,331	21,488	23,361
Hogs	58,464	56,924	54,478
All Sheep	33,621	32,945	31,167
Chickens	366,859	383,529	407,448
Turkeys	5,673	5,923	5,173

[1] Included in cattle.

Source: U. S. Department of Agriculture, *Livestock and Poultry Inventory, January 1.*

Farm Real Estate Values

THE RATE OF INCREASE in the value of farm real estate per acre in the nation was 3 per cent per annum in each of the consecutive four-month periods ending July 1 and November 1, 1959 according to the United States Department of Agriculture. This compares with an increase of 8 per cent for the twelve months ending March 1, and an average rate of 7 per cent for the three years ending March 1, 1959.

CHANGES IN FARM REAL ESTATE VALUES

EIGHTH DISTRICT STATES

(annual rate)

	4 months ending Nov. 1, 1959	4 months ending July 1, 1959	Year ending Mar. 1, 1959	Year ending Mar. 1, 1958
Arkansas	+ 6%	-0-%	+ 6%	+7%
Illinois	— 2	+ 3	+ 8	+5
Indiana	+ 2	+ 5	+ 5	+4
Kentucky	+10	+ 4	+ 9	+5
Mississippi ...	-0-	+ 2	+10	+6
Missouri	+11	-0-	+ 8	+7
Tennessee	+ 4	+ 2	+10	+5
United States..	+ 3	+ 3	+ 8	+6

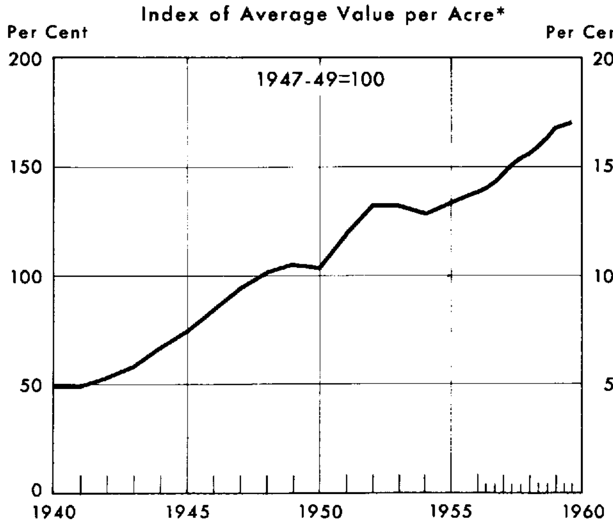
Source: U. S. Department of Agriculture, *The Farm Real Estate Market.*

Average farm real estate values remained generally unchanged in the Eastern Corn Belt, central south and the Great Plains states in the four months ending November 1, 1959. Included in this group are four states located partially in the Eighth Federal Reserve District, namely: Illinois, Indiana, Mississippi, and Tennessee. Other Eighth District states had farm real estate value increases at the annual rate of 6 to 11 per cent.

Lower returns on farm land have probably been the major factor in reducing the rate of gain in farm real estate values. During World War II and immediately thereafter realized net income per acre rose rapidly, reaching a peak in 1948. Value per acre of farm real estate rose but at a substantially slower rate. By 1948, land prices were low relative to earnings as judged by historical relationships. Uncertainty as to the permanence of high earnings was probably the major factor. Early in the 1950's earnings on farm land began to be capitalized into progressively higher values, and prices on farm land continued to rise through 1959. The high level of farm land prices has resulted in an unusual situation with respect to returns on land relative to returns on other forms of capital. For example, in four of the last five years returns on the market value of farm real estate have been below the interest rate on farm mortgages. Furthermore, the return of 3 per cent on farm land in 1959 was the lowest rate of return on such property in more than twenty years and less than the average rate of return on either common stocks or corporate bonds.

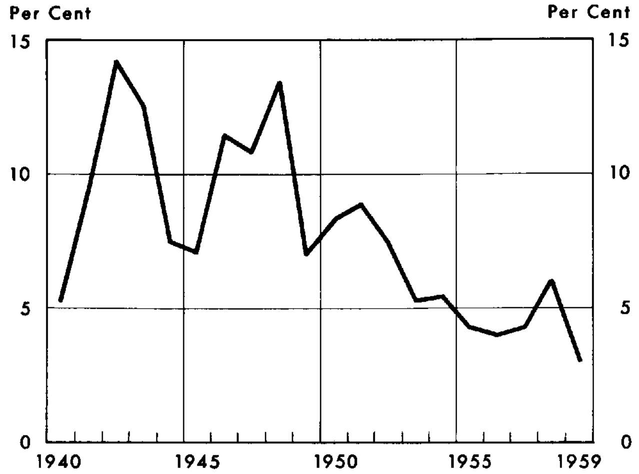
Farm Real Estate

Index of Average Value per Acre*



*Farmland and buildings

Return on Market Value of Farm Real Estate



Some Influences in the Behavior of Prices

(Continued from page 3)

days or so in a hospital at $30 or more per day with the cost of several weeks in the hospital at $6 per day that might have been required for a similar illness some years ago? It is difficult to say how much of the difference is a difference in price and how much is a change in the services rendered. Problems of comparability exist in commodities also but appear especially complex for services.

Total demand

To this point we have been concerned primarily with influences on supply, such as growth of productive capacity at home and abroad and increases in productivity. But what about factors influencing total demand? Two obvious candidates for examination are monetary policy and fiscal policy.

Monetary policy has contributed to stability. A sizeable increase in the money supply was permitted during the recession, which is generally considered to have been conducive to recovery. In 1959, growth of the money supply and of total bank credit was almost negligible. Therefore, it does not appear that growth of the money supply and bank credit can have contributed much to inflationary forces over the past year.

The Federal budget has also been tending recently in a less inflationary direction. The deficit in the cash budget may have been desirably stimulative during the recession, but it continued for a while in the recovery period. Recently the budget has been moving toward balance or a small cash surplus as growth of personal income and corporate profits caused revenues to rise.

President Eisenhower, in his State of the Union message, mentioned the possibility of a small surplus in the Federal Budget for the current fiscal year (ending June 30, 1960) and a much larger

Analysis of the Radcliffe Report

A STUDY of the implications of the Radcliffe Report for United States monetary policy has been prepared for the Federal Reserve Bank of St. Louis by Professor J. M. Culbertson of the University of Wisconsin. A limited number of copies is available to individuals. Requests are to be directed to the Research Department of the Federal Reserve Bank of St. Louis.

Dated August, 1959, the Radcliffe Report, the popular name given to the *Report of the Committee on the Working of the Monetary System,* is the first full-scale study of Britain's monetary system since 1931.

one, of approximately $4.2 billion, in fiscal 1961. Application of a surplus to reduction of the public debt would be expected to contribute to restraining inflationary forces.

A problem

A possible shortage of skilled manpower in the near future may be conducive to upward price pressures. In the 1955-1957 boom gross national product measured in current dollars grew but output measured in real terms lagged, in part because the number of people in the most productive age groups in the labor force grew at an abnormally small rate after 1955. Now again there are reports of shortages of technical help. This situation may become more serious before the flood of young people starts coming out of the colleges in the 1960's. A shortage of such a vital resource tends to limit growth in total output. Therefore, total demand may have to be restrained in some way to keep activity at a sustainable rate without inflation. Paradoxically, there may be an apparent over-abundance of labor in the midst of a real shortage. In February of this year, for example, unemployment among professional, technical, and managerial people was very low, while unemployment among semiskilled and unskilled workers was much higher. The rapidity of technological change and regional shifts in the location of activities leave pockets of unfortunate people who are no longer wanted for the types of work they are prepared to do or where they prefer to stay.

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