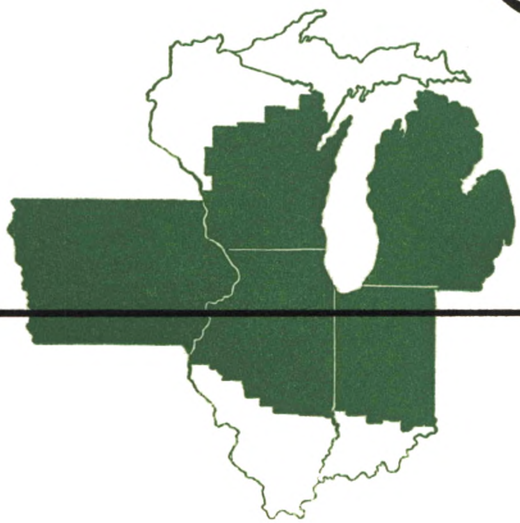
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1952 June

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THE Trend OF BUSINESS

INFLATIONARY PRESSURES are obviously not active at the moment. In fact, developments over the past months have led to many a searching glance by businessmen at the prospects for their individual firms.

There is no doubt but that concerns in some lines have been hit very hard—and I am speaking here of a shortage of sales not simply a shortage of materials. But for the overwhelming majority of firms, such is not the case. Present markets appear dreary primarily when viewed through the rose-colored glass of a year ago. The nine months from June 1950 to March 1951 was a period of literally unprecedented civilian business activity. Production, sales and profits were sharply inflated by the appearance of suddenly insatiable markets. By no standard was this "normal" prosperity, and for purposes of comparison it would be better if the hyperactivity of these months were ignored.

On the whole, the statistics of recent months describe a stable plateau of high level prosperity. The current "ups" and "downs" of individual firms are a part of those constant shifts in production and demand which occur in a capitalistic system, even in the most prosperous periods.

In other times, the sudden increase in consumer saving and resultant change in business buying policies which occurred a year ago might have initiated a general deflationary movement. But despite these two broad adjustments, the swelling total of defense outlays has buoyed up production and steadily expanded consumer buying power. In effect, the higher consumer saving and ending of civilian business inventory accumulation have made room for the defense program to proceed without adding to inflationary pressures. As a result, we are better prepared to face the problems ahead.

Excerpts from a speech, "Another Look at Inflation," delivered by Mr. C. S. Young, President, Federal Reserve Bank of Chicago, before the Milwaukee Control, Controllers Institute of America, April 15, 1952.

Credit policy

It is with the field of credit, of course, that the Federal Reserve is particularly concerned. In appraising the future role of credit and credit controls, we now have the benefit of the recently concluded hearings of the Congressional Subcommittee on General Credit Control and Debt Management. Those proceedings, by casting up every shade of opinion on credit policy, have brought its advantages as well as its limitations into sharp relief. To my mind, the sense of such discussion has reinforced this judgment: *impersonal monetary controls, appropriately timed and tailored, can do a great deal to postpone those marginal demands which represent the difference between resistible and irresistible upward pressures on prices.*

Beyond 1952

The policy decisions of today, however, cannot simply imitate the past, and they cannot be made solely with an eye to 1952. You as businessmen, and we as central bankers, must always leaven our current decisions with a healthy pinch of postemergency considerations. Let me say a few words, therefore, about that time to come when the expansionist pressures from our defense outlays will abate.

Many people look forward to this transition period with trepidation. In particular, they note that we are not building up a powerful deferred civilian demand of the type that cushioned our post-World War II reconversion. Therefore, they say, the incentive to business to continue a high rate of new capital investment will not be great.

Here, undoubtedly, are depressing factors to be weighed carefully. I think we run some risk in current discussions, however, in relying unduly on the pattern of World War II as a guide to our expectations. For one thing, the decrease in pressure from Governmental outlays is certain to be much more gradual than in 1945 and 1946. It will stem from a relative expansion of our production potential rather than from a sharp cutback in military takings. The letdown from peak defense pressure will, therefore, not build up a rapid deflationary momentum.

The extent and degree of postdefense readjustments are also lessened by the fact that we *have not* dismantled our civilian production lines. The fear of a "reconversion gap" in output and employment, therefore, need not loom large in our minds on this occasion. By the same token, of course, the continuing output in the civilian sector gives some opportunity for current working out of price-cost-market distortions. To this extent we are paring down the scope of necessary postemergency realignments.

The other side of this coin has already been referred to. Current civilian production undoubtedly minimizes the build-up of denied demands for these specific articles. But here, again, it is easy to misread the record of World War II. Potential demands are created in two ways—by a cessation of production of a wanted article *and* by an accumulation of unused but liquid spending power in the hands of consumers. The latter contribution to deferred demand we are building up rapidly, as a glance at the mounting total of consumer-held liquid assets will verify.

Here is a vast market awaiting the nation's business. To say that the funds so stored were voluntarily set aside, and therefore will not pursue every item offered for sale, is one thing; but to say that these savings cannot be enticed forth by aggressive merchandising of new and improved products is to underestimate the ingenuity of American businessmen.

I do not mean to suggest by these few arguments that the mid-50's will be a period of unruffled prosperity. All we can be sure of is that the postemergency period will be full of the complex and conflicting movements characteristic of our capitalistic system. And always in the background lies the unpredictable state of international tensions, changes in which have a profound effect upon domestic stability.

I do think, however, that it is easy in our thinking to exaggerate the force of any future letdown in general business activity. In the meantime, the best preparation for such an eventuality is a combination of watchful planning for future alternatives, and firm efforts toward the preservation of today's stability.

Banks distribute Review

Over 100 District member banks are now taking advantage of the bulk subscription to *Business Conditions* recently offered by the Federal Reserve Bank of Chicago and are distributing this publication each month to their directors, officers, and selected mailing lists of customers. Their comments indicate that the articles in the fields of finance, business, and agriculture are helpful in keeping in touch with current trends.

Up to 50 copies of each issue are available without charge to member banks; additional copies are supplied at cost. Address requests to the Research Department, Federal Reserve Bank of Chicago, Chicago 90, Illinois.

The dip in durables

No substantial pickup in sales of hard goods expected in the near future. Buying power is abundant, but merchants face strongly competitive markets.

Many businessmen are troubled by the faltering trend in sales of durable goods which has continued for over a year. The long-awaited spring pickup in buying of "big ticket" items was not reassuring; sales have been below expectations. Recently, buying has been stimulated by the suspension of restrictions over instalment credit terms. Most retailers, however, appear to expect the uplift from easier credit to be limited and temporary.

Small comfort for the longer run outlook is offered by recently published market previews. Preliminary results of the Federal Reserve System's *Survey of Consumer Finances for 1952* indicate that families expect to buy somewhat fewer major household goods than last year. A number of statistical analyses suggest that backlogs have largely disappeared. The market for automobiles and many types of important appliances now is dominated by replacement demand.

In the first half of 1952 Government limitations on output of the most important classes of consumer durables including most makes of passenger cars turned out to be nominal; the real ceilings have been set by the willingness of consumers to buy. Steadily growing capacity for the production of basic metals and the stretch-out of the defense build-up indicate that this situation will continue into the foreseeable future.

Sales of appliances, television sets, automobiles and to a lesser extent furniture, have been adversely affected in the past year by the abnormally high level of buying of these items in the nine months following Korea. Nevertheless, some merchants and manufacturers fear that buyer "apathy" is merely a prelude to a serious recession in over-all business activity. Others are inclined to view the outlook more calmly, believing that emergence of ample supplies relative to demand merely calls for more aggressive merchandising and the development of more attractive products.

Despite the pessimistic murmurs, over-all retailing experience in recent months can hardly be labeled depressing. The level of such sales has been satisfactory in reference to any past period. Nevertheless, the fact remains that while individual income continued to rise through most of 1951, spending did not keep abreast. In the first quarter of the year personal income from all sources totaled about 258 billion dollars on an annual rate basis—6 per cent more than in the same period of 1951. Retail sales, however, were *down* 4 per cent.

The importance of durables

A large portion of the decline in sales is accounted for by the dip in durables, particularly major appliances and television and radio. Seventh District department stores reported these categories to be down 39 per cent and 36

Sales at District department stores lag behind 1951; exceed earlier years

	Sales in Jan.-Mar. quarter of 1952 compared with 1950	1951
Grand total	+10	—10
Furniture and bedding	+15	— 9
Household appliances	+ 2	—41
Radios and TV	—34	—37

per cent respectively from the very high levels of a year ago in the January-March quarter.

In the five years prior to America's entry into World War II approximately 10 per cent of consumption spending went for durable goods. For the five years just past this proportion averaged over 13 per cent, reaching a peak of 15 per cent in 1950. Currently, less than 12 per cent of outlays by consumers are for durable goods.

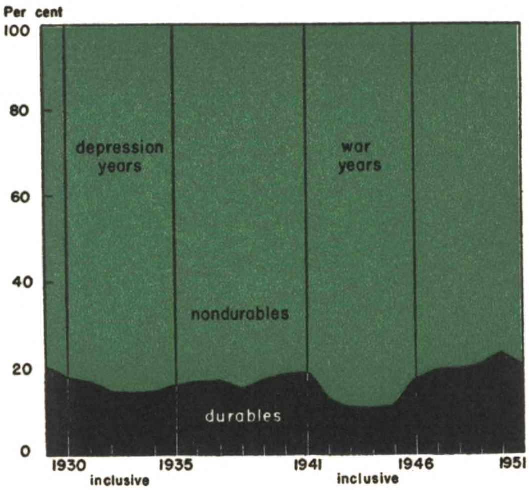
That buyers may postpone expenditures for durables is obvious. Food and many types of clothing and services, on the other hand, must be purchased regularly. The accompanying chart shows how supply and demand conditions have varied the distribution of consumer spending between hard and soft goods over the past quarter century.

Automobiles are by far the most important single item in consumer durable goods category, accounting for about one-third of the total. The largest portion of the new car market now represents replacement demand which depends upon the age at which existing cars are junked. An increase of one year in the average scrappage age (currently about 13 years) translates into a 7 per cent decline in sales. Over the years the durability of passenger cars has improved. Motorists are better able than before to keep cars running and delay purchases of new ones.

Sales of appliances of all types which totaled 4 billion dollars in 1951 were about half as large as auto sales and accounted for one-sixth of all consumer durable outlays. Most of these items are used longer by the original purchaser than the average new car, but they differ from cars in that the second-hand market is limited. This is particularly true of the more essential appliances such as refrigerators and washing machines. Moreover, although many families would like to own two or more automobiles, few homes could use two freezers or two kitchen ranges.

The table shows sales performances of a selected group of important durables during

Proportion of consumer outlays varies between hard and soft goods



past periods of declining business. Production of a new product strongly desired by consumers may continue to rise during a downswing. This fact is indicated by the case of refrigerators during the depression. Electric ranges were also a new product, but they did not represent the tremendous contrast of electric refrigeration and the old-fashioned ice box.

In 1951, output of such new items as air conditioners, electric clothes dryers, and home freezers was substantially higher than in the previous year, despite the general downtrend in appliance sales. As these newer products begin to "saturate" their markets, production figures are certain to show ups and downs similar to those of established products.

The trend of shoe production during the depression provides an interesting contrast to the experience with major durables. In the three years 1930-32 footwear production averaged 14 per cent below 1929. In 1933, however, the year which marked the bottom of the depression in many measures, output of footwear rose to within 3 per cent of the 1929 total. Shoes had been wearing out faster than they were replaced, and eventually the process had to be halted.

The consumer is king

The postponability of many types of consumer spending is receiving growing attention from business cycle analysts. Satisfaction of personal human wants is, of course, the end purpose of all economic activity. Business spending and even Governmental defense outlays are incidental to this ultimate goal. Since plans to expand capacity and vary stocks of goods are based to a large extent upon current or anticipated levels of consumer buying it is apparent that decisions of millions of individuals importantly affect the level of business activity.

The role of consumer buying in maintaining over-all stability was illustrated during the 1949 "dip" in business activity. Between 1948 and 1949 new construction and purchases of producers' equipment *fell* by 1.3 billion dollars. Total consumer spending *rose* by 2.3 billion between these two years. Although this approach cannot be pressed very far in view of the many diverse factors at work, the demonstrated strength of consumer demand during 1949 undoubtedly played an important role in preventing the general slide-off which appeared to threaten at that time.

Today the consumer is in a better position than ever before to defer or cancel spending plans. This is because of the volume of housing and other long-lived possessions which have been created in the past seven years, the larger proportion of consumer spending now going for durable goods, and the greater amount of spending for comforts and luxuries.

Saturation?

In the years since World War II there has been a good deal of talk concerning the backlogs of demand which were built up during the years in which production of consumer hard goods was severely restricted. This deferred demand was responsible for the very high level of durable sales in recent years. At the present time, the rate of family formation is slowing

Broad shifts in durable goods output between good years and bad

Year	Automobiles	Refrigerators	Electric ranges	Vacuum cleaners	Clothes dryers	Dish washers	Television
				(unit sales in thousands)			
1929	4,587	778	153	1,253			
1932	1,135	798	60	447			
	—3,452	+20	—93	—806			
Change	—75%	+2½%	—61%	—64%			
1937	3,915	2,310	405	1,210			
1938	2,001	1,254	275	967			
	—1,914	—1,056	—130	—243			
Change	—49%	—46%	—32%	—20%			
1950	6,667	6,200	1,830	3,529	319	230	7,464
1951	5,334	4,075	1,400	2,700	495	260	5,100
	—1,333	—2,125	—430	—829	+176	+30	—2,364
Change	—20%	—34%	—24%	—23%	+55%	+13%	—32%

SOURCE: *Electrical Merchandising and Ward's Automotive Reports* down as the meager crops of depression babies reach marrying age. In addition, close to 90 per cent of American farms are now served with electricity and many farm homes have their quotas of electrical gadgets. The question is being raised, are consumer markets for durables close to temporary saturation?

In such important categories of demand as automobiles, housing, and appliances consumers are probably better supplied than ever before. There are well over 40 million passenger cars on the road today—about one for every 3.7 persons. In 1929 there were only about 23 million or one for every 5.3 persons when the goal was "two cars in every garage."

Statistics reveal that a larger proportion of married couples have their own living quarters than was the case in 1930 after a decade of high level residential building activity. These homes are, of course, furnished and equipped in some manner at the present time.

According to McGraw-Hill, 99 per cent of all wired homes have radios, and 86 per cent have electrical refrigerators. The experience with television sales in those areas in which it can be seen provides a good example of how quickly a new product can approach saturation of its potential market. There are over 1 million television sets in service in the Chicago metropolitan area. This means that over 60 per cent of all the families in the area have sets.

Buying power is impressive

One prerequisite for a good level of sales is the ability of potential customers to buy. Despite population growth and higher prices and taxes, it is calculated that *per capita income after taxes, adjusted for price changes,* was about 40 per cent higher in 1951 than it was in 1929.

An individual's ability to purchase goods is, of course, not limited to his current income. He may draw down liquid assets or go into debt. At the present time, liquid asset holdings are greater than ever before. Moreover, the financial position of most consumers would permit them to undertake additional borrowing.

The fact that enormous buying power exists does not necessarily mean that it will be used. What are consumers doing with their buying power? What will they be doing months or years in the future?

Cash and human wants

In surveying the future businessmen can take heart from the textbook dictum that "human wants are insatiable." Temporarily, as in the past year, the edge may be taken off the consumers' appetite for certain types of goods, but such a condition will not last indefinitely.

The fact that many types of durables face mainly a replacement market is hardly cause for despair. Instead, it is a signal of the need for better products, more vigorous merchandising and, where feasible, lower prices.

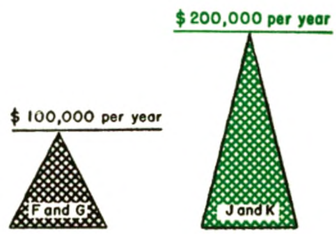
Meanwhile, total durables sales will be helped to some extent by the vast first purchase market which exists for new products already developed. Home freezers, automatic washers, dryers, food disposals, and dish washers are only now reaching mass markets. Perhaps the greatest potential of all exists for home air conditioning units.

A new look

In a broader sense it is rather strange that the degree to which consumer demand has been satisfied should be cause for widespread alarm. The fact that some slack markets exist despite high consumer income is a measure of the productivity and success of the American system.

The real danger involved in a drop in buying is that reduced employment and profits in certain industries will bring reverberations that affect the entire economy. At the present time, rising defense spending probably precludes any extensive downturn in total activity. Substantial adjustments already have been made in lines affected by slow sales. As a result, overall business can face the future with greater confidence.

Investors look at new United States and find

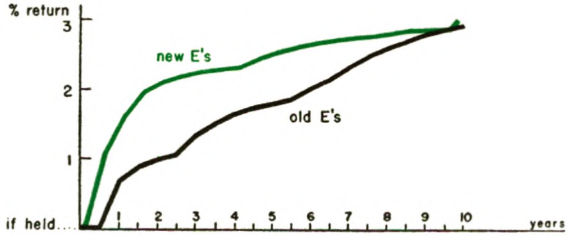
	New series . . .	higher purchase limits
"Small" investors—"savers," people on payroll savings and "bond-a-month" plans—those who purchase denomination bonds.	**Modified Series E bonds.**	Increased from $10,000 to $20,000 per year (maturity value).
"Medium" investors—individuals who can invest at least $500 at a time.	**Something new has been added—Series H bonds paying interest currently.**	$20,000 per year.
"Large" investors—individuals, pension funds, and other institutions (excluding commercial banks) who have the funds to invest up to maximum limit each year.	**Series J and K bonds replacing the old F's and G's.**	

For the first time in 11 years, the Treasury has offered the public a new alphabet of savings bonds. The new bonds incorporate some proposals which critics of the declining bond program had recommended but no features which would have required a change in the original savings bond law. Thus, rates were not raised above 3 per cent, no tax exemption privilege was established, nor was any "purchasing power" device included. The most conspicuous innovation to come out of the face-lifting operation is the promising Series H bond.

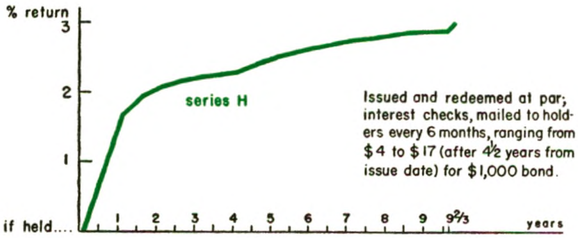
For E bond holders, the new offering raises the immediate question of how to handle their present holdings. Actually, there are only limited cases where investors can make money by cashing their present holdings in favor of the new bonds. In determining the profitability of such a move, probably the most important consideration is the tax angle. If old E bonds are cashed, realized interest income on them must be reported for tax purposes, and the resulting additional tax liability may be sufficient to offset any gains in yield which might be made by

savings bonds

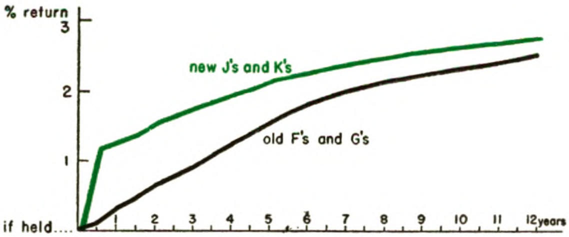
. . . better early redemption values . . . and improved yields.

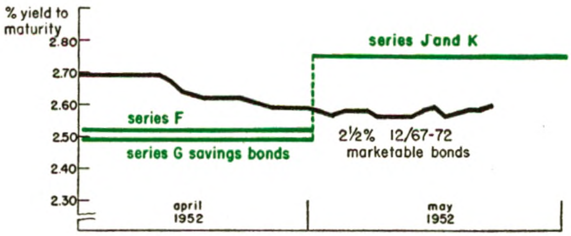


Still $4 for every $3—in 9⅔ years instead of 10.



3% if held full 9⅔ years.





switching. Many E bond holders will, therefore, refrain from making the move in the hope that in the future the tax status of the bonds may be changed, or that their own tax position will become more favorable as a result of a lower income tax rate, a decline in taxable income, or an increase in their exemptions.

Investors who plan to hold new bonds until maturity will find the switch unprofitable if their present bonds are more than six months old, since the "give-up" yield already exceeds the 3 per cent yield to maturity available on the new E's or H's. If the new bonds are to be redeemed before maturity, there is a slight yield gain to be made by exchanging bonds bought in 1952, a lesser gain on those acquired in 1951 and late 1950, and none on prior purchases.

In the case of "extended maturity" E bonds, if the bonds mature after May 1, 1952, they automatically earn the new 3 per cent yield for the extended 10 years. If, however, the bonds matured before May 1, a slightly greater yield is available by moving into the new series within two years of the original maturity date.

What's happening to those savings?

Part of the currently large volume of consumer saving is being stashed away in spendable form, but much is not readily available for use on that rainy day.

FOR MORE THAN A YEAR NOW, consumers have shown a tendency to hold onto their money rather than spend it. During the last nine months of 1951, personal saving was at an annual rate of 20 billion dollars, highest since the war years of shortages and rationing. Saving appears to have been moderately lower in the first quarter of this year, but continues high relative to other postwar periods.

What was behind the jump in saving last year? Some observers believe that personal saving only increased to what may be a more "normal" level in the future. They reason that six years of booming production has finally satisfied the more urgent demands for goods. This process was accelerated by the heavy buying of durable goods in the months following Korea. In addition, there is some evidence that many consumers are holding back because they feel that prices are just too high. If so, this price resistance should weaken as people become accustomed to the current higher levels.

Whatever the reasons, the greater volume of personal saving during the past year has been an important force in restraining further inflation. First, the resulting weakness in retail sales has acted as a strong preventative in halting price rises in many lines. Second, the lower level of consumer demand for durable goods has "made room" for larger business capital expenditures and expanding defense outlays by freeing men, materials, and productive capacity for these programs.

There are signs that the rate of personal saving may now be on the decline. Preliminary estimates place saving at an annual rate of 16.7 billion dollars in the first quarter—a drop of almost 4 billion from late 1951. A leveling off in personal income and higher tax payments contributed to this decline, but a moderate rise in consumer spending also played a part. This suggests that the effects of heavy forward buying after Korea and resistance to higher prices may be on the wane. Moreover, the recent suspension of down payment and maturity restrictions on consumer instalment credit may stimulate buying on time in coming months. The question remains, however, as to how much last year's record peacetime volume of personal saving has improved the consumer's willingness and ability to buy.

The personal saving concept

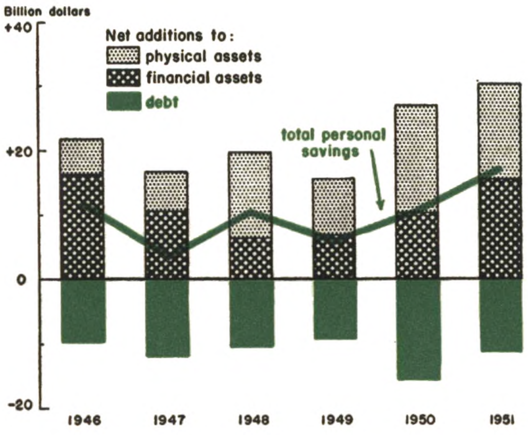
Although there are several different measures of saving, the one most commonly used is the Department of Commerce estimate of personal saving. This concept of saving is considerably broader than the popular understanding of what is included in the term. It defines personal saving as the difference between personal income after taxes and consumption expenditures. Thus, all uses of current income for purposes other than consumption *add* to saving, while consumer spending which is financed from sources other than income *reduces* saving.

Under this definition, net increases in holdings of such financial assets as cash, bank deposits, Government bonds, municipal and corporate securities, and in the value of life insurance policies are classified as saving. In addition, new investment in housing and in buildings, equipment, and inventories of unincorporated businesses and farms is included, less depreciation on existing property. Finally, repayments of consumer, residential mortgage, and unincorporated business debts add to personal saving, while increases in such debt are counted as dissaving.

Personal saving is only part of the more inclusive concept of gross private saving. This term includes corporate saving in the form of retained earnings and business depreciation charges as well. Moreover, an even broader figure representing "gross national saving" may be obtained by counting government cash surpluses as saving and deficits as dissaving. Conceptually, gross national saving as so defined equals total private investment at all times. There is no fixed relationship between personal saving and investment, however, since significant shifts in the importance of the components of national saving can and do occur.

The Department of Commerce determines the amount of personal saving by deducting consumption expenditures from income after taxes. As the residual of these two much larger figures, the saving estimate is subject to considerable error. Any overstatement or understatement of either income or spending may be magnified in the saving residual. Although it is checked for consistency with SEC estimates of net changes in specific types of assets and debt, the personal saving figure is frequently revised

Personal saving reflects greater increases in assets than debt



rather substantially as more complete information becomes available.

An important limitation results from the broad definition of the term "personal" in national income accounting. This includes unincorporated businesses, farms, nonprofit, religious, educational, and charitable organizations, pension and personal trust funds as well as individuals. Thus, net increases in the assets of these groups are also included in personal saving, although they do not directly improve consumers' current financial position.

Since personal saving is calculated as a residual, particular types of saving are included only implicitly. A rough breakdown of the figure into its major components may be obtained, however, by using SEC estimates of changes in selected types of assets and other savings data. Broadly speaking, the components of personal saving fall into three groups—changes in financial assets, physical assets, and net repayment of debt.

Financial assets comprise the segment of saving by individuals which evidences changes in holdings of more or less liquid resources. Net additions to this group of assets rose sharply from 1949 to 1950 and again from 1950 to 1951:

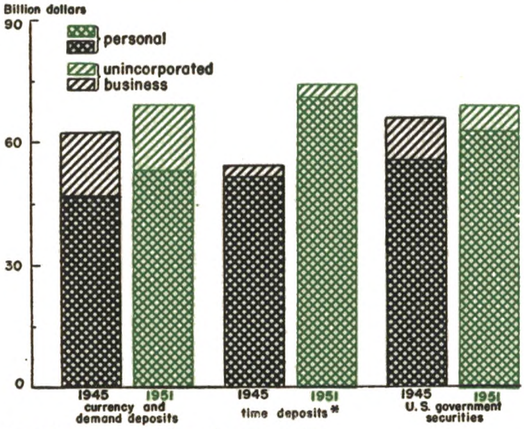
	1949	1950	1951
	(billion dollars)		
Currency and demand deposits	—2.2	3.7	3.7
Savings deposits	2.4	2.0	4.2
U.S. Governments	1.1	—0.9	—0.7
Other securities	1.6	1.7	4.1
Insurance reserves	3.7	3.9	4.2
Total increase	6.6	10.4	15.5

The nature of the increases differed significantly between these two years, however. In 1950, the fact that financial saving was almost 4 billion dollars higher than in 1949 was accounted for entirely by an expansion in currency and demand deposit holdings. This reflected the sharp increase in bank credit and resultant expansion in the money supply which occurred during the latter part of the year. Consumers and business alike required larger cash balances as prices advanced.

The further increase of 5 billion between 1950 and 1951, on the other hand, seems to have reflected a greater inclination on the part of consumers to save. Cash holdings rose no more than in 1950, while increases in longer term savings were much greater. The significant increase in purchases of corporate and municipal securities was accounted for in large part by new offerings of corporate stocks. According to the SEC, individuals bought nearly 2.2 billion dollars worth, more than in any year since 1929.

Obviously, the several types of financial assets vary widely in liquidity. Cash, deposits, and Government securities can be liquidated and spent on short notice. Corporate and municipal securities also can be converted to cash readily, but the risk of loss of principal is substantial in some instances. Insurance reserves can be freed through surrender of policies. Since most insurance is bought primarily for

Liquid asset holdings of individuals have expanded in the postwar period



* Includes savings and loan share accounts

protection, however, premium payments are likely to be continued and policies will be cashed in only as a last resort.

Liquidation of indebtedness is counted as saving because such repayments represent a use of funds for purposes other than consumer spending. Since outstanding debts of all types have been rising rapidly in the postwar period, this factor has served to reduce the level of saving. By the same token, however, a considerably smaller increase in debt in 1951 as compared with 1950 contributed importantly to the increase in saving between the two years:

	1949	1950	1951
	(billion dollars)		
Mortgage debt	3.8	7.0	6.0
Consumer credit	2.3	3.2	0.4
Business debt	2.9	5.4	4.7e
Total increase.....	9.0	15.6	11.1

Credit restrictions were in part responsible for this development. Larger down payment and shorter maturity requirements on consumer instalment and residential mortgage credit doubtless curbed the rise in these types of debt. Moreover, a firmer monetary policy and the voluntary credit restraint program tightened the availability of credit generally, and may have held down loans to unincorporated business. Although less than in 1950, the rise in business indebtedness last year was substantial, reflecting continued heavy capital expenditures and an increase in farm inventories.

Physical assets comprise a large nonliquid segment of personal saving. These include investments in residential dwellings, institutional buildings, and fixed assets and inventories of unincorporated businesses, including farms. Purchases of automobiles, appliances, and other durable goods are not included, despite the fact that these obviously increase the net worth of consumers and have a fairly long useful life.

Net additions to such physical assets were sharply higher in 1950 than in 1949 and continued at a high but moderately reduced level last year:

	1949	1950	1951
	(billion dollars)		
Residential housing..	5.7	9.9	8.3e
Business investment..	3.4	6.7	6.5e
Total increase.....	9.1	16.6	14.8

These investments evidence spending, but are counted as personal saving because they are classified as investment rather than consumption outlays. In large part they are financed through credit or the drawing down of liquid asset balances. In this event, the effect on personal saving is neutral, since these reductions are savings offsets of another form. To the extent that such investments are financed from current income and business profits, however, personal saving is increased.

Plenty of cash

Although a fairly large proportion of current personal saving may not represent the withholding of funds for use at some later time, consumers as a group hold a tremendous stock of accumulated liquid assets. Personal holdings of liquid assets (excluding corporate securities) now total well over 200 billion dollars, of which roughly 25 per cent is tied up in unincorporated businesses and personal trust funds. The rest presumably could be liquidated and spent at will, if the consumer-holders were so disposed.

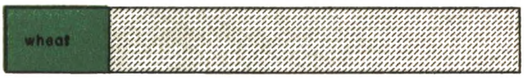
The distribution of these holdings is another matter. According to the 1951 *Survey of Consumer Finances,* 82 per cent of all liquid assets (excluding currency) is held by the top fifth of the nation's spending units. There has been no tendency toward further concentration in recent years, however. Moreover, 42 per cent of all spending units held 500 dollars or more in liquid assets in early 1951. Added to the public's ability to borrow on the basis of high current incomes, this could provide a large and fruitful market for aggressive merchants and manufacturers in the future.

Experiment in wheat

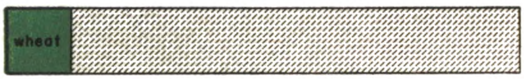
International Wheat Agreement being reviewed. Major obstacles to extension are rigid price schedules and large subsidies for U.S. exports.

As the world's largest exporter of wheat and flour in postwar years the U.S. has a vital stake in matters affecting international trade in this important commodity. With three-fifths of our wheat shipments governed by the terms of the International Wheat Agreement (IWA) we obviously have a keen interest in this pact and in the current negotiations for its renewal.

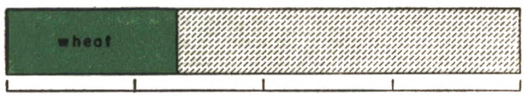
U.S. production and exports of wheat have been at exceptionally high levels since 1944. Very largely, this reflects the wartime disruption of agricultural production in Western Europe, the extensive postwar aid programs, and the capacity of American agriculture to expand output in response to favorable prices. Wheat in recent years, for example, has been produced in excess of a billion bushels annually and accounted for:



over one-fifth of U.S. cropland,



one-eighth of total value of crops produced,



nearly one-third of total farm exports.

For twenty years prior to World War II, U.S. wheat exports averaged just over 100 million bushels. In postwar years, however, this jumped to 400 million, one-third of annual harvests. Domestic requirements total about 700 million bushels a year, of which less than 500 million are used for food, the remainder for livestock feed, seed, and industrial uses. The IWA was developed with the hope that it would help to maintain a substantial volume of exports. This, of course, would permit continuation of high level domestic price supports with a minimum of production restrictions.

What is the Wheat Agreement?

The announced objectives of the IWA are "to assure supplies of wheat to importing countries and markets to exporting countries at equitable and stable prices." Briefly, the Agreement provides that exporting countries supply agreed amounts of wheat to importing nations at no higher than the "maximum" price set in the Agreement while the latter guarantee to buy such amounts at prices no lower than the "minimum." Currently the quotas for the member exporting nations are:

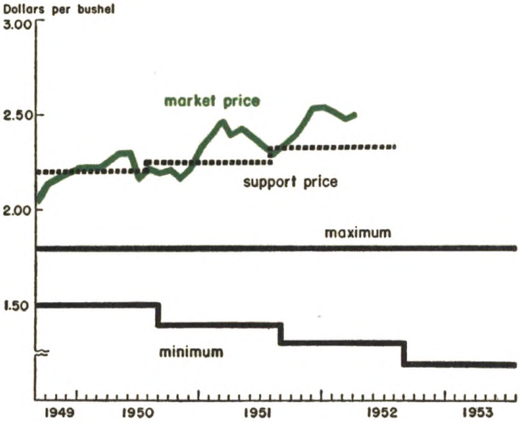
	(mil. bu.)
United States	255
Canada	233
Australia	89
France	4
Total	581

The maximum price during the four year term of the present Agreement is $1.80 per bushel, basis of Ft. William, Ontario. Agreement transactions thus far have been at the maximum. The minimum price, as yet not used, began at $1.50 per bushel during the first year but declines 10 cents each succeeding year until the level of $1.20 is reached in 1952-53.

Export costs higher than anticipated

IWA membership now consists of 42 importing countries and the four exporters noted above. Argentina, one of the largest exporters, is not a member. Agreement quotas account for about two-thirds of total world exports, and with the exception of the first year when late-joining countries completed relatively few purchases, sales have been about 95 per cent of the guaranteed quantities.

IWA maximum price for wheat is far below U. S. markets and the domestic support level



This high degree of conformance probably reflects the low maximum price of IWA wheat as compared with that in the free world market as well as the concern of importing countries as to available supplies in recent years of international unrest. An equally important factor has been the U.S. foreign aid program. Aid funds —some of which may be used to purchase Agreement wheat—have been provided to countries which represent over half of the total IWA quotas.

The consistently wide spread between the maximum Agreement price and the level of our free market or domestic support price has resulted in large costs to the Government. To discharge its obligation the U. S. has to provide its quota of wheat at a price not in excess of the Agreement maximum. Since domestic prices have been above the maximum, the U. S. absorbs the difference. This is done by paying a subsidy to wheat exporters. In the first year of the Agreement this averaged 55 cents per bushel, and about 68 cents in the past two years. Thus far, total subsidy costs have been about 425 million dollars on exports of about 675 million bushels of wheat. Over the entire program, close to 600 million dollars will be spent by the U. S. for this purpose.

Sliding price scale proposed

As might be expected, the consistent pressure of wheat prices in recent years against the IWA maximum has resulted in a divided opinion as to whether the Agreement should be extended and, if so, on what terms. Importing countries generally support renewal of the pact without price changes, but with quotas increased. Exporters, on the other hand, feel that the maximum price level is too low.

Dissatisfaction with the present price schedule and the large export subsidies involved have elicited various proposals for a more flexible arrangement from U.S. officials and trade sources. A sliding price scale—either adjustable automatically or periodically—has been suggested.

In a further effort to reduce the cost of export subsidies and to coordinate the Agreement with the domestic price support program, leading farm interests have recommended a maximum price commensurate with prevailing U.S. market prices at the time the pact is extended and a minimum price comparable to the lowest domestic support level authorized by present farm legislation for the entire period of the Agreement. Other suggestions call for a reduction in our present quota and an extension of the Agreement for no more than four years.

Agreement limitations important

The IWA generally achieved its goals in the first three years of its operation. A considerable quantity of wheat and flour has been channeled into export trade under its terms. In the years ahead, however, a reduction in U. S. aid programs would make the success of Agreement operations heavily dependent upon the capacity of importing nations to earn the exchange needed to pay for imports.

As indicated above, the IWA has worked primarily to the benefit of importing members. However, if the price of free wheat should fall below the Agreement minimum, then the burden would shift to importing nations. The workability of the IWA probably would be severely tested at that time. It is important to note in this respect that the Agreement in itself has no enforcement powers, relying primarily upon the good faith of its members.

A basic question emerges as to how such commodity agreements fit into our over-all objective of promoting greater freedom of trade internationally. Although the IWA contains provisions to assure that the exporting business remain in private hands, such programs tend inevitably toward government-to-government dealings. At any time the price provisions of the Agreement are operative, that is, are limiting or supporting prices, governments of either exporting or importing nations are involved. A proliferation of such agreements, insofar as they involve specific quantity and price schedules, might complicate rather than simplify the achievement of free convertibility of currencies and the promotion of relatively free trade.

Nevertheless, the action taken on the extension will be observed closely by all trading interests. Proposals for similar agreements for other commodities have been made from time to time and a widespread weakening of commodity prices could stimulate a wave of renewed interest in such trading arrangements.

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More municipals

THE SUSPENSION of the Voluntary Credit Restraint Program under which state and local government borrowing had been screened, is giving an additional boost to the rising trend of municipal bond issues. Sale of a number of issues which were deferred during the eleven months duration of VCR restrictions, together with increases in other types of state and local borrowing, indicates that the 1952 volume will equal or surpass the previous record year, 1950.

About 300 million dollars of new borrowing was deferred under VCR, mostly in four large issues—three state bonus issues and one issue for the purchase of a privately-owned utility. Although the deferrals amount to only about one-tenth of total borrowing last year, they were important because of the highly inflationary nature of the types of issues involved—borrowing which would have added to the money supply without expanding facilities which directly or indirectly increase the nation's capacity to produce. Most of the deferred borrowing will have taken place within the next few months, but the postponement in itself has probably contributed to stability by shifting the borrowing from a period in which inflationary pressures were more threatening than they appear to be currently.

With the major exception of state borrowing to pay veterans' bonuses, state and local borrowing has steadily increased since the end of World War II. In the past two years bonus borrowing has tapered off, but borrowing for other purposes is still rising and may continue to do so for some time to come. Several issues of between 100 and 150 million dollars of Federally guaranteed public housing bonds are scheduled for sale this year by local housing authorities, under the provisions of the Housing Act of 1949. Moreover, there are large backlogs of unfilled needs for roads, schools, and water and sewerage systems—which comprise the bulk of state-local borrowing in most periods. Governments generally have the fiscal capacity to service the debt required to meet many of these needs. In some cases there are even substantial inventories of unused borrowing authority.

The most active current and prospective borrowers are the states themselves and a number of the larger cities. Especially important are state issues for toll roads and other revenue projects, notably the recent sale of a 96 million dollar issue for the West Virginia Turnpike and the forthcoming 330 million dollar issue for the Ohio Turnpike. The big cities are borrowing mostly for schools and for transport facilities, including roads, transit systems, and airports.

Postwar rise in state-local borrowing continues