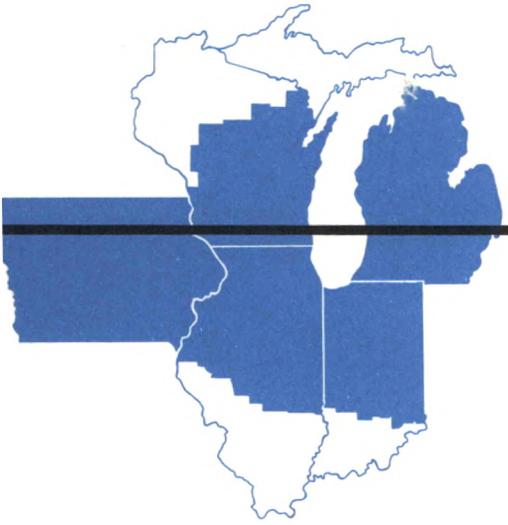
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1962 December

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THE Trend OF BUSINESS

During October and November a number of developments suggested that the business plateau of the third quarter may have been a prelude to renewed expansion rather than to decline as had been anticipated widely. Advances in a variety of measures helped to strengthen confidence, while other barometers failed to weaken as many had expected. Reflecting, in part, the improvement in the economic climate in November, common stocks rose to the highest level since last spring.

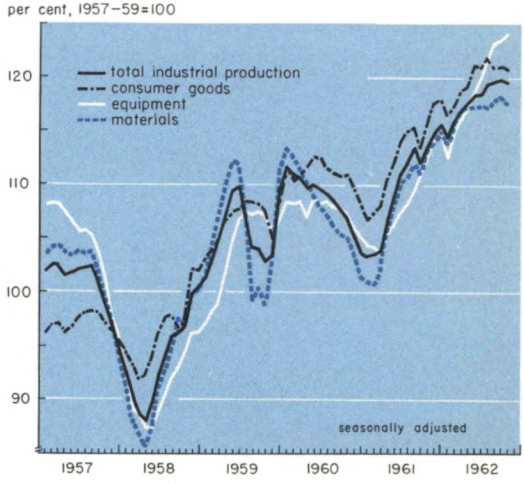
New orders for manufactured durable goods which had been declining during much of 1962 rose sharply in October to a new record for the year. Industrial production and employment, seasonally adjusted, remained at the third quarter level during the month. But personal income increased and retail trade, paced by a remarkable surge in auto sales, moved to a new high. Farm income prospects remained favorable and output of farm machinery was in a vigorous seasonal rise.

After six months of liquidation, steel inventories were reduced sufficiently so that many fabricators, especially auto firms, were increasing their orders. As a result steel output was beginning to pick up in November, and some industry executives stated that they were now thinking in terms of an increase in output in 1963 rather than the decline which had been projected earlier. In late October and early November, wholesale prices which had been soft were increased in a variety of markets.

A new survey of consumer buying plans released by the Federal Reserve Board in November showed a strong rise in intentions to buy cars and other hard goods. A private survey of preliminary business plans to buy new plant and equipment in 1963 indicated a moderate rise instead of the decline which had been anticipated in some quarters.

The effect of the Cuban crisis in stimulating economic activity, after the President's speech of October 22, is uncertain, although it definitely encouraged consumer and business purchases of goods. Any lasting direct influence of cold war developments probably will depend upon induced changes in military spending and foreign aid.

Total industrial production remained near peak in October



Retail sales in upswing

Retail sales were at a record annual rate of 236 billion dollars, seasonally adjusted, in the third quarter. In October, sales rose to 20.1 billion dollars, 8 per cent above a year earlier. The extremely high level of auto sales was responsible for the October showing.

In October, sales of cars including imports were the highest for any month in the history of the industry. Deliveries surpassed expectations and dealer inventories of cars declined

Industrial production index revised

In November the base for the Federal Reserve index of industrial production was shifted from the year 1957 to the average for the years 1957, 1958 and 1959. At the same time seasonal adjustment factors were revised for the period since 1957, and eight component series in the apparel, food and chemical groups, accounting for about 5 per cent of the total index, were revised to incorporate additional information.

Although comparisons of changes in the total index or its components between periods of time are not affected by the shift in base, the total index is raised slightly—by less than 1 per cent—for the entire period from 1919 to the present. Changes in the seasonal adjustment factors serve mainly to raise the total seasonally adjusted index in the first quarter and lower it in the third quarter of each year. Revisions of component parts raise the chemical and food groups in the period since 1957 and lower the apparel group with little effect on the total index.

The shift in the base period of the industrial production index was made in response to a recommendation of the Bureau of the Budget that the 1957-59 period be used as the standard base period for general purpose index numbers prepared by all Federal agencies. New standard reference bases have been designated approximately every 10 years in recent history. The 1935-39 base, established in 1940, was superseded by the 1947-49 base in 1951.

A standard reference base facilitates comparisons between movements in various series. Updating the base in a general purpose index from time to time is desirable because movements in components of indexes may diverge widely over a period of years.

The 1957-59 base is now being used for the price indexes of the Department of Labor and the department store sales indexes of the Federal Reserve System. It is also being used by private firms such as the F. W. Dodge Corporation which publishes data on total construction contracts. These are some of the major statistical series normally presented as indexes. However, any series of data can be converted into an index by dividing each number in the series by the number for the base period. Such presentations are made so that comparisons over time can be made more readily. Proportional changes in any series between identical time periods remain the same regardless of the comparison base employed.

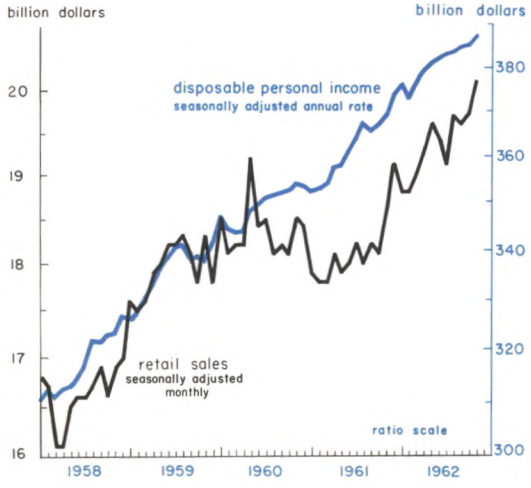
Detailed tables for the revised industrial production index with sources and descriptions for all series, seasonal adjustment factors and other relevant information are available in a separate publication. A brief general description of the revised series is published in the October 1962 *Federal Reserve Bulletin*. Reprints are available from the Federal Reserve Bank of Chicago or from the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.

during the month instead of rising as had been expected. As a result, production schedules were increased. During the fourth quarter, production may exceed two million units, a new record for the period. The high level of activity in autos also influenced developments in other industries.

The high rate of car sales continued into November, and orders for future delivery were said to be the highest in several years. As a result, the sales goal of seven million units for 1962, expected only by optimists at the start of the year, appeared to be within reach.

Interviews conducted in October showed that 4.1 per cent of all families expected to purchase new cars in the next six months compared with 3.7 per cent a year earlier. Moreover, the increase in plans between the July and October surveys of consumer buying plans was greater than in either of the two previous years.

Retail sales paced by spurt in autos rose to new high in October



Sales of furniture and appliance dealers and nondurable goods stores declined slightly in October. Department store sales had been depressed in mid-October but revived in subsequent weeks as cooler weather stimulated purchases of winter merchandise.

Capital expenditures moving higher?

In recent months there had been some indications that business capital expenditures might decline in early 1963. A survey of new capital spending "appropriations" taken by the National Industrial Conference Board was interpreted as suggesting such a development.

In early November a survey of capital spending plans of business firms for 1963 taken by the McGraw-Hill Corporation indicated that outlays of American firms for new plant and equipment to be located in the United States would be 3 per cent higher than in 1962. This would be roughly equal to the current rate of business capital outlays.

The industry reporting the largest boost in spending plans for next year is, surprisingly, steel. Although operating at less than 60 per cent of estimated ingot capacity, steel firms expect to hike outlays by 13 per cent over this year's total. Spending will be mainly for plant modernization and improvement in operating efficiency but also for increasing capacity to produce such products as sheet and tin plate which are not in over-ample supply. Sizable increases in capital expenditures also are planned by utilities, trade firms and other commercial enterprises.

While capital expenditures probably will prove to be more or less than the level indicated by the recent survey—business plans will be influenced by developments not now foreseen—at present it does not appear that activity in that sector will lead a general business downswing in 1963 as some had feared.

The effect of the 7 per cent tax credit on

many types of capital equipment and the new depreciation schedules on future business plans is difficult to assess. However, a growing body of opinion holds that the impact of these developments has been underrated. A study, *New Investment Incentives,* published by the Machinery and Allied Products Institute estimates the combined benefit from the two programs in terms of additional cash flow to business at about 2.5 billion dollars per year. According to the MAPI the programs will have the effect of reducing the cost of some new assets by 9 per cent.

Recent price trends

When the Cuban crisis was at its peak, commodity markets were watched closely to see whether speculative buying would tend to raise prices. Some increases occurred but, in most cases, these had disappeared by early November. Because of ample supplies of industrial raw materials throughout the world and substantial unused productive capacity in the United States and Canada, business firms have little interest in increasing inventories of materials.

Many business firms whose sales have increased this year have not been able to increase profits proportionately because of rising costs. Efforts to improve earnings by raising prices have generally not been successful. Frequently markets are tested by announcing price increases to become effective some days or even months in the future. But in 1962 many such announcements were rescinded when it became apparent that the rise would not "stick."

In October and November announcements of immediate or prospective price changes, up or down, became much more numerous than in earlier months. Prices of copper tubing, lead, refrigerators, tires, gasoline and certain chemicals were increased, while prices of some types of aluminum and steel products, cloth, packaging materials, pharmaceuticals, coffee and silver were reduced. On balance, little or no change occurred in average wholesale prices.

Numerous price changes in recent months demonstrate the flexibility of markets in the United States. A sharp change in business activity from current levels probably would be accompanied by some upward or downward movement of prices as output in various industries moved closer to capacity or fell further below optimum operating levels.

Trends in banking and finance

At the onset of the Cuban crisis late in October there were temporary markdowns of many bond prices. But this was short-lived, being followed by a rapid recovery and a period of stability. New securities have continued to be well received as investors seek outlets for large amounts of funds. Also, the supply of new securities offered by corporations and state and local governments has been relatively light this fall. In the short-term market, the U. S. Treasury has been an especially important influence throughout the year and

during November issued 1.7 billion dollars more bills than it retired.

Over-all, 1962 has been a busy year for Treasury officials. Although borrowing to cover the cash deficit is expected to total just over 6 billion dollars, more than 90 billion dollars of securities have been issued to refinance or replace maturing obligations. Another 13 billion of outstanding issues was refunded prior to maturity into longer-term securities.

These financing operations totaled 110 billion dollars during the first 11 months of the year—equal to more than one-third of all U. S. Government debt and more than half of the marketable debt. There were major Treasury financings in every month except June. In these large and frequent transactions Treasury officials have been concerned not only with the maintenance of a manageable structure of debt maturities but also with the promotion of rising business activity and improvement in the United States balance of payments.

Short rates and debt management

More than 12 billion dollars of the securities sold for "cash" thus far in 1962 mature in one year or less from date of issue. Another 30 billion dollars of debt falling due during the year was refinanced with short maturities. As of the end of October, outstanding Treasury obligations maturing in less than a year totaled 88 billion dollars—up 4 billion from last December and 14 billion from the end of 1960. These issues, of course, will have to be paid off or refinanced in the year ahead.

Why has so much short-term debt been issued? To some extent, it is in response to the demands of investors. Large amounts of high-grade liquid assets are held by businesses, individuals and institutional investors as temporary investments for their surplus funds. Short-term U. S. Government securities are ideally suited for this purpose. Moreover, the Government's over-all economic policy has called for restraint in issuing additional amounts of long-term debt which would tend to absorb funds that might otherwise flow into private investment. During periods when more rapid growth of production and employment is desired, private investment must be encouraged.

The overriding reason behind the Treasury's recent concentration in the short area, however, has been its concern with the balance of payments and the attendant drain on the United States gold stock. Against a backdrop of continued monetary ease, Treasury debt management, by increasing the supply of short-term marketable securities, has attempted to keep domestic short-term interest rates from declining relative to those in foreign financial centers. This has been done to deter the outflow of short-term capital.

With the passage of time, of course, the proportion of outstanding debt nearing maturity constantly increases unless new long-term debt is issued or maturities of outstanding intermediate-term debt are lengthened. The key elements of debt management aimed at bolstering short-term rates and maintaining a substantial proportion of long-term debt outstanding were recently described by Robert V. Roosa, Undersecretary of the Treasury in charge of Monetary Affairs:

> . . . that the Treasury would conduct the great bulk of its cash borrowing operations in short-term securities, thereby exerting a maximum of pressure to sustain an appropriate international relationship for interest rates on Treasury bills and the constellation of surrounding money market instruments;
>
> . . . that, in ordinary refunding operations, the Treasury would largely concentrate on short-term and intermediate-term securities in a maturity range out to around 10 years;
>
> . . . and that, to offset the deterioration in the maturity structure of the debt which would

Short-term issues dominate 1962 Treasury financings

	New marketable security issues maturing				Total marketable securities issued
	Within 1 year	1-5 years	5-10 years	Over 10 years	
	(billion dollars)				
Sold for "cash"[1]	12.2	—	3.8	0.4	16.4
Refinanced at maturity:					
weekly bills[2]	29.9	—	—	—	29.9
other	29.0	17.8	4.1	—	50.9
Refunded prior to maturity	—	5.3	5.4	2.4	13.1
Total	71.1	23.1	13.3	2.8	110.3

[1]Total exceeds Treasury cash deficit by the increase in the Treasury's cash balance and the cash retirement of maturing debt during the year.
[2]Amount outstanding at end of 1961.
NOTE: Table covers financing for first 11 months of 1962.

otherwise have occurred, the Treasury would seek, through the technique of advance refunding to extend further out into the long-term area substantial quantities of long-term debt already in the hands of the public, but which the passage of time was moving steadily closer to the intermediate- and short-maturity range.[1]

Both the techniques and the amounts of cash borrowings were designed to keep rates in the three-month area from drifting downward as a result of rising investor demands for short-term securities. Much of the new financing was through the sale of Treasury bills—discount issues that are commonly used by banks, businesses and other large investors as short-term investments. The supply of outstanding bills was increased more than 5 billion dollars during 1962 by adding from 100 to 200 million dollars to the weekly auctions of the regular three- and six-month bill issues.

In late October, the Treasury announced that a "strip" of bills with maturities ranging from two to four months would be sold in early November to raise 1 billion dollars, somewhat in advance of cash needs. The announcement was immediately followed by a sharp rise in bill yields. A similar offering a year earlier also had resulted in a rather sharp rise in short-term yields.

The Treasury's efforts have undoubtedly been the most important factor which has held fluctuations in the three-month bill rate within a narrow range around 2¾ per cent throughout 1962, while yields on long- and intermediate-term Treasury securities have declined by ¼ to ½ per cent.

Average maturity lengthened

The advance refunding technique of debt management was initiated in mid-1960. Through this device the Treasury has offered holders of selected outstanding issues the opportunity to exchange them before maturity for securities with longer maturities.

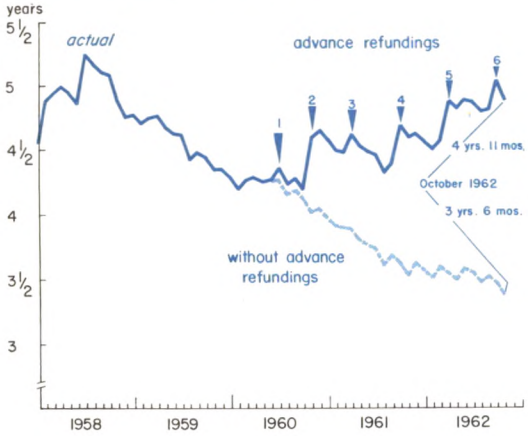
Two advance refundings were carried out during 1962. On March 1, more than 5 billion dollars of securities scheduled to mature in two to ten years were exchanged for bonds with maturities ranging from 1971 to 1998. Again, in September, the maturities of about 8 billion dollars of securities coming due in February and May 1963 were pushed out to 1967 and 1972.

In the six advance refundings since mid-1960, maturity dates on more than 30 billion dollars of Treasury securities have been extended—10 billion for 20 years or longer—

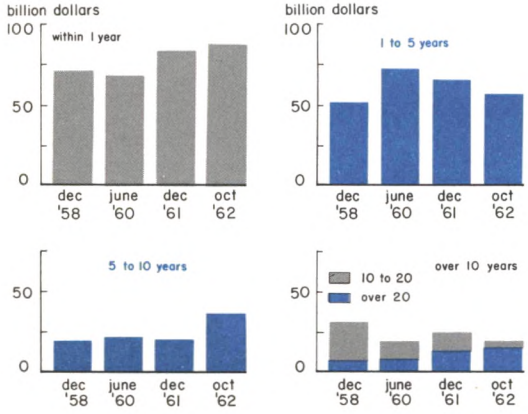
[1]Address delivered at the Annual Convention of the Mortgage Bankers Association of America, Chicago, October 2, 1962.

with a minimum of upward pressure being exerted on long-term interest rates. These refundings have helped importantly to lengthen the average maturity of the total marketable U. S. Government debt from four years, three months in May 1960 to four years, 11 months in October 1962 (see chart).

Rise in average maturity of U. S. marketable debt reflects effects of advance refundings . . .



but much of total outstanding debt remains in short maturity categories



SOURCE: U. S. Treasury.

Gradual lengthening of the average maturity, however, has not reduced the amount of short-term securities which must be refunded frequently. Issues maturing within one year have increased 45 per cent since mid-1960 (see lower half of chart). The decline in the amount of debt in the one-to-five year maturity range and the increase in the five-to-ten year category are due largely to advance refundings. The decline in the total amount of outstanding long-term debt (over ten years) largely reflects the fact that several blocks of securities issued during World War II have moved into shorter maturity categories with the passage of time.

Savings bond attrition down

There are currently about 52 billion dollars of nonmarketable United States securities in the hands of the public—mostly savings bonds which are redeemable on demand. One objective in the management of the savings bond program is to keep this portion of the debt fairly stable and thus minimize the amount of new cash financing needed to cover attrition.

During October redemptions of E and H savings bonds exceeded sales by only 6 million dollars. This compares with attrition rates ranging from 30 to 60 million dollars in each of the preceding six months. The improvement reflected a slight increase in sales and a slight decline in redemptions. In October the average yield on long-term marketable Treasury securities fell to 3.88 per cent. This narrowed the spread over the 3.75 per cent yield on savings bonds, if held to maturity, to 13 basis points compared with 37 basis points last February.

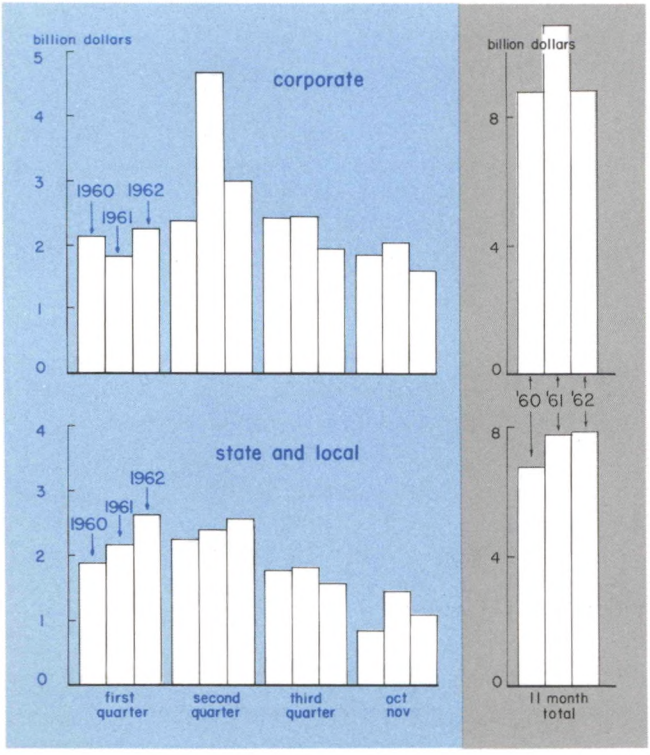
Corporate and tax-exempt markets

Yields on corporate bonds declined in November to their lowest level since the begin-

ning of the year. This largely reflected the relatively small over-all volume of new offerings. New corporate bond issues so far in the second half of 1962 have been roughly one-fifth below the 1961 period (see chart).

Between July and October Moody's yield average on high-grade state and municipal securities declined a quarter of a point to 2.88 per cent, the lowest since July 1958. Much of the strength in the market for tax-exempt securities can be attributed to commercial bank demand for these issues. In the first ten months of 1962 commercial banks had net acquisitions of almost 5 billion dollars of "other securities" (mainly municipals), roughly twice as much as in the same period last year. On the supply side, despite the fact that the 11-month total of new tax-exempt issues was at a record level, offerings since August have been relatively light. However, since the Cuban crisis dealers' inventories of unsold municipals have increased and yields have been stable. In addition, the calendar of new issues indicates some increase in supply during the remainder of 1962 compared with recent weeks.

New issues of long-term securities were below year-ago volume in second half



Preliminary results of the November general elections indicate that voters approved about 90 per cent of the roughly 2 billion dollars of state and local bond proposals. However, the total amount submitted for approval was smaller than in any other general election year since 1954. The high proportion of acceptance this year primarily reflected passage of a relatively small number of large issues. In many smaller communities, where the proportion of proposals defeated has risen sharply in recent years, turndowns were again numerous.

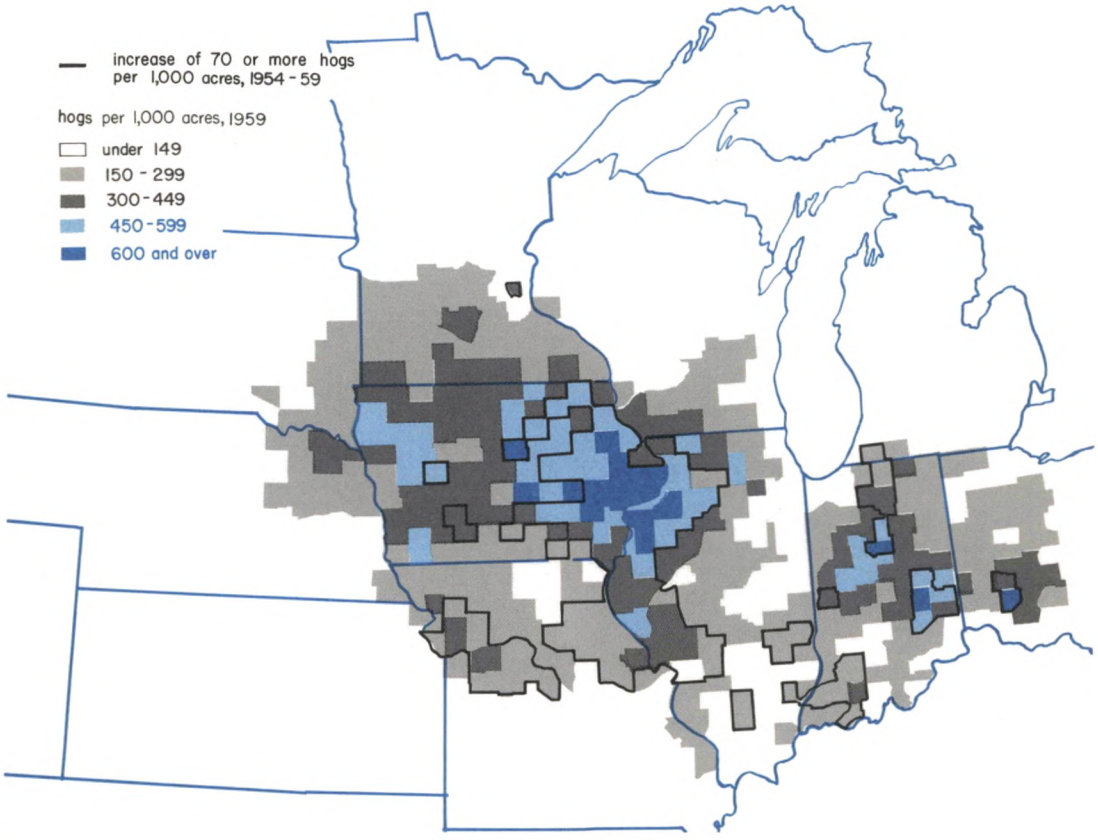
The November election bond approvals, plus those already recorded in the first ten months of the year total roughly 4 billion dollars—substantially greater than last year but well below the record 6 billion authorized in 1960. The impact of these authorizations on the supply of tax-exempt securities will depend, of course, on the timing of their actual sale. Many approved issues, especially the very large ones, will be marketed over a period of several years.

Midwest ranks high in livestock

Corn, the nation's most valuable crop, is produced largely in the Midwest. Meat animals, the nation's most important source of farm income, are also produced largely in the Midwest. This close connection is no accident since corn (and other feed crops) provides the "raw material" for livestock production.

Hogs eat about four or five pounds of corn for every additional pound of weight gained. For beef cattle being fattened for slaughter this ratio is about seven or eight to one. As is true for most industries which process or con-

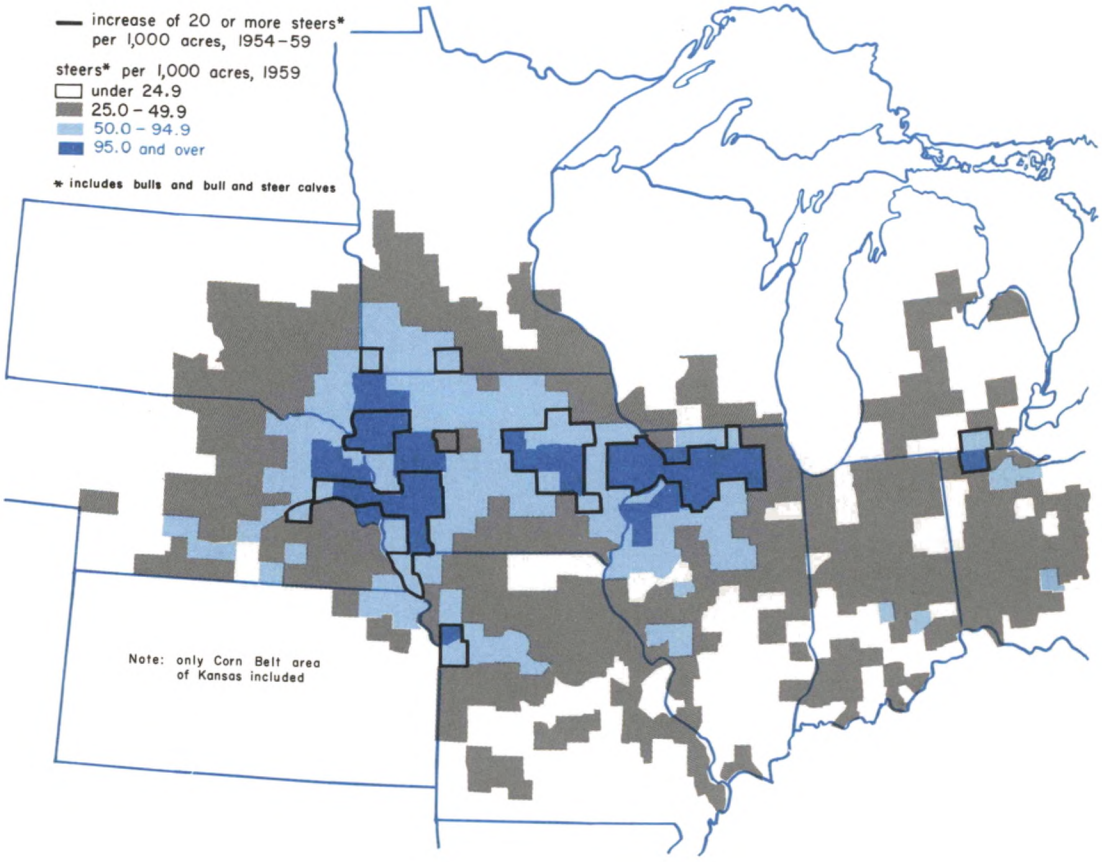
Hog production in the Corn Belt has increased more in areas where production is highly concentrated



sume a large volume of raw materials to create their final product, livestock production is located close to the source of the basic raw material. This is simply a matter of transportation costs—feed grains can be shipped more cheaply in the form of livestock products than as a raw material. In the case of corn, 60 per cent of the total production is utilized as livestock feed on the farms where it is grown and over 80 per cent of the total crop is fed to livestock.

Hogs consume nearly half the corn used as livestock feed. The 11 Corn Belt states produce more than three-fourths of the nation's corn and more than three-fourths of the hogs. The highest concentration of hog production (in terms of the number of hogs per thousand acres of farmland) occurs in eastern Iowa and northwest Illinois. Somewhat lower concentrations are found in central Indiana and western Iowa. Between 1954 and 1959 the largest increases in hog numbers per thousand acres

Corn Belt cattle feeding concentrated in Illinois, Iowa and Nebraska



occurred in the eastern Iowa-northwestern Illinois area and in Missouri along the Missouri River—all important corn producing areas.

Beef cattle consume about 15 per cent of the corn fed to livestock in the United States. The Corn Belt accounts for about 60 per cent of the cattle placed "on feed" to be fattened for market. High concentrations of cattle for feeding are found in two areas—western Iowa-Eastern Nebraska and eastern Iowa-northwestern Illinois.

In addition to grain, cattle feeding requires large amounts of roughage usually provided in the form of hay and pasture. Since hay is an even bulkier and lower valued product than grain, cattle feeding has gravitated toward farming areas having a moderate amount of pastureland or hay in addition to substantial production of corn. Thus, the "lay of the land" will often be an important factor determining the location of cattle feeding in the Corn Belt region. As in the case of hogs, cattle feeding has increased most rapidly in the areas of highest feeding concentration.

Sales of hogs and cattle account for over half the total farm cash receipts in the heart of the Corn Belt and nearly half in the entire area. Together, the Corn Belt states account for over four-fifths of the nation's cash receipts from hogs and over half the cash receipts from cattle. The region's share of total hog sales has shown an upward trend in the postwar period. On the other hand, its share of cattle production has remained constant during the past decade, while cattle feeding has gained in importance in the Plains and Western regions. In those areas substantial acreage formerly used for growing other crops—cotton in the Southwest and wheat in the Plains and Western states—has been diverted to feed grains.

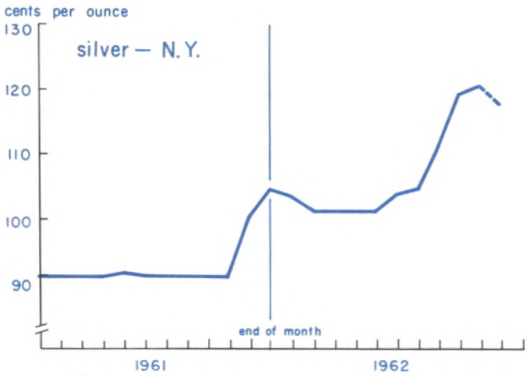
The silver price rise

Silver has made headline news in the nation's financial press in recent months. It rose in the New York market from around 91 cents an ounce in the fall of last year to a 42-year high of $1.22 an ounce toward the end of October 1962. Thereafter, the price slipped back to about $1.18 an ounce, reflecting, in part, a tapering off of purchases by silverware manufacturers preparing for the Christmas season and profit taking by speculators who reportedly had amassed substantial hoards during the past year.

Unlike silver, which has risen roughly 30 per cent since November 1961, prices of most other important metals are either unchanged or slightly lower than a year ago, despite continuation of high levels of business activity both here and abroad.

Basic to the recent developments in the silver market is the United States policy initiated during the depression of the early Thirties. The Silver Purchase Act of 1934 authorized the Treasury to begin buying silver in world markets until the price reached $1.29 an ounce. Under a Presidential decree issued in December 1933, the Treasury had been purchasing all newly mined domestic silver offered to it at 64.6 cents an ounce. Subsequent

Price of silver rose sharply toward end of 1961 and in the fall of 1962



legislation adopted in 1939 and 1946 raised the Treasury's effective buying price for newly mined domestic silver to 71.1 cents and 90.5 cents an ounce, respectively. The 1946 act also authorized the Treasury to sell "free silver" to domestic manufacturers at not less than 90.5 cents an ounce.[1] (Legislation passed in 1943 authorized the Treasury, upon recommendation of the War Production Board, to sell silver to defense industries and others until the war ended at not less than 71.1 cents an ounce.)

Since 1933 the Treasury has acquired more than three billion ounces of silver under the silver purchase acts and various other administrative directives. Its sales of silver, principally to domestic users, have amounted to less than 300 million ounces.

On November 28, 1961, the Treasury suspended further sales of "free silver" to domestic users. The reason was simply that the Treasury's stock of "free silver" had declined to a low level. The emergence of this seemingly anomalous situation was the result of a growing imbalance between "free world" production and consumption of silver during the postwar period.

Demand up, production stable

Since the late Forties free world consumption of silver in the arts and industries has risen at an average annual rate of about nine million ounces to the present level of more than 240 million ounces. Free world production expanded at the rate of about five million ounces annually during this period. But the average level of production in 1960 and 1961 was lower than consumption in the arts and industries and about 20 per cent below production during the late Thirties.

Free world consumption of silver for coinage also has strengthened in recent years, but the amount of silver used for this purpose has little impact on the current market demand picture since it is largely obtained from Government stocks. In 1961 the U. S. Treasury turned 54 million ounces of silver into coin, 18 per cent more than the preceding year, which, in turn, represented an 11 per cent increase from 1959. No silver dollars have been minted since 1935. To a large extent, this expansion of coinage has been associated with the everwidening use of coin-operated machines for vending merchandise, collecting tolls and the like.

The vigorous growth in commercial demand for silver has been linked with the rapid pace of technological change, which has created new and expanded industrial uses for the metal. Because silver is an excellent conductor of electricity, it has been employed in increasing quantities in the manufacture of electrical contacts, switching equipment and batteries for the fast growing electronics industry

[1]"Free silver" is that portion of the Treasury's total holdings not required to back silver certificates or converted to subsidiary coin.

as well as in standard household electrical appliances. Its superior heat and corrosion-resistant properties and its high malleability have led to wide usage in solders and alloys in the manufacture of jet aircraft and missiles.

However, the fastest growing industrial consumer of silver, and also the largest, is the photographic film industry. In the United States, for example, more than 30 million ounces of silver are used each year in the form of silver nitrate in the manufacture of light-sensitive films and paper for photography and for office copying machines.

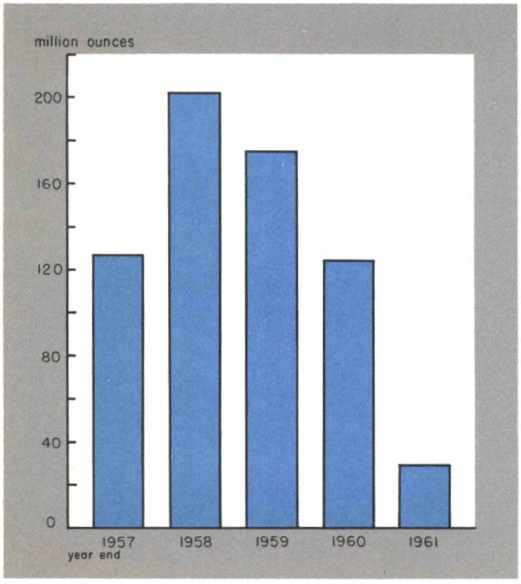
The failure of silver production to keep abreast with the growth of demand is primarily attributable to the fact that nearly all silver is recovered as a by-product or co-product in the mining of copper, lead and zinc. About two-thirds of United States silver production is obtained from such mining operations, while in Canada the proportion is about 80 per cent.

Silver held in Treasury October 31, 1962

	Amount (million ounces)	Value (million dollars)
Securing silver certificates:		
Silver bullion	1,659	2,146
Silver dollars	80	104
Total	1,739	2,249
Subsidiary silver coins	4	5
"Free silver"	39	34
Total silver	**1,782**	**2,288**

Note: Figures may not add due to rounding.
SOURCE: U. S. Treasury.

Treasury's stock of "free silver"



SOURCE: U. S. Treasury.

As world demand for these base metals has leveled off in recent years, annual mine production of silver has remained on a plateau of about 205 million ounces since 1958.

While little is known about production trends in Communist countries, it is doubtful whether these nations have added substantially to the free world supply of silver during the postwar period in view of their own rising industrial and military needs.

Filling the gap

Reflecting these trends, the gap between free world production and consumption of silver, including coinage, has widened steadily — from about 60 million ounces per year during the early Fifties to 115 million in 1960 and 140 million in 1961. The gap has been filled by drawing upon Government stocks to meet coinage requirements, plus sales from these official stocks as well as private hoards for commercial uses. In recent years the Treasury has been, by far, the most important

source of silver, aside from new production.

Treasury sales of "free silver" to domestic users rose appreciably in 1959, while its purchases virtually ceased as the market price rose above the official minimum buying price of 90.5 cents an ounce. Reflecting these sales as well as increased coinage, the Treasury's stock of "free silver" declined from a peak of 222 million ounces in April 1959 to 123 million at the end of 1960.

In 1961 the selling pace became "unusually rapid," and by midyear it was apparent that the Treasury's "free silver" stock would soon be exhausted unless further sales were halted. In July 1961, the price of silver in the London market, despite heavy sales by Red China to raise foreign exchange to pay for increased food imports, rose above the New York price in anticipation of such an eventuality.

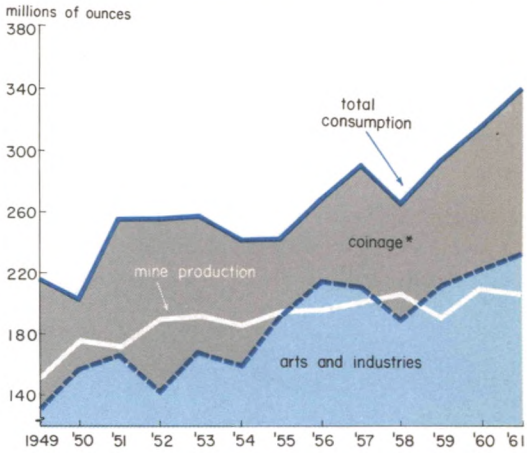
On November 28, 1961, as noted above, the President directed the Treasury to suspend sales of "free silver" to domestic users. At the time of the announcement, the Treasury's "free silver" position had fallen to about 22 million ounces. The following day, the cash price of silver in the New York market jumped nearly 10 cents—to $1.01 an ounce—with a similar rise occurring on the London market.

Demonetizing silver

The halting of further sales of Treasury "free silver" to domestic users, however, was only the first step of a long studied move to sever silver's remaining links with the monetary system, except for its use in subsidiary coinage. (Earlier in the year, the Treasury had undertaken, at the President's request, a broad study of the monetary uses of silver.)

The President also instructed the Secretary of the Treasury to suspend the use of "free silver" for coinage. Subsequent coinage requirements were to be obtained from Treasury

Since 1959 industrial consumption of silver has exceeded mine production



*Silver for coinage is largely obtained from Government stocks acquired in earlier years.

SOURCE: Handy and Harmon estimates, *Commodity Yearbook*.

silver bullion released through the retirement of sufficient numbers of $5 and $10 silver certificates. These would be replaced by a like number of Federal Reserve notes. The remaining stock of "free silver" was to be used, at the Treasury's discretion, to maintain an orderly market for silver metal.

The President also asked Congress to repeal all silver purchase legislation. In the interest of facilitating the establishment of a free futures trading market for silver, he further requested repeal of the 50 per cent tax on profits realized on silver transactions.

While adequate supplies of silver for coinage requirements could be obtained for some years to come through the retirement of $5 and $10 silver certificates, the President also requested power to withdraw from circulation all $1 and $2 silver certificates. These would be replaced with $1 Federal Reserve notes;

but this would require new legislation since Federal Reserve notes are currently limited to denominations of $5 and over. The end result would be to give the Federal Reserve System primary responsibility for issuing and retiring virtually all types of paper currency.[2] The Administration's legislative proposals pertaining to silver were transmitted to Congress early last spring, but have not yet been acted upon.

It is generally agreed that silver is of limited importance to the domestic monetary system. Furthermore, the Treasury has indicated that in view of the widening gap between world production and consumption, there is little need for the Government to continue supporting the price of silver at 90.5 cents an ounce. But, as has been the case with numerous other commodities where the Government has long engaged in price propping activities, there is always great reluctance to see such support withdrawn.

Silver money and minor coin in circulation*

	Amount		
	October 31 1957	October 31 1962	Per cent Change
	(million dollars)		
Silver certificates			
One dollar	1,487	1,536	+ 3.3
Two dollars	3	1	−66.7
Five dollars	527	364	−30.9
Ten dollars	58	46	−20.7
Twenty dollars and over	1	**	—
Total	2,076	1,947	− 6.6
Silver dollars	339	373	+10.0
Half-dollars, quarters and dimes	1,590	1,707	+ 7.4
Nickles and pennies	603	647	+ 7.3
TOTAL	4,608	4,674	+ 1.4

*Outside the Treasury and Federal Reserve Banks.

**Less than $500,000.

SOURCE: U. S. Treasury.

Withdrawal of all silver certificates from circulation would give the Treasury a vast supply of silver—more than 1.7 billion ounces—to meet further coinage requirements. At recent rates of coinage, this quantity would fulfill the requirements of the U. S. Mint for at least 30 years. Domestic silver-producing interests as well as those abroad doubtless would like to forestall this possibility since it would free the Treasury from having to purchase substantial amounts of silver in the open market to meet its coinage needs.

On the other hand, industrial users of silver are unhappy about the present situation. Many feel they have been hurt by the sharp run-up in the price of silver during the past year and are anxious to have the Treasury begin disposing of its remaining holdings of "free silver" to keep the price from rising still further.

In the meantime, these users have intensified efforts to economize on the use of silver as well as to develop less costly substitutes. Success in these areas could have a greater effect upon the long-range demand for silver than the abolition of the metal's special links to our monetary system as envisaged in the Administration's legislative proposals.

[2]Under legislation adopted in 1878, the Treasurer of the United States is required to reissue United States notes. These are reissued in denominations of $2 and $5 and the total amount outstanding is maintained at 346.7 million dollars.

Business Conditions

a review by the Federal Reserve Bank of Chicago

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