1969
Annual Report

Federal Reserve Bank of Cleveland

Albert G. Clay

W. Braddock Hickman

Annual Report

To the Banks in the
Fourth Federal Reserve District:

We are pleased to present the *Annual Report* of the Federal Reserve Bank of Cleveland for 1969. We gratefully acknowledge the cooperation and assistance of the agricultural, commercial, financial, and industrial leaders of the Fourth District, who have given unselfishly of their time and energy to help us fulfill our responsibilities.

This year's *Annual Report* reviews the performance of our economy during the decade of the 1960's against the generally accepted economic goals of maximum growth, full employment, stable prices, and equilibrium in the balance of payments. The focus of the discussion is the fiscal and monetary policies that were aimed at achieving sustainable growth. This emphasis is not in any way meant to minimize the contribution of the private sector which accounted for the strength in economic activity throughout this period.

During the first half of the decade, fiscal and monetary policies were aimed at stimulating economic growth and reducing unemployment, but by 1965, inflationary pressures emerged. As a result, economic policy shifted in the 1965-1969 period from expanding output to achieving price stability. Balance of payments problems persisted throughout the period. Despite this, the 1960's was a period of remarkable economic achievement.

Albert G. Clay
CHAIRMAN OF THE BOARD

W. Braddock Hickman
PRESIDENT

CONTENTS

Goals and Accomplishments of Stabilization Policies During the 1960's

The unparalleled duration of the economic expansion distinguished the 1960's. By the latter part of 1969, the expansion was well over 100 months old, exceeding by far the previous record of 80 months established between June 1938 and February 1945. The prolonged expansion has been, in part, a product of imaginative use of both monetary policy and fiscal policy, reflecting a shift in emphasis in public economic policies from countering economic instability to achieving noninflationary growth consistent with the expansion of the productive capacity of the economy.

This article reviews economic activity in the United States during the 1960's, measured against the goals of maximum economic growth, full employment, stable prices, and equilibrium in the balance of payments. Although these are generally accepted as appropriate goals of stabilization policy, it is difficult to achieve all of the goals fully at any given time. Therefore, policymakers must establish priorities among the goals.

The discussion focuses on the contribution of monetary and fiscal policies to economic developments during the 1960's. The emphasis on public stabilization policies is not meant to minimize the contributions of the private sector, which accounted for the underlying strength and major thrust in the growth of economic activity during this period. Rather, the focus reflects a concern with the public policy framework that was instrumental in the development of a climate conducive to sustained economic growth.

When the 1960's began, economic activity in the United States was marked by relatively high unemployment and stable prices. By the mid-1960's, public policy was successful in stimulating aggregate demand and in moving the economy to a high level of employment. Unfortunately, the problems of managing a high-employment economy became severe; and in the latter half of the decade, economic policy was shifted toward stabilizing the economy within a long-run growth path. Monetary and fiscal policies attempted to eliminate excess aggregate demand and to bring rising prices and inflationary expectations under control. From a purely economic point of view, the broad range of demands on the public sector—including the commitment of substantial resources to military activities in Vietnam and to programs reflecting increasing domestic social concerns, such as efforts to improve housing, education, and health—has increased the problems of achieving economic stability in a high-employment economy. As the decade drew to a close, the restrictive monetary and fiscal policies followed during 1969 contributed to a small decline in real economic activity, while upward price pressures showed no tendency to weaken.

The data in Table I compare the record of the current business expansion with that of previous expansions in the post-World War II period. Real growth in Gross National Product (GNP) during the current expansion fell short of the rate of growth achieved in

TABLE I

Selected Indicators of Stabilization Goals in Four Post-World War II Expansions

	1949-1953			1954-1957			1958-1960			1961-1969		
	Trough	Peak	Percent Change	Trough	Peak	Percent Change	Trough	Peak	Percent Change	Trough	IVQ 1969*	Percent Change
GROSS NATIONAL PRODUCT												
Current dollars (Bil. of $)	$255.2	$367.5	+12.6%	$360.4	$446.3	+7.3%	$434.7	$504.7	+7.2%	$503.6	$952.2	+10.2%
Constant (1958) dollars (Bil. of $)	322.5	416.4	+ 7.3	402.1	455.2	+4.1	437.5	490.2	+6.0	482.6	729.8	+ 5.9
PRICES												
GNP price deflator (Index 1958=100)	78.9	88.4	+ 3.4	89.5	98.0	+3.1	99.7	103.1	+1.7	104.3	130.5	+ 2.9
Wholesale prices-industrial commodities (Index 1957-59=100)	79.0	90.7	+ 3.9	90.3	99.3	+3.1	99.1	101.2	+1.0	101.2	114.6	+ 1.5
Consumer prices (Index 1957-59=100)	82.7	93.5	+ 3.5	93.7	98.5	+1.8	100.7	102.9	+1.0	103.9	131.3	+ 3.0
UNEMPLOYMENT RATES—TOTAL	7.9%	2.5%		6.1%	3.7%		7.5%	4.8%		7.1%	3.5%	
Men-20 and over	7.9	2.1		5.5	3.0		7.0	4.1		6.3	2.2	
Women-20 and over	5.9	2.5		5.9	3.8		6.4	4.5		6.7	3.5	
Teenagers	15.8	6.9		14.0	11.2		17.9	13.1		15.8	11.8	
White	n.a.	n.a.		5.9	3.4		6.8	4.3		6.3	3.2	
Nonwhite	n.a.	n.a.		10.5	7.0		13.3	9.3		13.2	5.7	
BALANCE OF PAYMENTS												
Net exports of goods and services (Bil. of $)	$ 3.8	$ 0.3		$ 1.9	$ 5.5		$ 2.4	$ 3.5		$ 6.6	$ 2.7	

NOTE: Percent change is expressed as an average annual rate of change. Percent changes for GNP and for unemployment rates are based on specific cycle trough to peak dates identified by the National Bureau of Economic Research; percent changes for other series listed above are based on reference cycle trough and peak dates.

n.a. Not available.

* The latest month for which data are used is December 1969, except for GNP and net exports, which are based on the fourth quarter of 1969.

Sources: U. S. Department of Commerce and U. S. Department of Labor

1949-1953, which had been supported by a huge backlog of pent-up demands after World War II. When measured against other stabilization goals, the record of performance in the current expansion was mixed. Labor utilization showed strong improvement, especially after 1965, and unemployment rates declined, although most of the recent lows fell short of the levels reached during 1949-1953. Prices generally were stable during the first half of the decade. Inflation, however, became a severe problem during the second half of the decade (not shown separately on the table). Price increases were greater during the 1965-1969 period than in any period since 1949-1953. Finally, the international trade position of the United States deteriorated over the decade.

For this discussion, the decade is divided into two periods—1960 through 1964 and 1965 through 1969. The performance of the economy in the former period reflected attempts to achieve long-run growth, while in the latter period there was a special concern with managing high-level prosperity and controlling inflation. The performance of each economic goal is reviewed separately against the background of public economic policies during these two periods. The first section reviews economic growth and fiscal and monetary policies during the two periods. The remaining sections consider the achievements of public economic policies with respect to the other goals—full employment, price stability, and equilibrium in the nation's balance of payments. In the final section, some conclusions are drawn from the review of economic developments during the 1960's.

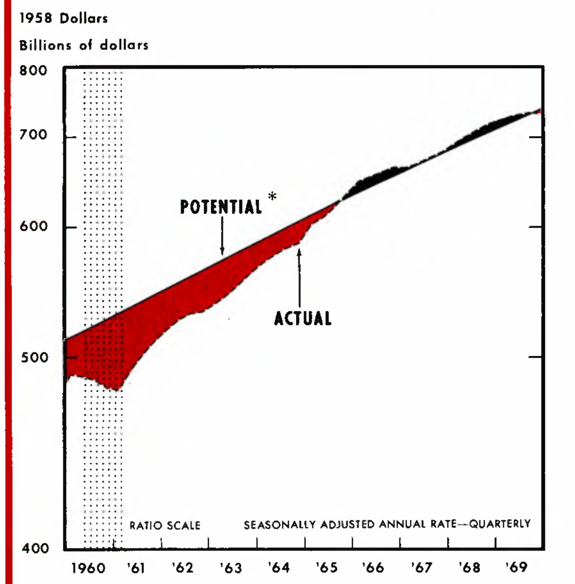
ECONOMIC GROWTH AND PUBLIC POLICY: 1960–1964

Economic activity in the late 1950's and early 1960's was marked by two business recessions and increased unemployment, but the period was also characterized by extended price stability. The principal aim of the stabilization policy specified by the Council of Economic Advisers in early 1961 was to utilize the price stability of the recent years as a base to accelerate growth in aggregate demand in line with the growth of the economy's potential output. The Council of Economic Advisers in the Kennedy Administration argued that the expansion of aggregate demand would lead to a reduction in unemployment, but would not lead to a proportionate increase in prices.

The relationship between potential and actual output is a concept frequently used to measure the economy's performance against the goal of high employment. Potential output is an estimate of the real value of goods and services that could be produced as a result of the growth of the nation's productive capacity—which is normally described in terms of the increase in the supply of labor, the decline in average hours of work, and the estimate of growth in output per manhour. The difference between potential and actual GNP is commonly referred to as the GNP gap. If actual output is below potential output, expansive public policy is called for to stimulate spending to close the gap. At some point before full employment is reached, however, further expansion in aggregate demand begins to generate upward pressures on prices. Since the gap is only an estimate and can vary considerably because of estima-

Chart 1.

GROSS NATIONAL PRODUCT, ACTUAL and POTENTIAL



* Trend line of 3.5 percent to fourth quarter of 1962, 3.75 percent from fourth quarter of 1962 to fourth quarter of 1965, and 4 percent thereafter.

Last entry: 4Q '69

Sources of data: Council of Economic Advisers and U. S. Department of Commerce

tion procedures, its actual size is not particularly reliable. Nevertheless, various estimates suggest that the business expansions that followed the 1957-1958 and 1960-1961 recessions failed to push output to the high-employment level. As indicated in Chart 1, the decade of the 1960's opened with a gap between actual and potential GNP. The gap widened during the brief, but mild, recession of 1960-1961. Despite some narrowing during the early 1960's, there was a gap between actual and potential GNP until after mid-1965.

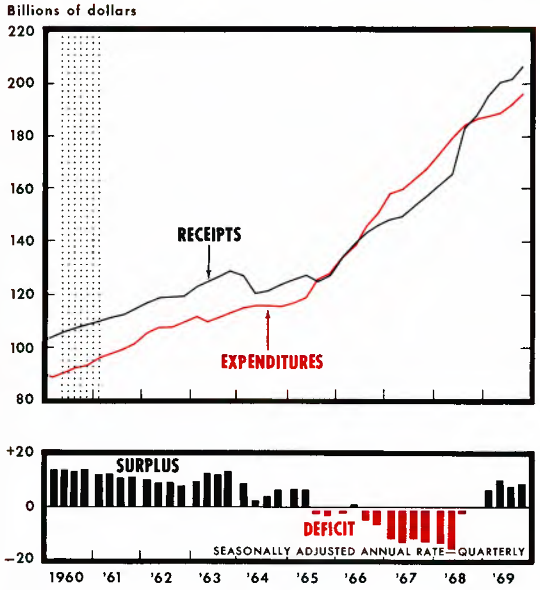
The principal means selected to achieve the high-employment goal was stimulative fiscal policy, because a restrictive Federal budget was considered by the Council of Economic Advisers in the Kennedy Administration to be one of the major causes of insufficient aggregate demand in the early 1960's. A supporting argument for relying more on fiscal policy in the first half of the decade was the supposed lessening in the flexibility of monetary policy due to persistent balance of payments difficulties.

Active Fiscal Policy. Proponents of fiscal action argued that one cause of the persistent underutilization of resources in the United States was that Federal tax rates were generating a level of revenues that would balance the budget before the economy reached high employment. This condition is referred to as a "fiscal drag." A fiscal drag restricts the growth of aggregate demand immediately through its effect on income and subsequently through its effect on consumption and investment.

The budgetary restraint implied by the fiscal drag on economic activity can be seen in the high-employment budget surplus, which is an estimate of the Federal budget surplus on a national income basis if the economy were at the high-employment level; that is, the target level of unemployment assumed in estimating potential GNP. The high-employment budget is considered by many economists to be a useful analytical measure of the effects of changes in fiscal policy on economic activity because adjustments are made for the changes in revenues and expenditures that occur as a result of fluctuations in the level of economic activity. The adjustment in revenues is made by compensating for the decline in corporate, personal, or other tax payments when the actual level of economic activity departs from the projected high-employment level. The expenditure adjustment is made principally by eliminating any increase in unemployment compensation that occurs as the actual level of unemployment falls below the high level unemployment target. Thus, any increase or decrease in the high-employment budget deficit reflects the effects of discretionary fiscal policy changes on Federal revenues and expenditures.

Chart 2.

HIGH-EMPLOYMENT BUDGET



Last entry: 4Q '69

Source of data: Federal Reserve Bank of St. Louis

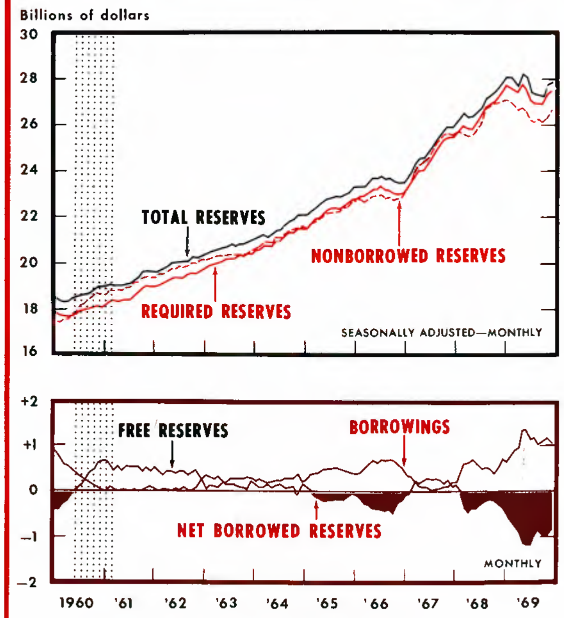
In retrospect, the impact of the Federal budget on overall economic activity during the early 1960's was probably not as stimulative as widely believed. Between the fourth quarter of 1960 and the fourth quarter of 1963, the high-employment budget surplus was virtually unchanged (see Chart 2). Nevertheless, against the background of high-employment surpluses for calendar years 1960 and 1961, the Administration's aim was to reduce the fiscal drag by reducing tax rates, rather than by increasing Federal spending. The initiation of the investment tax credit and the liberalization of depreciation allowances in 1962 were attempts to accelerate business investment spending. The tax benefits, however, did little to reduce the restrictive nature of the budget. During 1962-1963, the high-employment surplus remained at about the level experienced during the 1960-1961 period.

The next phase of fiscal action included the Revenue Act of 1964, which lowered individual and corporate tax rates. The high-employment surplus was reduced sharply in 1964. Subsequently, the gap between actual and potential GNP narrowed during early 1965 (see Chart 1).

"Accommodative" Monetary Policy. At the beginning of the business expansion in early 1961, the monetary authorities were faced with the problem of reconciling the nation's domestic and international economic goals. An underemployed domestic economy indicated the need for an expansive monetary policy that would include low interest rates and ample bank reserve expansion to support the additional credit necessary to achieve long-run economic growth. In contrast, the international situation indicated to some economists that restrictive monetary policy, including high interest rates and limited bank reserve expansion, was necessary to reduce the outflow of short- and long-term capital from the United States and to keep the rate of domestic economic expansion within bounds that would restrain imports and discourage price increases. The compromise policy solution was to encourage low long-term interest rates to stimulate domestic capital formation and to keep upward pressure on short-term rates to offset short-term capital outflows from the United States. To implement this policy, open market operations in long-term U. S. Treasury securities were used to put downward pressure on long-term interest rates; bank reserve requirements were reduced to supply reserves in order to minimize the direct effects of open market purchases on short-term rates; and commercial banks were permitted to pay higher interest rates on time and savings deposits to provide for the expansion of bank credit. In addition, swap agreements in foreign currencies by central banks were

Chart 3.

MEMBER BANK RESERVES and BORROWINGS



Last entry: Dec. '69

Source of data: Board of Governors of the Federal Reserve System

initiated to provide additional foreign exchange reserves on a temporary basis to carry out official currency support operations.

Because of these activities, monetary policy was an important stimulative factor during the first half of the 1960's as evidenced by the rapid growth of bank credit. For example, from the beginning of 1960 through the fourth quarter of 1964, bank credit expanded by an average annual rate of 8.5 percent.

Monetary actions during this time generally resulted in a smooth expansion of bank credit, the money supply, and the reserve aggregates and in reasonably stable interest rates (see Charts 3 and 4). From mid-1960 through the end of 1961, the expansion in bank credit and the money supply was sufficient to accommodate rising demands for funds. Between late 1962 and the third quarter of 1964, when growth in economic activity showed signs of slowing, bank credit and the money supply expanded vigorously.

The Growth Record of 1960-1964. During the first half of the 1960's, stimulative public policies contributed to an increased rate of growth in both overall economic activity and per capita disposable personal income; prices remained relatively stable. From the trough of the business contraction in the first quarter of 1961 to the fourth quarter of 1964, real GNP grew at an annual rate of 5.4 percent, a rate which exceeded the growth for any period since the end of World War II except for the 1949-1953 business expansion. Real per capita disposable income, measured in 1958 dollars, rose at an average annual rate of 3.2 percent, or about twice the rate in the 1950's.

ECONOMIC GROWTH AND PUBLIC POLICY: 1965–1969

By mid-1965, the economy had begun to move rapidly toward the high-employment level. The overall high rate of unemployment, although at 4.6 percent in June 1965, was approaching the 4 percent level specified by the Council of Economic Advisers at that time as the high-employment target. The emergence of a capital spending boom, in combination with soaring defense purchases for Vietnam, boosted GNP by about 8.2 percent in 1965, and the gap between actual and potential GNP was closed by the end of the year.

With the economy already near the high-employment level, inflationary pressures began to build during 1965, and the rate of price increases began to accelerate. These inflationary pressures persisted during the second half of the decade, and as a result, the emphasis of stabilization policy was shifted from stimulating the growth of aggregate demand and full employment to restraining inflation and inflationary expectations.

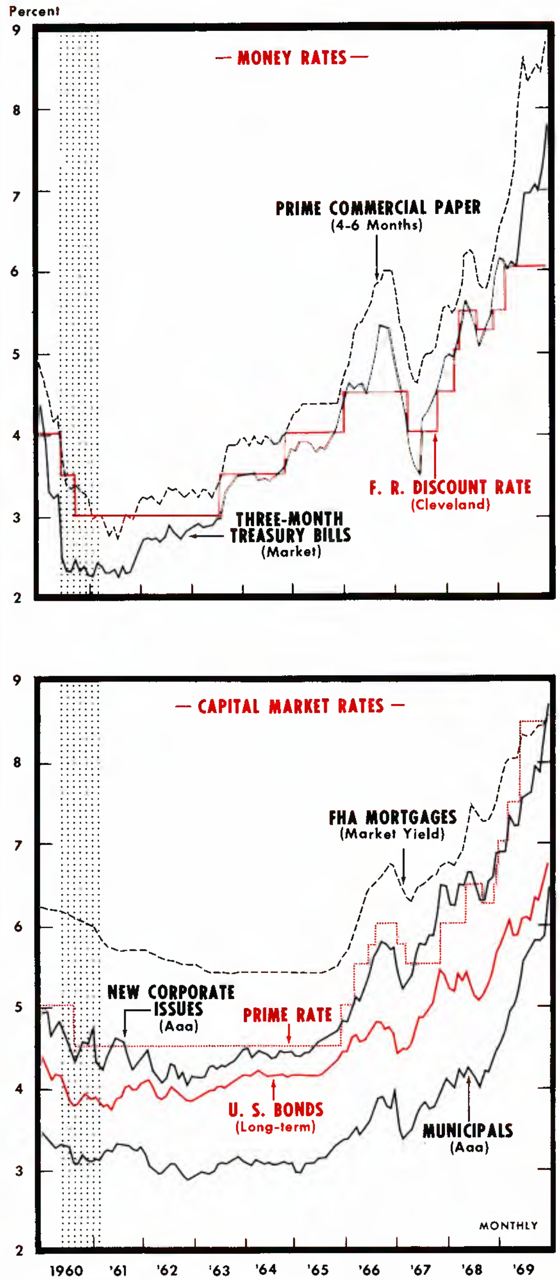
Fiscal Policy in a High-Employment Economy. On balance, fiscal policy was more expansionary during the second half of the 1960's than during the first half of the decade. The period from mid-1965 to mid-1968 was marked by a rapid expansion of Federal Government spending—in connection with our increased military activities in Vietnam and expanding domestic programs—that was superimposed on rising private demands, especially in the capital goods sector. Because the economy was at, or slightly above, the level of potential output after mid-1965, many observers now believe that fiscal policy should have been more restrictive, either in the form of higher taxes or reduced Government spending. The combined effects of insufficient fiscal restraint (until mid-1968 when the Revenue and Expenditure Act was passed), a generally expansive monetary policy in 1967 and in the second half of 1968, and persistently rising private spending generated a level of aggregate demand that exceeded the nation's productive capacity. The result was the fourth major wave of inflation in the United States in the post-World War II period.

From the second quarter of 1965 to the second quarter of 1968, the high-employment budget shifted from a $7 billion surplus to a $15 billion deficit (a swing of $22 billion), due to a $64 billion increase in expenditures that was only partially offset by an increase in revenues. Thus, when viewed against the prevailing background of high employment and rising prices, fiscal policy was an extremely stimulative force. Defense spending, which amounted to $49 billion in the second quarter of 1965, rose by almost $29 billion, or 58 percent, between the second quarter of 1965 and the second quarter of 1968. Federal nondefense spending, especially for education and transfer payments, also rose rapidly.

Reflecting the rapidly rising level of Federal Government spending, the high-employment budget hovered

Chart 4.

INTEREST RATES



Last entry: Dec. '69

Source of data: Board of Governors of the Federal Reserve System around a surplus or deficit of $1 billion from the middle of 1965 through the first half of 1966. The Administration tried to shift toward fiscal restraint in 1966 by reinstating some of the earlier excise tax reductions and some changes in withholding of individual income taxes and by temporarily suspending the investment tax credit. However, early in 1967, as economic activity weakened in response to the lagged effects of monetary restraint in 1966, Federal spending accelerated and offset spending declines in the private sector. For the first time since the mild recession of 1960-1961, real GNP receded slightly in the first quarter of 1967. Between the fourth quarter of 1966 and second quarter of 1967, the real gain in GNP amounted to only 0.7 percent at an annual rate, compared with a rate of increase of 3.9 percent during 1966.

From mid-1967 to mid-1968, fiscal policy remained expansionary despite renewed acceleration in real output. The level of real output again exceeded potential output (see Chart 1). In addition, the unemployment rate moved from 3.7 percent in the second quarter of 1967 to 3.5 percent in the second quarter of 1968, and price pressures intensified. During this period, the Federal budget (measured in terms of either the high-employment budget or the national income accounts) remained in deficit by a substantial amount. Federal revenues and expenditures rose rapidly, but the level of revenues was far short of the level of expenditures. The only discretionary fiscal policy action that was taken to increase receipts during this period was in connection with higher social security contributions. Against the background of growing Federal deficits and a possible repetition of the severe credit stringency of 1966, the Administration renewed its request to Congress in August 1967 for enactment of an income tax surcharge and increased the proposed surtax rate from the original 6 percent rate that was in the January 1967 budget message to 10 percent. In June 1968, Congress finally approved a restrictive fiscal program, largely under pressure of sharply rising interest rates, growing balance of payments deficits, and uncertainties in international financial markets generated by the devaluation of the pound sterling in November 1967.

The Revenue and Expenditure Act of 1968 introduced the final phase of fiscal action in the second half of the 1960's. Federal revenues were expected to increase as a result of a 10 percent surcharge on corporate and personal income taxes, while Federal spending was to be checked by a ceiling of slightly more than $186 billion for fiscal year 1969, or $6 billion below the January 1968 budget estimate. Thus, between the second quarter of 1968 and the second quarter of 1969, the high-employment budget position shifted from a deficit of about $15 billion to a surplus of about $11 billion, despite the fact that the ceiling on expenditures was moderately exceeded. The high-employment budget remained in surplus in 1969 despite continued growth in expenditures. The initial impact on the economy of the sharp and rapid shift in the Federal budget was, however, less than generally expected. Consumers responded to what they believed was a temporary increase in taxes by reducing the rate of personal saving and, therefore, maintained their spending at close to the pre-surtax rate. Also, the shift to the surplus budget position was accompanied by an expansionary monetary policy, which acted partially to nullify the tax program.

Monetary Policy in a High-Employment Economy. Monetary policy in the second half of the 1960's was faced with the delicate assignment of restraining aggregate demand in order to bring inflation under control without causing a contraction in output and employment. In contrast to the first half of the decade when monetary and fiscal policy worked together to stimulate economic activity, the period from 1965 to 1969 was marked by wide swings in monetary actions in an attempt to offset changes in fiscal policy. Monetary policy shifted at least five times—in late 1965, late 1966, 1967, mid-1968, and late 1968, with the most substantial changes occurring in the periods 1966-1967 and 1968-1969.

From early 1966 to mid-1968, monetary policy completed a cycle from restraint (February 1966 to November 1966) to expansion (December 1966 to November 1967) to restraint (December 1967 to June 1968) first to check an excessive rate of economic growth and rising prices during most of 1966 and then to avert a possible contraction in economic activity in 1967 and finally to counter the reemergence of inflationary pressures. From February 1966 to November 1966, monetary actions were increasingly restrictive. The reserve aggregates showed virtually no growth from February to November, while there were outright declines in the period from July through November. Bank credit increased at an annual rate of 4.7 percent from February 1966 to November 1966, and the money supply grew at an annual rate of only 1.3 percent (see Table II). Reserve requirements against time deposits were increased in July and September 1966; Regulation Q ceilings were also raised in July and September. As a result of the scarcity of credit, interest rates increased sharply (see Chart 4). Higher rates on alternative investments sharply reduced savings flows into financial institutions, especially thrift institutions. As a result, the mortgage and housing markets bore a disproportionate share of the effects of restrictive monetary policy during this period.

Federal Reserve policy eased slightly in late 1966, and for the next several months the task of monetary policy was to prevent an inventory adjustment from developing into a business contraction. Open market

TABLE II

Changes in Selected Reserve Aggregates, Bank Credit, and the Money Supply

	Annual Rates of Change*						
	February 1965-January 1966	February 1966-November 1966	December 1966-November 1967	December 1967-June 1968	July 1968-November 1968	December 1968-December 1969	IQ 1965-IVQ 1969
Reserve Aggregates							
Nonborrowed reserves	+4.6%	+0.1%	+13.3%	+1.6%	+10.4%	−1.5%	+ 4.5%
Total reserves	+5.0	+1.0	+11.3	+4.7	+10.9	−0.1	+ 5.2
Required reserves	+5.3	+0.6	+11.4	+4.7	+11.1	+ 0.4	+ 5.4
Bank Credit and the Money Supply							
Bank Credit†	+9.9	+4.7	+11.9	+6.5	+12.9	+ 0.7‡	+10.3
Money supply	+5.4	+1.3	+ 6.9	+7.2	+ 6.3	+ 2.5	+ 5.2

* Monthly average of daily figures, seasonally adjusted.
† End-of-month series, all commercial banks.
‡ Because of revision of bank credit series in June 1969, rates of change for bank credit are measured from June 1969 to December 1969 and from the first quarter of 1965 to the second quarter of 1969.

Source: Board of Governors of the Federal Reserve System

operations became expansionary; reserve requirements on certain time deposits were decreased in March 1967; and the Federal Reserve discount rate was reduced in April. Between December 1966 and November 1967, total reserves rose at an annual rate of 11.3 percent, while nonborrowed reserves rose by 13.3 percent. During this period, both the money supply and bank credit expanded sharply (at annual rates of 6.9 percent and 11.9 percent, respectively).

Economic activity began to accelerate gradually in the spring of 1967. In retrospect, monetary policy may have been too expansionary in view of the then unrecognized underlying strength of the economy and concurrent inflationary pressures. There were, however, a number of considerations that influenced monetary policymakers to maintain an expansionary posture until late in 1967. These considerations included the desire to avoid actions that might impede the Administration's proposed tax increase, which was under active consideration and debate in Congress. In addition, interest rates were already at high levels, a situation that tended to support the argument that any further tightening in policy would trigger an outflow of funds from thrift institutions. Moreover, higher interest rates in the United States could have posed a serious threat for the pound sterling. Finally, the Federal Reserve System sought to follow a policy of "even keel" during the frequent Treasury financing operations in this period.

Toward the end of 1967, monetary policy again shifted toward restraint in an attempt to slow down renewed aggregate demand and rising prices. Reserve requirements on demand deposits were raised in January 1968, and the discount rate was increased to 5 percent in March 1968 and 5½ percent in April 1968. Moreover, open market operations were aimed at reducing the growth of bank reserves. Accordingly, growth in nonborrowed reserves amounted to less than 2 percent between December 1967 and June 1968, while growth of total reserves and bank credit decelerated sharply to 4.7 percent and 6.5 percent, respectively (see Table II). On the other hand, the money supply increased at a rapid pace, due in part to a downward shift in Government deposits and to a sharp increase in financial transactions. The obvious intent of monetary policy was restrictive in the first half of 1968, however.

Fiscal restraint was instituted as a result of the Revenue and Expenditure Act of June 1968, and this, coupled with other factors, such as the liquidation of steel inventories and slowing in capital spending, was expected to weaken economic activity in the second half of the year. Consequently, monetary policy was shifted to accommodate restrictive fiscal policy measures and to provide for some easing in the money and credit markets. Bank credit and the bank reserve aggregates grew sharply during the second half of 1968, and the discount rate was cut ¼ percent in August. It is now widely accepted that this policy shift after mid-1968 was excessive in that it reflected an over-estimation of the restraining effect of the income tax surcharge.

Against a background of a resurgence in inflationary expectations, the discount rate was raised in December 1968 as the Federal Reserve shifted again to a restrictive monetary policy, a policy which was maintained throughout 1969. Between December 1968 and May 1969, bank credit declined; the growth of the reserve aggregates was moderated; and the money supply rose at about half the rate of the previous year. Between May and December 1969, severe restraint was imposed. There were substantial outright declines in the reserve aggregates and a virtual halt in the growth of bank credit and the money supply during this period (see Table II).

Interest rates in each maturity range of all financial markets rose to record levels during 1969, reflecting both the extremely restrictive monetary policy and persistent strong demands for funds. As an illustration, the average monthly rate on new issues of three-month Treasury bills moved from 3.8 percent in January 1965 to 6.2 percent in January 1969 and to 7.7 percent in December 1969. A similar upward shift also occurred in yields on long-term bonds. For example, the average monthly yield on new Aaa rated corporate bonds rose from 4.4 percent in January 1965 to 6.9 percent in January 1969 and to 8.8 percent in December 1969 (see Chart 4).

The extremely restrictive monetary policy in effect during 1969 did not produce a rapid slowdown in aggregate spending. Inflationary expectations were apparently deeply imbedded in the economy. Moreover, financial institutions took steps to soften the impact of monetary restraint on their operations, while special Government programs supported a continuing, though declining, flow of mortgage credit. Bank deposits fell sharply during 1969 as a result of a runoff of nearly $13 billion in certificates of deposit from December 1968 through December 1969. Banks liquidated holdings of U. S. Government securities as well as state and local securities and sharply reduced their mortgage loan activity. Banks aggressively sought funds from nondeposit sources, including Eurodollar borrowings, sales of loan participation certificates, and sales of commercial paper by their subsidiaries and affiliates. The increased reliance on nondeposit sources of funds allowed banks to continue their lending activity during 1969, although at reduced levels. In an attempt to limit the availability of these types of funds to banks, the Board of Governors of the Federal Reserve System placed a 10 percent reserve requirement on Eurodollar borrowings by United States banks beyond a specified base amount. Deposits were redefined to include funds derived from assets sold under repurchase agreements, except for sales of U. S. Government and Federal Agency securities and all such transactions between banks. In October 1969, the System proposed placing reserve requirements and interest rate ceilings on funds secured through commercial paper sales by bank holding companies and banking subsidiaries, but this proposal has not been put into effect.

The Growth Record of 1965-1969. The rate of real growth fluctuated widely during the second half of the 1960's. During 1965, real GNP expanded by 6.3 percent, slowed to half that rate during 1966, and came to a virtual halt in the first half of 1967. From the third quarter of 1967 through the second quarter of 1968, real growth again accelerated rapidly. Since mid-1968, growth has moderated in each quarter, from an annual rate of about 7 percent to an annual rate of about 2 percent in the second and third quarters of 1969. In the final quarter of the year, real GNP actually declined by one-half of 1 percent.

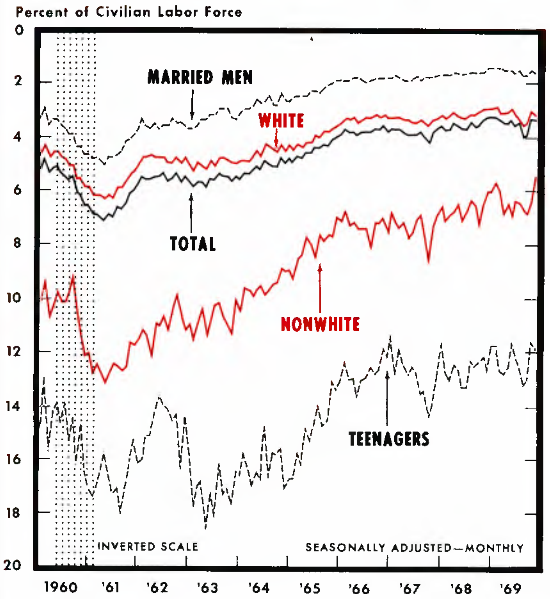
EMPLOYMENT: A COMPARISON OF GOALS AND ACCOMPLISHMENTS

As discussed earlier, the goal of economic policy in the first half of the 1960's was to stimulate aggregate demand in order to reduce unemployment. Once the high-employment goal was reached, however, inflationary pressures accelerated rapidly. Inflation persisted throughout the second half of the decade and price stability became the principal goal of stabilization policy. Public policymakers were faced with the delicate task of scaling down the pace of economic expansion sufficiently to eliminate upward price pressures and inflationary expectations without inducing a prolonged contraction in real economic activity.

1960-1964: Ample Labor Supply. During each quarter of 1960, the unemployment rate rose gradually, reflecting the relatively mild business recession. The unemployment rate continued to rise through the first half of 1961 when the growth of economic activity resumed (see Chart 5). The upswing in business activity, however, did not result in proportionate increases in employment. Between 1960 and 1963, nonagricultural employment rose by 2.7 million workers, only a moderate gain after allowance for the addition of nearly 0.9 million employees to Federal, state, and local government payrolls. The unemployment rate receded from the high reached in the second quarter of 1961, but still averaged 5.5 percent in 1962 and 5.7 percent in 1963, or virtually the same as in 1960. The stability of the unemployment rate during the early years of the current business expansion was attributable, in large part, to the growth in the labor force and a shift of the population out of the rural areas to the cities. One

Chart 5.

RATES of UNEMPLOYMENT



Last entry: Dec. '69
Source of data: U. S. Department of Labor

aspect of this structural shift in the demand for labor was the continued long-term decline in agricultural employment made possible by large gains in productivity in agriculture. There was a net decline of nearly one-half million agricultural workers between 1961 and 1963.

Continued increases in aggregate demand during the first half of the 1960's generated additional jobs, but rapid growth in the labor force resulted in high unemployment rates. Although there were marked gains in employment, the overall unemployment rate averaged 5.2 percent in 1964, compared with 5.5 percent in 1960. The expansion in the labor force occurred mainly among women and teenagers, for whom unemployment rates are typically high. The unemployment rate for nonwhites also remained high during the first half of the 1960's, despite a downward drift throughout the decade (see Chart 5).

1965-1969: Tight Labor Market. Labor markets had begun to tighten by mid-1965, as real growth in economic activity accelerated, and the unemployment rate dropped below 5 percent. The intensified demand for labor occurred in manufacturing, trade, government (civilian and armed forces), and service industries. From 1966 to 1969, nonagricultural employment rose by an average of 1.7 million persons annually. The increased demand for labor was met by continued large gains in the labor force and a gradual reduction in the number of unemployed. Adult women provided an important share of the increased supply of labor. The overall unemployment rate continued to ease throughout 1965, and in January 1966, it fell below the 4 percent rate for the first time since early 1957.

After the relative stability that marked the first half of the 1960's, an upward surge in unit labor cost in manufacturing began in 1966. The upward pressures on manufacturing costs persisted throughout the second half of the 1960's as a result of rising prices for material resources and higher labor costs. Increased wage costs reflected, in part, union attempts to capture an increasing share of material output.

Tight conditions in the labor market were temporarily alleviated during the first half of 1967, when real gains in GNP were sharply reduced. The growth in nonagricultural employment slowed, and the unemployment rate edged up from 3.7 percent in the fourth quarter of 1966 to 3.9 percent in the second quarter of 1967. The increase in unemployment was centered mainly in manufacturing; however, continued expansion of employment in government, services, and trade stabilized the overall labor market.

Although real economic growth moderated after mid-1968, the labor market showed no signs of easing until the second half of 1969, when the rate of growth in employment slowed and unemployment increased slightly. The overall unemployment rate was 3.4 percent in the fourth quarter of 1968 and the first quarter of 1969 and 3.6 percent in the third and fourth quarters of 1969.

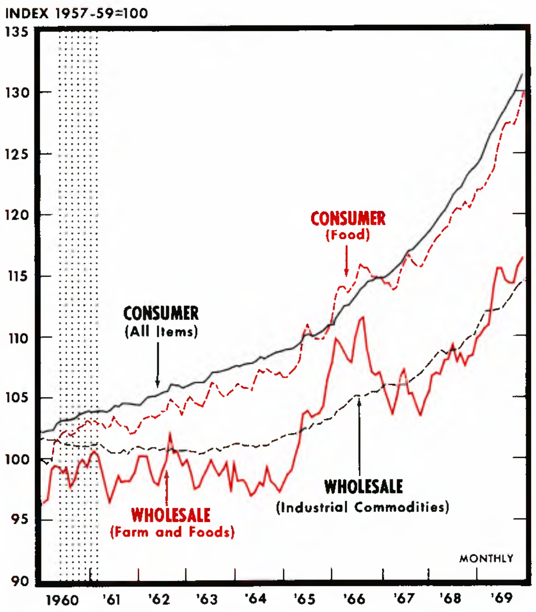
The experience of the 1960's would seem to indicate that there was a shortage of skilled labor in the United States during most of the decade, especially in the 1965-1969 period. Many of those who remain unemployed as the economy moves into the high-employment range possess only marginal skills or training. Therefore, additional increases in aggregate demand do not generate enough additional employment opportunities to cut deeply into this pool of unemployed but marginal workers. It would seem that additional educational and training opportunities are needed to reduce unemployment much below earlier minimum levels even if the economy continues to expand, and this is a slow process.

PRICE PERFORMANCE

Between 1960 and 1964, the three broad price measures—the GNP implicit price deflator, the wholesale price index, and the consumer price index—remained relatively stable despite rapid economic expansion. Toward the end of the period, pressures accelerated rapidly as full employment was achieved, however. Although the original inflationary thrust was largely the result of excess aggregate demand, upward cost pressures soon reinforced the inflationary spiral, and by late 1968, inflationary expectations provided further strength to the spending and cost pressures on prices.

Chart 6.

WHOLESALE and CONSUMER PRICES



Last entry: Dec. '69
Source of data: U. S. Department of Labor

1960-1964: Relative Price Stability. Between the first quarter of 1961 and the fourth quarter of 1964, the GNP price deflator rose at an average annual rate of about 1.3 percent. The major factors contributing to the rise in the GNP deflator during this period were the increases in the price of consumer services, in government employees' wages and salaries, and in construction costs.

On balance, the wholesale price index was virtually unchanged between the first quarter of 1960 and the fourth quarter of 1964. The overall stability in wholesale prices was a reflection of the relatively unchanged level of prices of farm and food products and prices of industrial commodities (see Chart 6). Prices for metals and metal products and for machinery and equipment began to firm late in 1963, but these increases were temporarily offset by price declines in numerous other industries, mainly fuel, related products, and power; pulp, paper, and allied products; lumber and wood products; and rubber and rubber products. In the aggregate, upward pressures on prices of industrial commodities were not an important factor during the 1960-1964 period, because most industries were operating considerably below their preferred (optimal) rate of capacity and the unit cost of production remained stable. In the corporate sector, compensation per employee per unit of output was nearly unchanged between the first quarter of 1960 and the fourth quarter of 1964, while nonlabor unit costs edged up slightly.

Consumer prices, which tend to lag behind changes in wholesale prices, rose at an annual rate of 1.2 percent between 1961 and 1964, compared with a 1.6 percent rise during 1960. The continuing increases in the cost of services and, to a lesser extent, in the cost of food were major factors in the upward movement of consumer prices during this period.

1965-1969: Major Inflationary Wave. The rapid acceleration in economic activity in the 1965-1969 period was accompanied by a sharp rise in all price measures. The GNP implicit price deflator rose at an average annual rate of 3.3 percent during 1965-1969, compared with 1.3 percent during 1960-1964. Price increases moderated during the brief slowdown in economic activity in early 1967, but resumed at an accelerated rate along with the renewed expansion in business activity. As in the first half of the decade, rising costs of construction and services provided the bulk of the upward thrust to prices. Recently, substantial increases in wages and salaries for Federal, state, and local government employees have contributed to the more rapid rate of inflation (as reflected in the GNP deflator).

Wholesale prices for farm and food products and for industrial commodities also increased rapidly during the 1965-1969 period. In response to intensified demands for industrial commodities, the prices of a broad range of industrial goods began to edge up late in 1964 and the rate of increase accelerated until mid-1966. Unit labor costs and other costs of production were relatively stable through late 1965, but turned up early in 1966—one year later than the upturn in prices of industrial commodities. Continuing labor scarcity and rapidly accelerating wage increases added further pressures to unit labor costs, resulting in renewed upward movements in prices. The sustained rise in industrial prices since mid-1967 has been the longest in the post-World War II period.

Price pressures showed little tendency to moderate even though real gains in GNP decelerated after mid-1968. The behavior of prices during 1968-1969 was affected in large part by wide fluctuations in the prices of lumber and plywood and by marked increases in the prices of nonferrous metals, steel mill products, and producers' equipment. Less intensive utilization of resources, as suggested by the contraction in industrial production since July 1969 and the reemergence of a gap between real and potential output, may help slow price advances in the industrial sector during 1970.

During 1965-1969, consumer prices increased faster than at any time since the 1949-1953 business expansion. The rise in consumer prices was climaxed by a 6-percent annual rate of increase in 1969. The widespread increases in consumer prices were led by sharp gains in the prices of services (especially medical care and home mortgage interest rates), food, apparel, and automobiles.

TABLE III

United States Balance of Payments
1960–1969
(Bil. of $)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Total exports of goods and services*	+ $27.5	+ $28.8	+ $30.5	+ $32.6	+ $37.3	+ $39.4	+ $43.4	+ $46.2	+ $50.6	+ $55.4
Total imports of goods and services	– 23.4	– 23.2	– 25.4	– 26.6	– 28.7	– 32.3	– 38.1	– 41.0	– 48.1	– 53.3
Balance on goods and services*	+ 4.1	+ 5.6	+ 5.1	+ 6.0	+ 8.6	+ 7.1	+ 5.3	+ 5.2	+ 2.5	+ 2.1
Remittances and pensions	– 0.6	– 0.6	– 0.7	– 0.8	– 0.8	– 1.0	– 0.9	– 1.2	– 1.2	– 1.2
U. S. Government grants and capital flows (Net)	– 2.8	– 2.8	– 3.0	– 3.6	– 3.6	– 3.4	– 3.4	– 4.2	– 4.0	– 3.9
U. S.private capital flows (Net)	– 3.9	– 4.2	– 3.4	– 4.5	– 6.6	– 3.8	– 4.3	– 5.7	– 5.2	– 5.0
Foreign capital flows (Net)	+ 0.4	+ 0.7	+ 1.0	+ 0.7	+ 0.7	+ 0.3	+ 2.5	+ 3.4	+ 8.6	+ 3.9
Errors and omissions	– 1.2	– 1.1	– 1.2	– 0.5	– 1.1	– 0.6	– 0.5	– 1.0	– 0.6	– 3.0
Overall Balance of Payments										
Liquidity basis†	– 3.9	– 2.4	– 2.2	– 2.7	– 2.8	– 1.3	– 1.4	– 3.5	+ 0.2	– 7.1
Official reserve transactions basis‡	– 3.4	– 1.3	– 2.7	– 2.0	– 1.6	– 1.3	+ 0.3	– 3.4	+ 1.6	+ 2.7

NOTE: Data for 1969 are preliminary.

* Excluding transfers under military grants.
† Equals changes in liquid liabilities to foreign official holders, other foreign holders, and changes in official reserve assets consisting of gold, convertible currencies, and the U. S. gold tranche position in the International Monetary Fund.
‡ Equals changes in liquid and nonliquid liabilities to foreign official holders and changes in official reserve assets consisting of gold, convertible currencies, and the U. S. gold tranche position in the International Monetary Fund.

Source: U. S. Department of Commerce

BALANCE OF PAYMENTS AND STABILIZATION GOALS

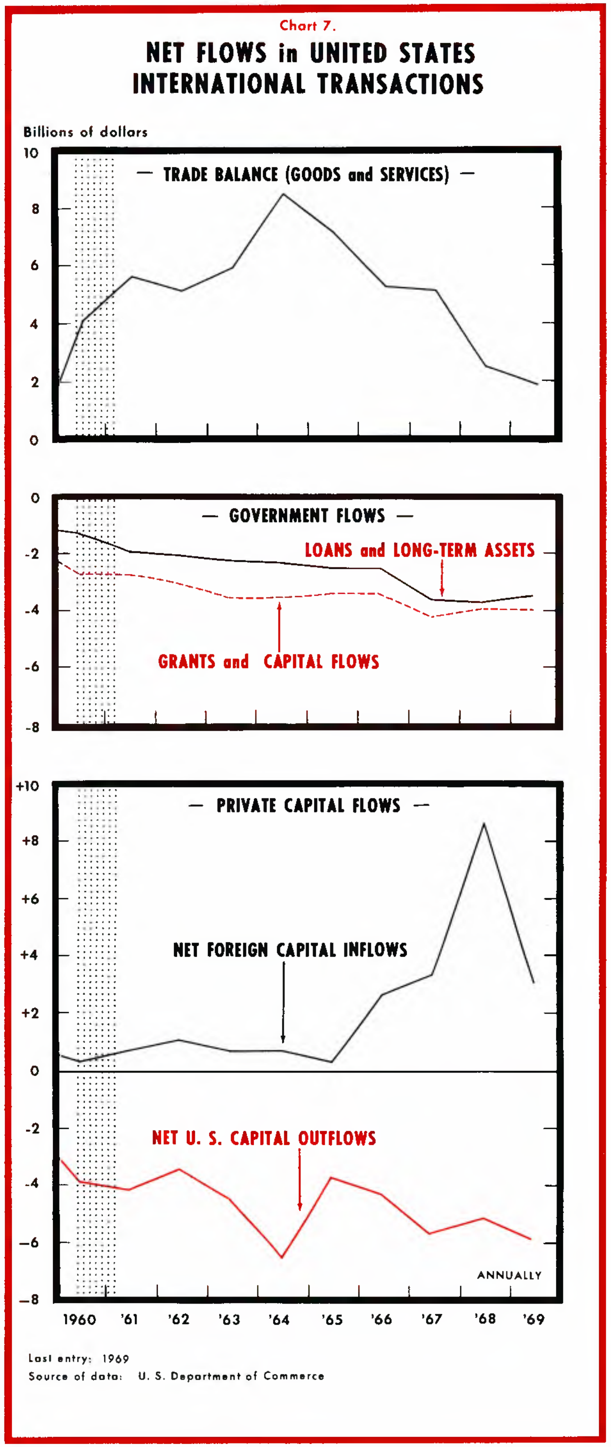
The United States has had a deficit in its overall balance of payments almost consistently since 1950. For most of this period, one useful aspect of the deficits was to enlarge the official foreign exchange reserves of other countries. After 1958, however, large deficits in the United States balance of payments, reflecting outflows of Government and private capital that substantially exceeded income from merchandise trade and other current transactions, were often accompanied by large gold outflows and became a constraint on domestic stabilization policy. One accepted way of dealing with a chronic deficit is to deflate the domestic economy through restrictive economic policies, but since the United States economy had been operating at less than full employment since the late 1950's, that approach was not felt to be appropriate. As an alternative, various regulatory measures and programs were put into effect to boost United States exports and to constrain capital outflows. Table III presents data on the United States balance of payments for the 1960-1969 period.

1960-1964: Deficits Due to Capital Flows. Because of the complex interrelationships of international transactions, there are many causes of the overall balance of payments deficits. Furthermore, the importance of specific factors has changed over time. Between 1960 and 1964, the deficits were associated with outflows of private capital from the United States, and, to a lesser degree, with Federal Government aid and grants to foreign countries. Net outflows of Federal Government aid rose from $2.8 billion in 1960 to $3.6 billion in 1964.

Outflows of private capital were of importance in the persistent weakness in the international position of the United States during 1960-1964 (see Table III and Chart 7). United States businesses had been increasing their investments abroad since the mid-1950's. The bulk of investment during the early 1960's was directed to Canada and the countries that make up the European Economic Community. Income received from previous direct investments abroad exceeded United States direct investment outflows during the 1960-1964 period. In addition, short-term loans to Japan by United States banks jumped sharply in the early 1960's. Long-term loans, particularly to countries in western Europe, rose sharply in 1963-1964.

Between 1960 and 1964, the United States experienced an improvement in its balance on goods and services. The surplus rose from $4.1 billion in 1960 to $8.6 billion in 1964, with merchandise trade accounting for $1.9 billion of the increase and interest income from investments abroad accounting for $1.6 billion. The increase in the merchandise trade surplus was largely centered in machinery and chemicals (see Table IV). In contrast, the United States trade deficit in mineral fuels deteriorated further, and the trade balance for steel mill products swung from surplus to deficit between 1960 and 1964.

Other components of the United States current transactions showed varying trends during the first half of the 1960's. The deficit in the net balance on military



expenditures abroad showed some improvement, but spending for travel abroad grew more rapidly than foreigners' expenditures for travel in the United States. Nevertheless, despite some loss in the United States share of world markets between 1960 and 1964, the overall deficit in the balance of payments in that period was not due to weakness in current transactions.

The seemingly chronic deficit position in the United States balance of payments between 1965 and 1969 primarily reflected a sharp deterioration in the net export balance for goods and services. In contrast to the early 1960's, net inflows of private capital from abroad (consisting mainly of foreign purchases of corporate securities and expanded borrowing in the Eurodollar market by United States banks) rose sharply to offset the deterioration in the current account.

The weakening in the trade surplus reflected excessive domestic demands, apparent loss of competitive position in certain world markets, supply shortages in the United States, and unfavorable domestic-foreign price relationships. After 1964, the net trade balances for all major commodities, except chemicals, machinery, and animal and vegetable oils, swung from surplus to deficit (particularly in motor vehicles, food, and live animals), or the deficit tended to worsen (steel, copper, clothing, and mineral fuels) as shown in Table IV.

The deterioration in the merchandise trade balance reflected a faster rate of increase in merchandise imports than in exports of commodities. Historically, the volume of United States imports has averaged 3 percent of GNP, but the proportion rose to 3.5 percent during 1965-1969. In addition, merchandise exports from the United States fell below a 4 percent trend relationship to GNP between 1965 and 1969. During the period, the volume of United States exports accounted for nearly 3.9 percent of GNP. In part, excessive domestic demand has played some role in holding back the volume of United States exports since 1965. Loss of position in world markets and changing patterns in world exports (particularly in those parts of the world where the United States has been a major supplier) have also tended to hold down the volume of United States exports since the mid-1960's.

A substantial rise in capital inflows prevented larger deficits from occurring in the United States balance of payments between 1965 and 1969. In 1967 and 1968, foreigners substantially increased their purchases of both fixed income securities and equities. The reasons for the sudden surge of capital inflows into the United States were rising domestic interest rates and the upward movements in stock prices during this period.

In February 1965, the Administration and the Federal Reserve System announced a voluntary restraint program to improve net capital flows and to restrict United States direct investment abroad. The Federal Reserve issued voluntary guidelines to banks and other financial institutions that, in effect, sharply limited exports of capital from the United States. In March 1965, the U. S. Department of Commerce announced a Voluntary Restraint Program on direct investments abroad. In December 1965, this program was broadened, and 900 business firms were requested to hold direct investments abroad to no more than 90 percent of their average investments in the 1962-1964 period.

Unfortunately, a number of developments tended to offset these various balance of payments programs. Escalation of military activities in Vietnam boosted United States spending abroad. In 1967, the domestic copper strike and the beginning of a steel inventory buildup prior to expiration of the steel labor contract in 1968 resulted in further widening of the trade deficits for those commodities (see Table IV). Moreover, the lagged effect of the United States-Canadian auto agreement of 1965 had its greatest impact in 1968, when the United States trade balance in motor vehicles swung to

TABLE IV

United States Merchandise Trade Balance

Selected Commodities

1960–1969

(Bil. of $)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
TRADE SURPLUS COMMODITIES										
Machinery	+ $3.8	+ $4.2	+ $4.5	+ $4.6	+ $5.2	+ $5.1	+ $5.0	+ $5.2	+ $4.9	+ $5.4
Transportation equipment	+ 1.8	+ 1.8	+ 1.9	+ 1.8	+ 1.9	+ 2.1	+ 1.3	+ 1.6	+ 1.6	+ 1.2
Motor vehicles and parts	+ 0.5	+ 0.6	+ 0.6	+ 0.6	+ 0.7	+ 0.6	+ 0.9	– 0.1	– 1.0	– 1.6
Chemicals	+ 1.0	+ 1.1	+ 1.1	+ 1.3	+ 1.7	+ 1.6	+ 1.7	+ 1.8	+ 2.2	+ 2.2
Animal and vegetable oil	+ 0.2	+ 0.2	+ 0.2	+ 0.2	+ 0.3	+ 0.4	+ 0.2	+ 0.2	+ 0.1	+ 0.2
TRADE DEFICIT COMMODITIES										
Other manufactured goods	– 0.8	– 0.8	– 1.4	– 1.5	– 1.4	– 2.6	– 3.3	– 3.6	– 5.4	– 5.0
Iron and steel-mill products	+ 0.2	+ 0.1	—	– 0.1	– 0.1	– 0.5	– 0.6	– 0.8	– 1.4	– 0.8
Copper	– 0.1	—	– 0.1	– 0.1	– 0.2	– 0.1	– 0.3	– 0.4	– 0.6	– 0.2
Textiles, other than clothing	– 0.1	—	– 0.2	– 0.2	– 0.1	– 0.3	– 0.4	– 0.3	– 0.4	– 0.4
Clothing	– 0.2	– 0.1	– 0.2	– 0.3	– 0.3	– 0.4	– 0.4	– 0.5	– 0.7	– 0.9
Footwear	– 0.1	– 0.1	– 0.1	– 0.1	– 0.1	– 0.2	– 0.2	– 0.3	– 0.4	– 0.5
Nonmetallic minerals	– 0.2	– 0.2	– 0.2	– 0.2	– 0.2	– 0.3	– 0.4	– 0.4	– 0.5	– 0.6
Mineral fuels	– 0.7	– 0.9	– 1.1	– 0.9	– 1.1	– 1.3	– 1.3	– 1.1	– 1.5	– 1.7
Food and live animals	– 0.3	– 0.1	—	+ 0.3	+ 0.6	+ 0.5	+ 0.6	+ 0.1	– 0.7	– 0.8
TOTAL NET BALANCE	+ 5.3	+ 6.0	+ 5.0	+ 5.9	+ 7.5	+ 5.8	+ 4.4	+ 4.4	+ 1.0	+ 1.4

NOTE: Total balance is based on Census classification rather than balance of payments basis; commodity groups above do not add to totals because of exclusion of smaller commodities. Net trade balance is the difference between exports and imports; commodities in surplus and deficit groupings were selected on basis of most recent experience, except for motor vehicles and parts, which is included in the trade surplus list because it is a component of transportation equipment.

Source: U. S. Department of Commerce

a deficit of nearly $1.0 billion from a surplus of nearly $0.9 billion in 1966.

Against the background of further deterioration in the overall balance of payments and the devaluation of the pound sterling in November 1967, an enlarged program aimed at correcting the international financial position of the United States was announced on January 1, 1968. The program was expected to result in an annual improvement of about $3 billion in the overall balance of payments, with corrective measures aimed toward improvements in merchandise trade, Government spending, foreign travel, foreign lending, and private investment abroad. In 1968, the first surplus in more than ten years was recorded in the balance of payments (on the liquidity basis), but the improvement was largely associated with a temporary swing in capital flows and serious disturbances in foreign exchange markets. On the official reserve transactions basis, which does not include changes in short-term liabilities to the private sector in foreign countries, the balance of payments accounts surplus was nearly $3 billion during 1969. Despite the program to boost current account transactions, the United States trade surplus showed only minor improvement in 1969.

In essence, the decade of the 1960's closed in much the same way that it opened: with a persistent deficit in the balance of payments.

SUMMARY

The experience of the early 1960's demonstrated that monetary and fiscal policies can be coordinated and used successfully to accelerate economic growth, at least under conditions where a margin of underutilized resources had existed. Conditions in the second half of the decade, however, underscored the difficulty of reconciling high employment with stable prices. Expansionary monetary and fiscal policies in the first half of the decade did stimulate total spending and increased aggregate demand did generate additional jobs at about the same rate as the increase in the civilian labor force. Unemployment, however, remained at about 5 percent. Unemployment was pushed below 4 percent in January 1966, but severe inflationary pressures emerged at about the same time.

Moreover, although stabilization policy appears to have accelerated growth and reduced cyclical fluctuations in the 1960's, shifts in public policy have contributed to imbalances in various sectors of the economy. The destabilizing effects of public policy were apparent in the credit crunch of 1966, the mini-recession of early 1967, excessive growth in real economic activity in 1968 and early 1969, another credit squeeze in 1969, and an actual decline in real economic growth at the close of the decade. In the second half of the decade, monetary policy was frequently influenced by the need to offset inadequate fiscal policy, and such efforts were occasionally marked by excessive restraint or expansion in the growth of bank credit and the money supply.

The economic performance of the 1960's also underscores the difficulty of reconciling stabilization goals with other national goals. For example, the housing goals expressed in the Housing and Urban

Development Act of 1968 have already fallen well behind schedule. The massive shift of funds from deposit-type financial institutions limited the supply of credit that was available to the mortgage market and contributed to a contraction in housing activity. If the nation's housing goals are to be met, it will be necessary to improve the mechanisms for channeling funds into the mortgage market and to reduce capital flows into other markets commensurately.

Despite persistent balance of payments difficulties and the failure to control inflation and inflationary expectations in the last half of the decade, the period of the 1960's was, on balance, one of significant economic achievement. As an example of the enormous stride that was taken in material prosperity, real per capita disposable income increased by 33 percent during the 1960's, compared with an increase of 15 percent in the 1950's. This vigorous and uninterrupted growth provided the resources to support major gains in science, technology, education, and other activities. Despite the rapid economic growth, policymakers were forced to come to grips with the fact that resources, no matter how ample, are limited, and that priorities must be established and followed. The legacy of the 1960's, of substantial economic expansion, carries with it many unresolved economic and social problems for which solutions must be found.

COMPARATIVE STATEMENT OF CONDITION

ASSETS

ASSETS	December 31, 1969	December 31, 1968
Gold Certificate Reserves	$ 862,419,422	$ 739,174,302
Federal Reserve Notes of Other Banks	67,979,120	66,500,994
Other Cash	10,155,756	23,827,000
Discounts and Advances	4,300,000	11,200,000
U. S. Government Securities:		
Bills	1,726,079,000	1,479,245,000
Notes	2,433,591,000	2,263,966,000
Bonds	271,052,000	431,758,000
Total U. S. Government Securities	4,430,722,000	4,174,969,000
Total Loans and Securities	4,435,022,000	4,186,169,000
Cash Items in Process of Collection	870,360,729	806,896,292
Bank Premises	6,459,804	4,789,980
Other Assets	208,440,448	224,264,090
Total Assets	$6,460,817,279	$6,051,621,658

LIABILITIES

LIABILITIES	December 31, 1969	December 31, 1968
Federal Reserve Notes	$3,952,758,371	$3,700,086,690
Deposits:		
Member Bank-Reserve Accounts	1,551,356,278	1,538,328,399
U. S. Treasurer-General Account	93,748,489	512,836
Foreign	11,570,000	19,800,000
Other Deposits	24,423,951	17,856,952
Total Deposits	1,681,098,718	1,576,498,187
Deferred Availability Cash Items	662,792,878	632,266,337
Other Liabilities	44,383,712	30,755,044
Total Liabilities	$6,341,033,679	$5,939,606,258

CAPITAL ACCOUNTS

CAPITAL ACCOUNTS	December 31, 1969	December 31, 1968
Capital Paid In	59,891,800	56,007,700
Surplus	59,891,800	56,007,700
Total Liabilities and Capital Accounts	$6,460,817,279	$6,051,621,658
Contingent Liability on Acceptances Purchased for Foreign Correspondents	$ 12,985,100	$ 9,828,000

COMPARATIVE STATEMENT OF EARNINGS AND EXPENSES

	1969	1968
Total Current Earnings	$260,819,520	$211,217,526
Net Expenses	19,410,681	17,607,834
Current Net Earnings	241,408,839	193,609,692
Additions to Current Net Earnings:		
Profit on Sales of U. S. Government Securities (Net)	–0–	61,657
Profit on Foreign Exchange Transactions (Net)	521,047	724,448
All Other	338,504	3,254
Total Additions	859,551	789,359
Deductions from Current Net Earnings:		
Loss on Sales of U. S. Government Securities (Net)	471,314	–0–
All Other	560,092	17,631
Total Deductions	1,031,406	17,631
NET DEDUCTIONS	171,855	–0–
NET ADDITIONS	–0–	771,728
Net Earnings before Payments to U. S. Treasury	$241,236,984	$194,381,420
Dividends Paid	$ 3,544,719	$ 3,296,071
Payments to U. S. Treasury (interest on F. R. Notes)	233,808,165	188,962,249
Transferred to Surplus	3,884,100	2,123,100
Total	$241,236,984	$194,381,420

As of March 1, 1970

FEDERAL RESERVE BANK OF CLEVELAND

DIRECTORS-1970

Chairman

ALBERT G. CLAY, *President*
Clay Tobacco Company, Mt. Sterling, Kentucky

Deputy Chairman

J. WARD KEENER, *Chairman of the Board and Chief Executive Officer*
The B. F. Goodrich Company, Akron, Ohio

DAVID L. BRUMBACK, JR.
President
Van Wert National Bank
Van Wert, Ohio

JOHN L. GUSHMAN
President and Chief Executive Officer
Anchor Hocking Corporation
Lancaster, Ohio

J. WILLIAM HENDERSON, JR.
Henderson & Associates
Columbus, Ohio

GEORGE F. KARCH
Chairman of the Board
and Chief Executive Officer
The Cleveland Trust Company
Cleveland, Ohio

R. STANLEY LAING
President
The National Cash Register Company
Dayton, Ohio

SEWARD D. SCHOOLER
President
Coshocton National Bank
Coshocton, Ohio

HORACE A. SHEPARD
Chairman of the Board and Chief Executive Officer
TRW Inc.
Cleveland, Ohio

MEMBER, FEDERAL ADVISORY COUNCIL

JOHN A. MAYER
Chairman of the Board and Chief Executive Officer
Mellon National Bank and Trust Company
Pittsburgh, Pennsylvania

OFFICERS-1970

President

W. BRADDOCK HICKMAN

First Vice President

WALTER H. MacDONALD

ROGER R. CLOUSE
Senior Vice President and Secretary

CLYDE HARRELL
Senior Vice President

JOHN J. HOY
Senior Vice President

FRED O. KIEL
Senior Vice President

CLIFFORD G. MILLER
Senior Vice President

GEORGE E. BOOTH, JR.
Vice President and Cashier

PAUL BREIDENBACH
Vice President and General Counsel

ELMER F. FRICEK
Vice President

R. JOSEPH GINNANE
Vice President

WILLIAM H. HENDRICKS
Vice President

WILLIAM J. HOCTER
Vice President and Economist

HARRY W. HUNING
Vice President

FRED S. KELLY
Vice President

ELFER B. MILLER
General Auditor

MARGRET A. BEEKEL
Assistant Vice President and Economist

LESTER M. SELBY
Assistant Vice President
and Assistant Secretary

LARRY R. SHOTWELL
Assistant Vice President and Economist

ROBERT E. SHOWALTER
Assistant Vice President

H. MILTON PUGH
Chief Examiner

HAROLD J. SWART
Assistant General Auditor

OSCAR H. BEACH, JR.
Assistant Cashier

ANNE J. ERSTE
Assistant Cashier

THOMAS E. ORMISTON, JR.
Assistant Cashier

DONALD G. VINCEL
Assistant Cashier

DAVID J. WEITZEL
Assistant Cashier

As of March 1, 1970

CINCINNATI BRANCH

DIRECTORS-1970

Chairman

GRAHAM E. MARX, *President and General Manager*
The G. A. Gray Company, Cincinnati, Ohio

ORIN E. ATKINS
President
Ashland Oil, Inc.
Ashland, Kentucky

EDWARD W. BARKER
President
First National Bank of Middletown
Middletown, Ohio

ROBERT B. JOHNSON
President
Pikeville National Bank
& Trust Company
Pikeville, Kentucky

FRED O. MacFEE, JR.
Vice President and General Manager
Aircraft Engine Operating Division
General Electric Company
Cincinnati, Ohio

FLETCHER E. NYCE
Chairman of the Board
and Chief Executive Officer
The Central Trust Company
Cincinnati, Ohio

PHILLIP R. SHRIVER
President
Miami University
Oxford, Ohio

OFFICERS-1970

FRED O. KIEL
Senior Vice President

ROBERT D. DUGGAN
Cashier

DONALD G. BENJAMIN
Assistant Cashier

HOWARD E. TAYLOR
Assistant Cashier

JERRY S. WILSON
Assistant Cashier

PITTSBURGH BRANCH

DIRECTORS-1970

Chairman

LAWRENCE E. WALKLEY, *President and Chief Executive Officer*
Westinghouse Air Brake Company, Pittsburgh, Pennsylvania

ROBINSON F. BARKER
Chairman of the Board
and Chief Executive Officer
PPG Industries, Inc.
Pittsburgh, Pennsylvania

JOHN W. BINGHAM
President
The Merchants and Manufacturers
National Bank of Sharon
Sharon, Pennsylvania

CHARLES H. BRACKEN
President
Marine National Bank
Erie, Pennsylvania

GEORGE SCULL COOK
President
Somerset Trust Company
Somerset, Pennsylvania

RICHARD M. CYERT
Dean
Graduate School of
Industrial Administration
Carnegie-Mellon University
Pittsburgh, Pennsylvania

BOB RAWLS DORSEY
President
Gulf Oil Corporation
Pittsburgh, Pennsylvania

OFFICERS-1970

CLYDE HARRELL
Senior Vice President

JAMES H. CAMPBELL
Cashier

CHARLES E. HOUPT
Assistant Vice President

J. ROBERT AUFDERHEIDE
Assistant Cashier