1951: A DEFENSE-CIVILIAN ECONOMY IN OPERATION

Thirty-seventh Annual Report

The Federal Reserve Bank

of Philadelphia

SOME PROBLEMS OF A DEFENSE-CIVILIAN ECONOMY AND A REVIEW OF 1951

THE FEDERAL RESERVE BANK
OF PHILADELPHIA

April 30, 1952

A year ago, in its Annual Report for 1950, this Bank pointed out that "a constantly mobilized economy will present grave new problems." Even if the Korean conflict should end, the threat of new crises in other parts of the world makes it increasingly clear that these problems will be with us for some time. We shall need to understand and to develop a facility in dealing with the problems of partial mobilization. A further analysis of these problems is the subject of this Annual Report for the year 1951.

Alfred H. Williams

President.

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Additional copies of this report are available upon request to the Department of Research, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pa.

SOME PROBLEMS IN A DEFENSE-CIVILIAN ECONOMY

The decision to take military action in Korea introduced problems different from any this country has ever faced. In the past, we have had relatively short, intense periods of war and rather long periods of peace. The present state of concurrent peace and war, of civilian and defense activity is a new experience. Foreign aggression has forced us to prepare for a number of possible moves by the Communists; and, because our resources are limited, we cannot prepare to the extent we should like for *every* possible eventuality.

The key problem in the current defense economy is how fast to rearm. By concentrating on present models of military weapons, production could be expanded rapidly. In many cases, however, these models are practically obsolete. New, improved designs are nearing completion but all of the "bugs" have not been removed; it takes time to test and perfect the more complex, advanced designs. The major choice, therefore, has been between a rapid build-up in the production of old model weapons or a slower build-up with more modern weapons. The first course would give us greater strength in case of immediate attack; the second would give us a stronger defense in the long-run.

The present program represents a compromise. It leans strongly toward the more gradual build-up. The military forces in Korea have been equipped with standard weapons which could be put into production immediately. At the same time the bulk of the program is being concentrated in weapons of more advanced design. Concurrently, greater effort has been put forth to increase basic industrial capacity, so that the output of these new weapons could be stepped up rapidly in case of all-out war. As a result of the compromise decision, there has been some sacrifice in the volume of defense output.

Any program for defense which calls for a large volume of production over a long period of time must take into account the likelihood of periodic speed-ups and cut-backs in production as international tensions mount and subside; likewise, rapid obsolescence of military equipment is likely to mean that the volume of defense production will fluctuate rather than remain stable.

Such an environment would place a premium on flexibility. It would require frequent shifting of both productive resources and purchasing power between the civilian and defense sectors. Stepping up or slowing down the tempo of defense activity would require opposite and compensating changes in the civilian sector of the economy if full use of productive resources were to be maintained. The volume of civilian spending power also would have to be adjusted to a fluctuating volume of civilian goods, inasmuch as the production of defense goods generates incomes but, unlike civilian production, does not add to the supply of civilian goods and services for these incomes to buy. Unless sufficient purchasing power is diverted to the Government to pay for defense, excessive demand for civilian goods would tend to force prices up.

Another problem in a defense-civilian economy is the extent to which market forces can be relied on for the necessary allocation of resources between civilian and defense uses and for restraining inflation. In total war, direct controls are necessary, but the need for them is for a limited period of time. In a prolonged period of partial mobilization, on the other hand, we may be faced with an uncomfortable choice: to impose controls over a long period with the threat that they might become permanent, or to devise ways of turning them on and off as needed.

Taxation and a restrictive monetary policy are the first lines of defense against inflation. They go to the source of inflation by curbing spending power in excess of the supply of goods available for purchase. One of the most difficult problems in a period like this, however, is to make tax and monetary policies sufficiently restrictive to curb inflation and yet not interfere with the expan-

sion of production. The objective is to restrain *excess* demand which would serve only to bid up prices of scarce resources. Tax and monetary policies may have to be supplemented at times, however, by measures—such as selective credit regulations, accelerated amortization of defense plants for tax purposes and materials controls—designed to allocate resources to the most essential uses. One of the disadvantages of fiscal policy is its inflexibility. Tax changes, because of the legislative process, require time. It would be difficult to time tax increases and decreases to match neatly the requirements imposed by substantial swings in the volume of defense production; furthermore, people are not as willing to bear a heavy burden of taxation under partial mobilization as in all-out war. Monetary and debt management policies are more flexible. They can help keep spending in line with the supply of civilian goods but they are not a substitute for an effective tax program.

Direct controls over prices and wages, while undesirable except for temporary periods, may also be helpful under certain conditions. Ceilings are likely to be more difficult to maintain, however, when wages and prices are tied closely together by escalator and productivity clauses, and when labor has not given up the right to strike. The administration of direct controls is more difficult, moreover, and public support is more apathetic than in all-out war. Over a prolonged period there would also be severe administrative problems involved in alternate control and de-control to meet changing conditions. These are some of the disadvantages of direct controls. Their basic shortcoming, however, is that they attack the symptoms of inflation, not the cause.

Some of the problems of a large defense program for a prolonged period can be solved by more production. If we can produce more, we shall be able to satisfy more of the defense needs and ordinary civilian demands. But to get this increased production takes time; it requires an expansion of capacity and an increase in productivity. More production, however, does not remove the inflationary effects of a large defense program. As long as part

of our current output goes for defense and does not become available for civilians to buy, civilian spending power tends to outrun the available supply of civilian goods—unless the Government siphons off enough spending power to pay for its defense purchases. Credit restraints are also needed to prevent the money supply from expanding more rapidly than physical output can be increased.

REVIEW OF 1951

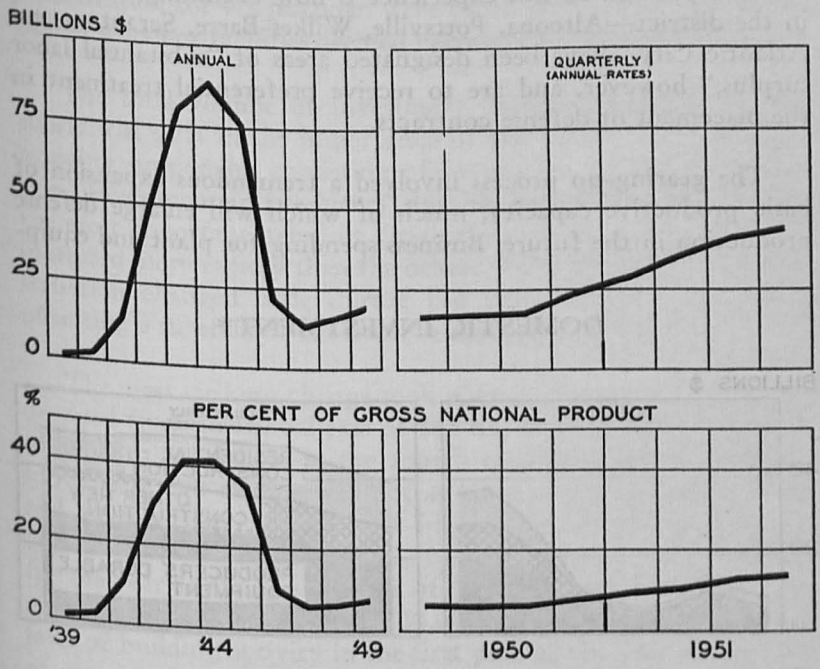
The year 1951 can be put down as a good case illustration of the problems of partial mobilization. It was characterized by uncertainties, conflicting trends, and gradual adjustment to a new kind of environment.

Choices in 1951

The major types of choices just discussed were reflected in one way or another in the distribution of the total output of goods and services — the gross national product. As the chart shows, although Government purchases of goods and services for national security rose during the year, by the fourth quarter they were still absorbing only 13 per cent of the gross national product. The share going for national security was held down by shortages, perhaps the most serious of which was in machine tools, by the decision not to freeze designs of new types of fighting equipment, and by the many delays which are inevitable in the development of complex new weapons. Only $16 billion worth of end products was delivered to the armed forces during 1951, but industry at the end of the year was working on outstanding orders of more than $40 billion. Nineteen fifty-one was essentially a year of gearing up.

In the three states—Pennsylvania, New Jersey, and Delaware —which contain the Third Federal Reserve District, almost $4½

GOVERNMENT PURCHASES OF GOODS AND SERVICES FOR NATIONAL SECURITY

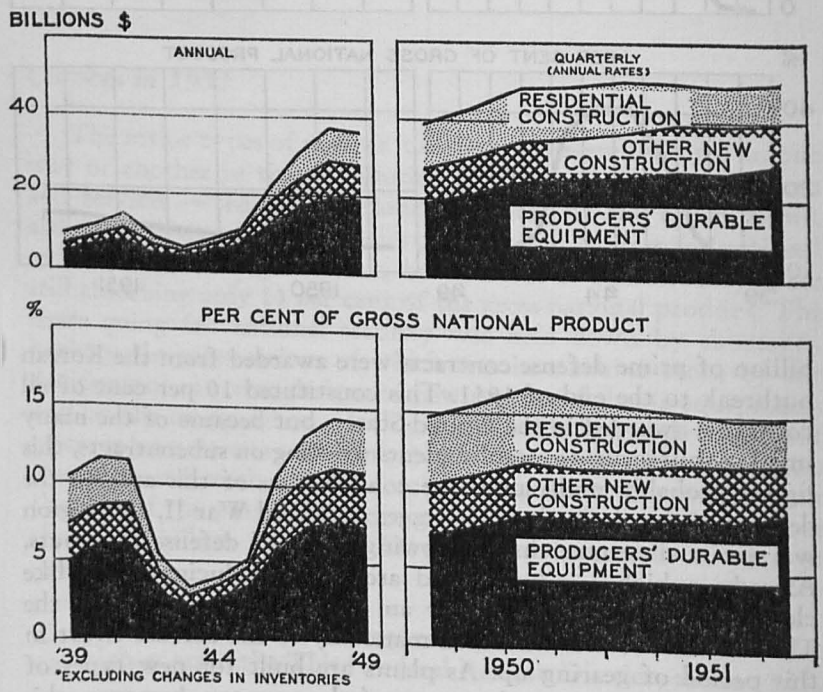


billion of prime defense contracts were awarded from the Korean outbreak to the end of 1951. This constituted 10 per cent of all contracts awarded in the United States; but because of the many small manufacturing establishments working on subcontracts, this figure probably understates the contribution of this area to the defense effort. As in the early stages of World War II, this region was for a time receiving a growing share of defense contracts. Already a highly industrialized area and producing items like clothing which are needed for an expanding armed force, the Third District has contributed materially to the defense effort in this period of gearing up. As plants are built for new types of defense production in other parts of the country, however, this

area is likely to receive a smaller share of the defense contracts. This is what happened in World War II, and there are evidences that a repetition of this experience is now beginning. Five areas in the district—Altoona, Pottsville, Wilkes-Barre, Scranton, and Atlantic City—have been designated areas of "substantial labor surplus," however, and are to receive preferential treatment in the placement of defense contracts.

The gearing-up process involved a tremendous expansion of basic productive capacity, much of which will enlarge defense production in the future. Business spending for plant and equip-

DOMESTIC INVESTMENT*



ment broke all previous records in 1951, reaching $23 billion for the country as a whole. Certificates permitting acceleration of amortization for tax purposes were issued covering a total of $12 billion worth of facilities deemed necessary for defense.

The total volume of investment increased but there was a substantial shift in the importance of the various components, a growing proportion consisting of investment by defense industries. Investment in producers' durable equipment not only was the most important item but (with the exception of inventories) increased more rapidly than the others. Total non-residential construction changed little during the year, defense construction offsetting a substantial cut-back in non-essential building.

The most striking change took place in home building, which dropped from an annual rate of $13 billion in the fourth quarter of 1950 to $10 billion in the fourth quarter of 1951. Although substantial, this decline was not as great as was intended. When real estate credit controls were imposed in the fall of 1950, an official target of 800,000 to 850,000 housing starts was established for the year 1951. The number of houses started during the year actually turned out to be 1,100,000, largely because of a high level of building activity in the first part of the year on the basis of commitments made before the imposition of real estate credit controls. With a few exceptions, materials for home construction were adequate. It is possible that home construction would have dropped from the boom level of 1950 in any event, but even so stiffer credit terms and a shrinking supply of mortgage money hastened the decline.

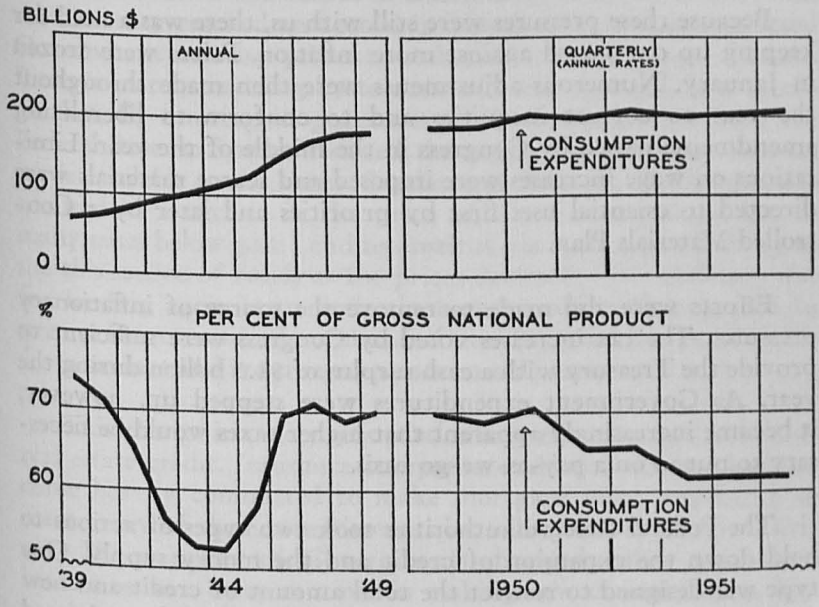
These same general movements were apparent in the Third Federal Reserve District during the year. Total construction activity, as measured by contract awards, was higher than in 1950; but industrial construction rose by 168 per cent, residential building stayed at about the same level, and all other types of construction declined. Business concerns in this district through October

of 1951 had received certificates permitting acceleration of amortization for tax purposes covering roughly $800 million of facilities. Five areas in the district were designated critical housing areas: Fort Dix-McGuire Air Force Base, New Jersey; Indiantown Gap, Pennsylvania; Allentown-Bethlehem, Pennsylvania; Dover, Delaware; and Bucks County, Pennsylvania.

The beginning of construction of the Fairless Steel Works in Bucks County promised to stimulate substantial industrial development along the Delaware River. This is the largest plant erected anywhere since World War II. Construction of this plant —a completely integrated unit with an annual steelmaking capacity of 1,800,000 tons—was begun in March 1951 in response to urgent national defense demands for more steel. Rolled steel products are scheduled to emerge by mid-1952. The project is accompanied by a huge housing development and the influx of auxiliary industries, some to produce the required raw materials and supplies for the new steel mill and others to turn the basic steel output into fabricated products for both national defense and civilian needs. A construction crew of 6,000 workers is rushing completion of the plant, which will employ 6,000 workers when fully operating.

Consumers became adjusted to partial mobilization during the year, although it took some time for them to unlearn the lessons of World War II. When fighting broke out in Korea, consumers and business men rushed into the markets to stock up on goods which they thought would become scarce. Consumers went on another buying spree after the Chinese entered the Korean conflict. During the first quarter of the year, department store sales in the Third Federal Reserve District were 17 per cent greater than in the same period of 1950. Business firms also accumulated inventories at a rapid rate during this period. During the last three-quarters of 1951, however, consumers behaved quite conservatively. They had found that goods of almost all kinds were plentiful and that prices were more stable. As the chart shows, consumer spending dropped off in the second quarter and then proceeded to rise grad-

CONSUMER SPENDING



ually, about as fast as the total gross national product. Spending did not rise as fast as incomes however, which meant that consumers were saving more. Part of this saving went into liquid assets, part to pay off debts. It was this change in the attitude of consumers, perhaps more than anything else, that kept inflation from breaking out in 1951. The rise in total business inventories also slowed up considerably after mid-1951.

Consumer prices ended the year at a level 6 per cent higher than they began the year, and only 2 per cent above the March 1951 level. At the end of the year, wholesale prices had almost cancelled out the upsurge experienced in January and February but were still 13 per cent above the level prevailing when fighting started in Korea. There was no over-all inflation in 1951, but the basic economic forces still carried a threat of inflation.

Inflation Control

Because these pressures were still with us, there was a need for keeping up our guard against more inflation. Prices were frozen in January. Numerous adjustments were then made throughout the year to correct inequities and to conform to liberalizing amendments passed by Congress in the middle of the year. Limitations on wage increases were imposed and scarce materials were directed to essential uses first by priorities and later by a Controlled Materials Plan.

Efforts were also made to remove the source of inflationary pressures. The tax increases voted by Congress were sufficient to provide the Treasury with a cash surplus of $1.3 billion during the year. As Government expenditures were stepped up, however, it became increasingly apparent that higher taxes would be necessary to put us on a pay-as-we-go basis.

The Federal Reserve authorities took two types of actions to hold down the expansion of credit and the money supply. One type was designed to restrict the total amount of credit and new deposits made available to borrowers by limiting the supply and availability of bank reserves. The discount rate had already been increased shortly after the outbreak in Korea, making it more expensive for member banks to get more reserves by borrowing from the Reserve Banks. In January 1951, reserve requirements were raised to immobilize reserves which otherwise would have been available for new loans and investments.

Most important of all, in the spring of the year a fundamental change was made in open market policy. Throughout the war and post-war periods, the Federal Reserve had followed the policy of supporting the prices of Government securities. This policy, however, made it more difficult to combat inflation. As banks, insurance companies, and other lenders sold Government securities to get funds for loans and other investments, Federal Reserve purchases in supporting the prices of Governments gave banks

more reserves and tended to increase the money supply. In an effort to eliminate this source of inflation, the Federal Reserve and the Treasury reached an accord in March 1951 which permitted Government security prices to seek their own level, the Federal Reserve merely standing by to maintain orderly conditions in the market. By limiting its purchases of Government securities, the Federal Reserve System reduced the supply of additional reserves made available to the banks. Smaller purchases by the System also resulted in a decline in the price of Government securities, in many cases below par. Lending institutions became less willing to use this source of funds as the prices declined. The tendency was for lending agencies to limit the amount of credit extended to private borrowers to the amount of new funds becoming available from savings and from repayments on old loans.

This change in policy was particularly effective in the field of real estate credit. Insurance companies and other lenders had become heavily committed to make mortgage loans, expecting to meet many of these commitments by selling Government securities. When prices of Governments dropped below par, these lenders became more cautious in making new commitments. The result was that the supply of funds in the real estate market became considerably tighter, particularly in the field of loans guaranteed by the Veterans Administration where the rate is fixed at 4 per cent.

A second type of action taken by the Federal Reserve authorities was designed to limit the use of credit in particular areas—the stock market, selected consumer durable goods, and new construction. In January the Board of Governors tightened stock market credit by raising margin requirements from 50 to 75 per cent.

The System's authority to regulate consumer credit had been restored in the Defense Production Act of 1950, and the System was also given new responsibility for regulating credit (not guaranteed or insured by the Government) for most types of new

construction. There is a special need for consumer and real estate credit regulations during a period of war or partial mobilization, for they not only limit credit in particular strategic areas and thus help to curb spending in those sectors of the economy, but they also tend to free labor and materials needed for defense purposes. Regulations on consumer credit helped to dampen the demand for consumers' durable goods in 1951. Outstanding consumer instalment credit showed practically no net change during the year, in contrast with an average annual increase of more than $2 billion in the preceding four years. In renewing the Defense Production Act during the summer, however, Congress provided that the regulations could not be more restrictive than certain specified down payment and maturity provisions provided in the Act. This, of course, necessitated some relaxation of the regulation, the terms becoming effective at the end of July. Perhaps partly for this reason, the volume of instalment credit rose slightly between July and the end of the year.

A similar development occurred in the field of real estate credit. Regulation X had been issued in October of 1950, applying to credit in connection with new homes and additions and improvements to existing homes. At the same time, the Housing and Home Finance Agency had issued regulations restricting credit on houses financed with Government guarantee or insurance. In January of 1951, the regulations were extended to multi-family dwellings, and in February to non-residential construction. In each month of 1951 from February until August, the number of private housing starts fell below the corresponding month of the preceding year by progressively larger percentages. The volume of mortgage lending remained high, but in some cases not as high as in 1950. Although the large volume of outstanding commitments made the regulation necessarily slow in taking effect, Regulation X and its companion restrictions undoubtedly contributed to a lower volume of construction activity for non-defense purposes and a lower volume of mortgage lending. Congress, in fact, decided that the regulations had been too restrictive, for in the Defense Housing Act it, in effect, relaxed the regula-

tions by providing that terms could not be more restrictive than certain specified down-payment and maturity provisions. After the relaxation of real estate credit restrictions, housing starts still remained below the previous year but by a smaller percentage than was the case previously.

A new weapon in the fight against inflation was created during 1951 in the form of the Voluntary Credit Restraint Committee, authorized by the Defense Production Act of 1950. During the year, the national Committee issued six bulletins dealing with various phases of the program, including loans on real estate, loans secured by stocks and bonds, international financing, and postponement of state and local government borrowing.

It is impossible to measure accurately the effect of any one of these measures to restrain the expansion of money and credit because we never know what would have happened otherwise. The facts are that the privately held money supply increased during the year by $9 billion. Bank loans increased substantially, but less than in 1950. Loans of all member banks in the Third Federal Reserve District mounted rapidly in the first quarter of the year, but the upward trend was much slower in succeeding quarters. During the year as a whole, the increase was $276 million as against a record-breaking rise of $414 million in 1950. Business loans accounted for over 70 per cent of the increase but a large part of this, of course, was either directly or indirectly for defense work. At the weekly reporting banks in the Third Federal Reserve District, loans to finance defense or defense-supporting activities rose rather steadily from May to the end of the year. Lending for non-defense activity, on the other hand, remained low during May, June, and July and subsequently rose more rapidly than defense loans.

RESERVE BANK OPERATIONS

In the fall of 1951 many bank officers and bank directors in the Third Federal Reserve District had their first look at the Fed-

eral Reserve in action. Invitations were extended to all banks in the district to attend a series of "at home" meetings held here in the bank building. Our guests were given the opportunity to make a tour through the Bank, to meet members of the staff, and to observe the tremendous volume of work entailed in the extension of services to banks, the Government, and the public.

Nineteen fifty-one was a busy year at the "Fed." Expansion in the general level of business was reflected in a substantial rise in checks handled to a record-breaking 187 million units—an average of about three-quarters of a million every working day. A contributing factor was a heavier volume of checks of the Veterans Administration following the transfer of some of its offices to Philadelphia. Beginning in July, card-form postal money orders were added to the work; 10 million were handled over the last half of the year.

Active public demand for currency was reflected in the receipt and counting of 291 million pieces—another new high record. A decline in coin handled was due in part to shortages of supply, which necessitated informal rationing at times in the latter part of the year, and to the direct interchange of coin between commercial banks. Increasing use is being made of armored cars for shipments of cash; more than half of all money received from or shipped to country banks in the district is now being so handled.

The number of United States savings bonds issued by qualified agents and by this Bank increased in 1951, but dollar volume declined, chiefly because of a sharp drop in sales of Series F and G bonds. Redemptions were somewhat less than in 1950, despite maturing of some of the Series E bonds; many holders of these matured securities obviously are availing themselves of the privilege of holding them for another term of years. There was a moderate decline in the number of marketable Government securities handled in connection with subscriptions, exchanges and transfers, but redemptions increased. A decline in the number of Government coupons redeemed was due partly to refunding of

coupon-bearing securities into certificates on which interest is paid at maturity.

Pressure on bank reserves from time to time and the smaller incentive to adjust reserve positions through sales of Governments when prices of numerous issues are below par contributed to an increased use of the discount privilege. The number of banks accommodated increased from 103 to 148 and the volume of advances during the year from $195 million to a total of $1.5 billion. Inquiries were fewer with respect to working capital loans under Section 13b of the Federal Reserve Act; 20 loans were approved, all but two to facilitate defense production. The Bank received many more applications than in 1950 for the guarantee of loans under Regulation V, as was to be expected in view of the stepping up of defense activities.

The administration of Regulations W and X, relating to consumer and real estate credit, was consolidated in a new department — Selective Credit Regulation — as the year opened. The records show 10,700 registrants in this district under W and 4,100 under X. Much time has been devoted to explanation of the provisions of these regulations, but the major effort now is concerned with investigation and compliance.

High-level activity prevailed in many other departments of the Bank. Purchases and sales of securities for the account of member banks and their customers increased in number in 1951, and the volume of securities held for various purposes rose 2 per cent to more than $2½ billion. The number of receipts handled in connection with Federal taxes held close to 300,000 and the dollar amount increased by $233 million, or 35 per cent. Transfers of funds were heavier than in 1950, showing gains of one-third in number of transactions and in dollar amount.

Handling a tremendous volume of items and transactions, with substantial shifts in activity from day to day, every effort is put forth to achieve a maximum of efficiency and flexibility. Machines have been introduced wherever possible—in currency and coin counting, in the collection department where there has been

a shift from 24- to 32-pocket proof machines, in fiscal agency operations, in accounting, and in other divisions of the work. Punch-card equipment has been adapted to an increasing number of operations, necessitating an increase from 20 to 29 in the number of machines in the department where this type of work is concentrated. Maintenance of a well-balanced organization with adequate training for the supervisory staff and employees has been part of the work of promoting efficiency.

As a result of expanding operations and new activities, however, the number of full-time employees increased from 997 to 1,085. Increasing pressure on available space necessitated the renting of a floor in a nearby building, to which the Redemption and Consignment Divisions of the Savings Bond Department were transferred in June. To safeguard records in the event of bombing, a security file program was instituted with provision for the storage of records outside of the city.

It is the policy of the Bank that the member banks should be informed of the services available and the procedures to be followed in utilizing them, that banks and the public should be informed as far as possible of the reasons actuating Federal Reserve policy decisions, and that information on basic banking and business conditions should receive wide distribution. To this end, conferences with bankers are held "at home" or in the field; meetings of the Federal Reserve Relations Committee are held semi-annually and printed minutes are prepared; hundreds of visits are made to individual banks by field representatives; members of the staff participate in many meetings, often as the speakers; and a wealth of statistical and other material bearing on the economic situation and district activities is distributed.

Directors and officers

George W. Reily, completing 24 years as a Class A director representing Group 2 banks, and Albert G. Frost, a Class B director ending his second term as a representative of Group 3 banks,

decided not to stand for re-election. Wadsworth Cresse was elected to succeed Mr. Reily and Andrew Kaul, III, to succeed Mr. Frost, for terms of three years beginning January 1, 1952. In a special election, Charles E. Oakes was selected as a Class B director by Group 1 banks to complete the unexpired term of William J. Meinel, who was appointed by the Board of Governors of the Federeal Reserve System to fill a vacancy among the Class C directors.

Subsequently, the Board of Governors reappointed Mr. Meinel as a Class C director for a term of three years. Warren F. Whittier served as Chairman and C. Canby Balderston as Deputy Chairman of the Board of Directors during 1951, and they were reappointed by the Board of Governors for service during 1952.

Frederic A. Potts, President of the Philadelphia National Bank, completed his third year as the District's representative on the Federal Advisory Council. The Board of Directors of the Bank selected Geoffrey S. Smith, President of the Girard Trust Corn Exchange Bank, Philadelphia, to serve during 1952.

L. E. Donaldson, a Vice President who had been associated with this Bank since 1919, died in April. Effective May 1, Philip M. Poorman was made Vice President in charge of fiscal agency operations, relinquishing his former additional title of Cashier. Richard G. Wilgus, an Assistant Vice President, was named Cashier and given charge of the cash and collection departments in addition to other duties. Norman G. Dash, formerly General Auditor, was made an Assistant Vice President, and Herman B. Haffner succeeded him as General Auditor. As the year drew to a close, the following appointments were announced, effective January 1, 1952: George J. Lavin, an Assistant Cashier, became an Assistant Vice President; Harry W. Roeder was named an Assistant Cashier. The following individuals were promoted to official positions with professional titles: Evan B. Alderfer, Industrial Economist; Clay J. Anderson, Financial Economist; Hugh Barrie, Machine Methods Officer; and Fred A. Murray, Director of Plant.

DIRECTORS

as of April 1, 1952

Group	CLASS A	Term Expires December 31
1	ARCHIE D. SWIFT *Chairman of the Board, Central-Penn National Bank, Philadelphia, Pennsylvania*	1953
2	WADSWORTH CRESSE *Cashier and Director, The First National Bank and Trust Company, Woodbury, New Jersey*	1954
3	J. NYCE PATTERSON *President, The Watsontown National Bank, Watsontown, Pennsylvania*	1952
	CLASS B	
1	CHARLES E. OAKES *President and Director, Pennsylvania Power and Light Company, Allentown, Pennsylvania*	1952
2	WARREN C. NEWTON *President, O. A. Newton and Son Company, Bridgeville, Delaware*	1953
3	ANDREW KAUL, III *President and Director, Speer Carbon Company, St. Marys, Pennsylvania*	1954
	CLASS C	
	WARREN F. WHITTIER, *Chairman* *Agricultural Consultant, Chester Springs, Pennsylvania*	1952
	C. CANBY BALDERSTON, *Deputy Chairman* *Dean, Wharton School of Finance and Commerce, University of Pennsylvania, Philadelphia, Pennsylvania*	1953
	WILLIAM J. MEINEL *President and Chairman of the Board, Heintz Manufacturing Company, Philadelphia, Pennsylvania*	1954

OFFICERS

as of April 1, 1952

ALFRED H. WILLIAMS
President

W. J. DAVIS
First Vice President

KARL R. BOPP
Vice President

ROBERT N. HILKERT
Vice President

ERNEST C. HILL
Vice President

WILLIAM G. McCREEDY
Vice President and Secretary

PHILIP M. POORMAN
Vice President

RICHARD G. WILGUS
Cashier and Assistant Secretary

JAMES V. VERGARI
Counsel and Assistant Secretary

WALLACE M. CATANACH
Assistant Vice President

NORMAN G. DASH
Assistant Vice President

GEORGE J. LAVIN
Assistant Vice President

EDWARD A. AFF
Assistant Cashier

RALPH E. HAAS
Assistant Cashier

ROY HETHERINGTON
Assistant Cashier

HENRY J. NELSON
Assistant Cashier

HARRY W. ROEDER
Assistant Cashier

EVAN B. ALDERFER
Industrial Economist

CLAY J. ANDERSON
Financial Economist

HUGH BARRIE
Machine Methods Officer

FRED A. MURRAY
Director of Plant

HERMAN B. HAFFNER
General Auditor

APPENDIX

Statistical Tables

Statement of Condition

Federal Reserve Bank of Philadelphia

(000's omitted in dollar figures)	End of Year		
	1951	1950	1949
ASSETS			
Gold certificates	$1,145,047	$1,130,280	$1,208,508
Redemption fund—Fed. Res. notes	56,306	50,563	48,915
Total gold certificate reserves	$1,201,353	$1,180,843	$1,257,423
Other cash	17,513	19,125	14,489
Discounts and advances	3,440	3,640	7,255
Industrial loans	3,763	2,204	1,885
United States Government securities	1,485,205	1,378,198	1,286,381
Total loans and securities	$1,492,408	$1,384,042	$1,295,521
Due from foreign banks	2	2	3
Fed. Res. notes of other Fed. Res. Banks	11,682	11,382	10,369
Uncollected items	267,200	268,232	172,456
Bank premises	2,854	2,920	2,986
All other assets	8,298	7,759	6,493
Total assets	$3,001,310	$2,874,305	$2,759,740
LIABILITIES			
Federal Reserve notes	$1,769,888	$1,665,849	$1,632,188
Deposits:			
Member bank reserve accounts	912,100	822,286	788,335
United States Government	4,285	58,227	63,750
Foreign	41,119	71,016	60,848
Other deposits	7,411	5,142	5,131
Total deposits	$ 964,915	$ 956,671	$ 918,064
Deferred availability items	195,198	183,799	143,300
All other liabilities	660	239	557
Total liabilities	$2,930,661	$2,806,558	$2,694,109
CAPITAL ACCOUNTS			
Capital paid in	$ 16,765	$ 15,675	$ 15,084
Surplus—Section 7	41,493	39,710	38,205
Surplus—Section 13b	4,489	4,489	4,489
Reserves for contingencies	7,902	7,873	7,852
Total liabilities and capital accounts	$3,001,310	$2,874,305	$2,759,740
Ratio of gold certificate reserves to deposit and Federal Reserve note liabilities combined	43.9%	45.0%	49.3%
Commitments to make industrial advances	$1,319	$593	$689

Earnings and Expenses

Federal Reserve Bank of Philadelphia

(000's omitted)	1951	1950	1949
Earnings from:			
United States Government securities	$24,444	$18,142	$21,270
Other sources	373	184	241
Total earnings	$24,817	$18,326	$21,511
Expenses:			
Operating expenses*	4,858	4,252	4,159
Cost of Federal Reserve currency	695	439	458
Assessments for expenses of Board of Governors	322	272	260
Total net expenses	$ 5,875	$ 4,963	$ 4,877
Current net earnings	18,942	13,363	16,634
Additions to current net earnings:			
Profit on sales of U. S. Government securities (net)	0	2,630	2,272
All other	3	1	2
Total additions	$ 3	$ 2,631	$ 2,274
Deductions from current net earnings	114	—	179
Net additions to current net earnings	—$ 111†	$ 2,631	$ 2,095
Transferred to reserves for contingencies	29	23	2,821
Paid to U. S. Treasury:			
Interest on Federal Reserve notes	16,042	13,539	13,511
Net earnings after reserves and payments to U. S. Treasury	$ 2,760	$ 2,432	$ 2,397
Dividends paid	978	927	896
Transferred to surplus (Section 7)	$ 1,782	$ 1,505	$ 1,501

*After deducting reimbursements received for certain fiscal agency and other expenses.
†Net deduction.

Volume of Operations

Federal Reserve Bank of Philadelphia

	1951	1950	1949
Number of pieces (000's omitted)			
Collections:			
Ordinary checks	161,500	157,300	160,600
Government checks (paper and card)	26,100	23,300	22,500
Post Office money orders (card)	10,100*	—	—
Non-cash items	800	700	700
Currency counted	290,800	277,900	270,300
Coins counted	479,700	541,000	431,600
Discounts and advances to member banks	1	1	1
Transfers of funds	70	53	46
Fiscal agency activities:			
Marketable securities delivered or redeemed	229	200	148
Savings bond transactions (Federal Reserve Bank and agents)			
Issues (including re-issues)	5,766	5,428	5,336
Redemptions	5,902	5,964	6,050
Coupons redeemed (Government and agencies)	1,032	1,106	1,250
Dollar amounts (000,000's omitted)			
Collections:			
Ordinary checks	$46,718	$42,416	$37,186
Government checks (paper and card)	3,640	2,950	2,771
Post Office money orders (card)	145*	—	—
Non-cash items	167	163	140
Currency counted	1,859	1,708	1,671
Coins counted	49	52	42
Discounts and advances to member banks	1,537	195	254
Transfers of funds	28,371	21,157	17,706
Fiscal agency activities:			
Marketable securities delivered or redeemed	8,968	9,613	7,215
Savings bond transactions (Federal Reserve Bank and agents)			
Issues (including re-issues)	387†	522†	483†
Redemptions	389†	396†	366†
Coupons redeemed (Government and agencies)	90	113	122

*New activity, beginning July 1952.
†Par values.

Member Banks

Third Federal Reserve District

Statement of Condition

(000,000's omitted in dollar figures)	Dec. 31, 1951†	Change during 1951	Change during 1950	Percent distribution Dec. 31, 1951	Percent distribution Dec. 30, 1950
Assets					
Loans and discounts	$2,484	+$ 276	+$ 414	31.1%	28.2%
U. S. Government securities	2,762	− 265	− 131	34.5	38.7
Other securities	791	+ 39	+ 72	9.9	9.6
Cash assets	1,867	+ 127	+ 163	23.3	22.2
Fixed assets	71	+ 3	...	.9	.9
Other assets	25	− 2	...	.3	.4
Total	$8,000	+$ 178	+$ 518	100.0%	100.0%
Liabilities and capital accounts					
Deposits:					
Individuals, partnerships, and corporations—					
Demand	$4,337	+$ 109	+$ 418	54.3%	54.0%
Time	1,866	+ 31	+ 18	23.3	23.5
U. S. Government	151	− 13	− 11	1.9	2.1
Bank	499	+ 22	+ 53	6.2	6.1
Other	395	− 5	+ 7	4.9	5.1
Total deposits	$7,248	+$ 144	+$ 485	90.6%	90.8%
Other liabilities	53	+ 2	+ 8	.7	.7
Capital accounts	699	+ 32	+ 25	8.7	8.5
Total	$8,000	+$ 178	+$ 518	100.0%	100.0%

Earnings, Expenses, and Profits

(Millions of dollars)	1951†	1950	1949	1948
Earnings				
On U. S. Government securities	50.1	53.7	54.1	54.3
On other securities	16.3	16.3	15.0	14.6
On loans	106.3	88.0	76.3	68.5
Other earnings	35.6	33.8	31.1	29.8
Total earnings	208.3	191.8	176.5	167.2
Current expenses				
Salaries and wages	62.6	56.5	51.7	49.0
Interest on deposits	17.1	16.6	16.4	16.2
Other expenses	48.7	46.1	43.6	41.4
Total current expenses	128.4	119.2	111.7	106.6
Net current earnings before income taxes	79.9	72.6	64.8	60.6
Net recoveries and profits on sales (+) or charge-offs (−)	−10.4*	− 6.6*	− 7.4*	− 9.1*
Taxes on net income	23.4	17.5	15.5	13.9
Net profits	46.1	48.5	41.9	37.6
Cash dividends declared	23.6	23.0	21.5	20.3

†Preliminary.

*Charge-offs include substantial transfers to reserves for bad debt losses on loans.

Employment and Earnings—Pennsylvania Factory Workers

	All Manufacturing		Durable Goods		Nondurable Goods	
	Employment*	Weekly earnings	Employment*	Weekly earnings	Employment*	Weekly earnings
Average:						
1939	100	$22.42	100	$25.76	100	$19.16
1940	110	24.27	119	28.19	101	19.77
1941	134	29.25	158	34.31	111	22.23
1942	147	35.45	184	41.57	111	25.58
1943	156	41.48	203	47.82	110	30.03
1944	153	44.57	198	51.14	108	32.80
1945	138	43.29	171	48.89	106	34.47
1946	133	42.21	151	45.63	115	37.86
1947	143	48.04	166	52.18	120	42.47
1948	143	52.84	166	57.59	120	46.42
1949	127	52.94	143	57.63	112	47.12
1950	131	57.01	150	62.15	113	50.29
1951	139	63.74	168	70.22	111	54.10
1951: January	140	62.77	165	68.94	115	54.10
February	141	62.28	166	68.10	116	54.12
March	142	63.52	169	69.65	116	54.78
April	142	63.40	170	69.67	115	54.29
May	140	63.36	170	70.01	111	53.43
June	140	63.74	170	70.28	110	53.85
July	137	63.47	167	69.75	108	53.86
August	138	63.28	168	69.88	109	53.25
September	138	64.65	168	71.59	109	54.24
October	138	64.13	168	70.93	108	53.55
November	137	64.49	168	71.16	106	54.44
December	137	65.79	169	72.62	107	55.25

*1939 = 100.

Income and Prices

Factory Payrolls: 1939 = 100 Farm Income— Prices: 1935-1939 = 100	Factory Payrolls Pennsylvania			Income from farm marketings N. J., Pa., and Del.*	Consumer prices in Phila.†
	Total	Durable goods	Consumer goods		
Average:					
1939	100	100	100	99	99
1940	119	131	104	104	99
1941	175	210	129	122	104
1942	232	297	148	155	115
1943	288	377	172	197	123
1944	303	394	185	199	124
1945	266	324	191	231	127
1946	250	267	228	268	138
1947	306	336	267	299	158
1948	336	372	290	321	171
1949	300	320	275	292	169
1950	334	362	298	290	170
1951	395	459	313	345	186
1951: January	391	441	325	303	181
February	392	440	328	277	186
March	402	457	331	322	185
April	402	460	326	314	185
May	396	462	310	341	186
June	397	465	308	361	186
July	388	453	303	406	185
August	389	455	302	412	185
September	398	466	309	382	186
October	393	463	302	377	187
November	394	465	301	334	190
December	403	476	307	327	190

Sources: *U. S. Dept. of Agriculture. †U. S. Bureau of Labor Statistics.

Department Store Sales

1947-1949 = 100 (Adjusted for seasonal variation)	Third District	Phila.	Lancaster	Reading	Trenton	Wilkes-Barre	York
1939	38	41	36	36	32	32	36
1940	41	44	37	39	35	32	39
1941	48	51	45	47	40	38	45
1942	53	57	52	53	44	41	53
1943	56	60	57	58	50	46	60
1944	62	65	62	62	55	56	68
1945	68	70	67	65	63	65	74
1946	87	88	87	88	83	88	94
1947	96	98	97	97	91	97	95
1948	104	104	103	104	104	105	105
1949	100	99	100	99	105	98	100
1950	106	104	108	102	116	101	106
1951	109	106	110	104	121	100	114
1951: January	126	124	128	121	135	118	129
February	120	114	120	112	124	113	120
March	109	104	119	97	123	101	118
April	105	103	98	104	120	97	100
May	104	100	106	98	125	95	118
June	103	102	109	103	117	93	110
July	105	104	100	98	114	94	105
August	111	108	110	100	117	98	119
September	107	104	104	104	124	95	113
October	109	105	99	103	114	97	107
November	110	107	121	95	122	102	113
December	105	101	109	112	123	102	114

Department Store Inventories

1939	41	43	44	38	32	32	43
1940	42	44	46	41	33	32	45
1941	51	52	52	51	47	39	55
1942	70	78	64	69	61	50	71
1943	60	65	55	57	54	46	65
1944	62	68	58	66	56	50	66
1945	64	69	56	69	56	52	64
1946	81	87	78	83	69	70	85
1947	93	98	96	92	84	83	91
1948	107	105	105	108	112	116	108
1949	99	97	99	100	105	100	101
1950	108	107	108	106	105	110	112
1951	127	125	124	131	127	126	128
1951: January	124	123	119	120	125	133	122
February	127	129	121	126	127	132	131
March	132	136	127	134	126	144	134
April	133	133	134	140	131	140	138
May	133	129	127	138	137	133	137
June	132	134	127	135	129	135	131
July	132	132	129	145	129	135	135
August	129	129	126	144	128	125	131
September	125	121	124	133	132	117	128
October	117	113	116	122	116	108	118
November	115	113	113	120	118	104	117
December	120	116	123	122	125	112	122