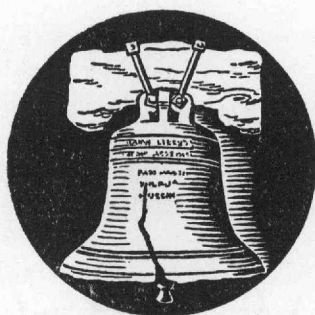


THE

# BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



## OPERATION BOOT STRAP

*... how Third District communities are using their own capital to build industry*

*Many towns in the Third District are helping themselves to a brighter future. A number are doing this through industrial development corporations which raise money and help industry acquire new plants. Towns in the anthracite area are especially active in enlarging and diversifying their industrial structure.*

*This issue presents:  
the reasons for industrial development activity,  
details about what towns are doing,  
some pros and cons on the question  
of giving subsidies to attract industry,  
and a discussion of how these activities  
help to meet the shortage of capital.*

## THE MONTH'S STATISTICS

*Strikes interrupted the industrial recovery begun in September, but nondurable lines made further employment gains and construction activity increased. Bank deposits stayed close to 1949 peaks.*

## OPERATION BOOT STRAP

### *How Third District Communities Are Using Their Own Capital to Build Industry*

"God helps them who help themselves" is a proverb Third District communities are putting to practical use. Many towns suffering from unemployment and instability have taken their future into their own hands. A number have created "industrial development corporations" to raise money for use in helping industry acquire new plants. No two communities have exactly the same problems; no two communities are doing exactly the same things.

It is important for communities to solve their own problems. But experience has shown that it is not enough to "go out and get an industry." The community must undertake an intensive and critical self-analysis, must know what it needs, and how to get it. Wherever this is done community development programs can be a vital force in promoting both economic stability and a high standard of living.

### WHY INDUSTRIAL DEVELOPMENT ACTIVITY?

Behind all of this activity is economic change of one kind or another. If the change is the kind that hurts a community and if the community does not have a diversified industrial structure that can absorb the shock, something must be done.

One of the reasons our American economy turns out more goods and services than any other is that it offers maximum incentives to discover new and better things. This has meant a high and rising standard of living, but it has also meant change and instability. New and growing industries often have meant declining old ones. Some areas have expanded, others have contracted. And, in addition, the whole economy has been subjected to alternating extremes of prosperity and depression.

An example of economic change, the basic long-run type, which has meant instability for an important part of the Third District's economy is the decline in the anthracite industry. The exhaustion of coal deposits, mechanization of mines, and competition from other fuels have posed an increasingly serious problem to people in

the anthracite area. All areas and all sectors of the economy have felt the ups and downs of the business cycle, but some more than others. Variations from season to season have been another type of economic change which has presented problems to some communities.

These are the basic reasons for industrial development activities. Some communities have been more vulnerable than others because their industrial structure has not been diversified. Specialization—the opposite of diversification—has been a basic factor in our rapid growth, but it has also meant greater vulnerability to change. Communities which are most active in promoting industrial development are those which need to diversify their industrial structure.

Diversification may mean many different things, depending pretty much on what we are trying to accomplish by it. We sometimes think of diversification as a way of becoming self-sufficient. With minor exceptions, the United States has a diversified economy in this sense. So, if the industrial distribution in the United States is used for comparison, we can get some indication of how diversified, relatively, the industrial counties in the Third District are.\* As the map indicates, by this measure the most highly diversified area in the Third District surrounds Philadelphia where metals and textiles are particularly important. The least diversified areas are the anthracite and bituminous coal mining regions; Blair County, Pennsylvania, where railroad repair shops are a major source of employment; and Gloucester County, New Jersey, where oil refining is dominant.

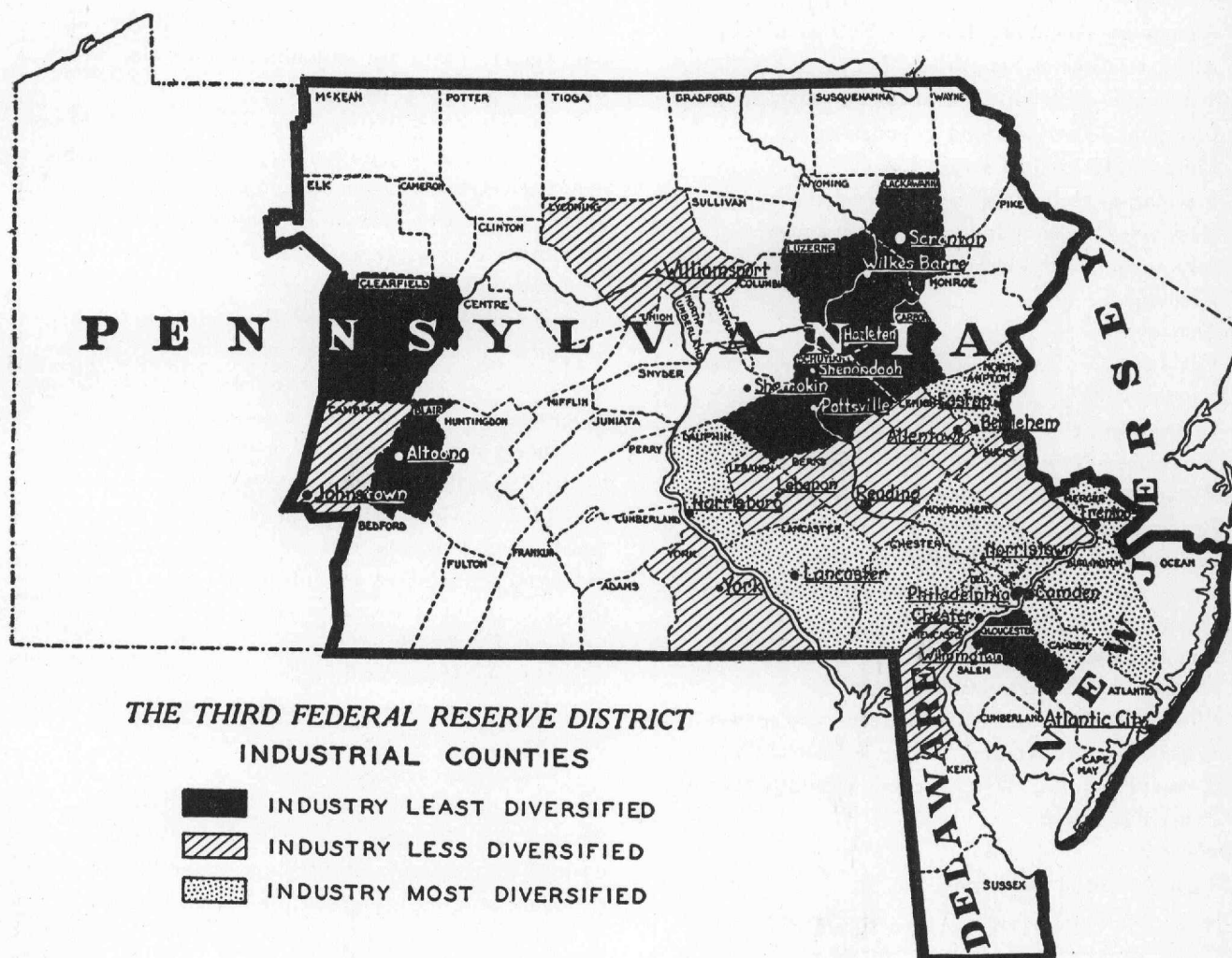
We often think of diversification also as a way of insulating an area against adverse economic change—simply not putting all of our eggs in one basket. The object, of course, is to avoid total collapse of the economy and to be able to recover sooner if one industry declines. All industries are affected by the swings of the business cycle,

\* A percentage distribution of employment among eleven major industry groups was calculated for the United States and for each industrial county in the Third District. The percentage for each industry group for the United States was subtracted from the percentage for each group for a given county. The resulting deviations were totaled disregarding signs, producing a rough indication of the relative diversification of the county's industrial structure.

so diversification cannot insulate an area completely against such changes. But because the durable goods industries usually feel the widest swings from prosperity to depression, the community producing mostly nondurable goods will tend to be a more stable one. Diversification may even minimize the impact of seasonal fluctuations by spreading the work more evenly during the year.

### WHAT ARE THIRD DISTRICT COMMUNITIES DOING?

While no two communities are doing exactly the same things, certain patterns are apparent. Most towns are trying to solve their problems by bringing in industry. There is nothing new in this, of course. As far back as the last



Diversification is sometimes used to mean other things, such as an industrial structure which fits in with the type of labor available. Towns in the anthracite area, for example, generally look for industries employing men. Whatever diversification may mean, this is what most communities are striving for when they promote industrial development. They are apt to say they want a "balanced economy."

century, towns throughout the Middle West, for example, were actively engaged in attracting railroads and industries. Many towns have had industrial development funds for years. One of the oldest is the Scranton Industrial Development Company, which was formed in 1914. During the depression, other communities became active, often trying to outbid one another for industry. The war brought many changes, but seemed to intensify rather



than alleviate the problem of diversification. Toward the end of the war and during the early post-war years, cities were planning how to hold the industries which they had acquired during the war, or how to attract new industries to help ease the transition to peace-time activities. Industrial development activity spurted.

### TOWNS WITH CORPORATIONS

#### *Pennsylvania*

Allentown—Allentown Business Extension Corp.  
 Altoona—Altoona Enterprises, Inc.  
 Bellefonte—Bellefonte Industrial Development Corp.  
 Clearfield—The Clearfield Foundation, Inc.  
 Eldred—Eldred Real Estate Corp.  
 Freeland—Freeland Industrial Development Corp.  
 Hazleton—Hazleton Industrial Development Corp.  
 Johnstown—Johnstown Industrial Commission, Inc.  
 Lansford  
 Tamaqua  
 Coaldale  
 Summit Hill  
 Nesquehoning  
 Nanticoke—Nanticoke Industrial Commission  
 Pottsville—Pottsville Industries, Inc.  
 Reading—Greater Reading Development Fund  
 Scranton—Scranton Lackawanna Industrial Building Co., Scranton Industrial Development Co., Scranton Plan Corp.  
 Shamokin and nine surrounding communities—Shamokin Area Industrial Corp.  
 Shenandoah—Shenandoah Chamber of Progress  
 Wilkes-Barre—Wyoming Valley Industrial Development Fund, Inc., Wyoming Valley Industrial Building Fund, Inc.

#### *Delaware*

Laurel—Laurel Industries, Inc.

### TOWNS WITH OTHER ARRANGEMENTS TO PROVIDE FOR ERECTION OF INDUSTRIAL BUILDINGS

<i>Pennsylvania</i>	Tyrone
Bangor	Williamsport
Chambersburg	York
Downingtown	<i>Delaware</i>
Dushore	Dover
Lebanon	Lewes
Lock Haven	Middletown
Pittston	Smyrna

The most highly developed form appears in the industrial development corporation or foundations. In a study of such organizations, the Tulsa Chamber of Commerce has defined them as corporations "provided with funds by public subscription or donation, created for the purpose of encouraging the industrial development of the community by providing services of a financial nature to new or established industry." In its survey conducted in early 1949, the Tulsa Chamber obtained information about 72 active foundations in cities of all sizes all over the country. There are undoubtedly more for which no information is available.

In the Third Federal Reserve District at least 17 communities have a corporation to provide financial aid to industries. About as many towns have some other method of providing for the financing of industrial buildings, and still other communities are considering the formation of a corporation. The accompanying list has been derived from several sources, including the Pennsylvania Department of Commerce and the Pennsylvania State Chamber of Commerce. It may not be complete, but it is the most comprehensive we have been able to obtain.

A survey made by this Bank and information provided by the Pennsylvania State Chamber of Commerce and the local Chambers of Commerce throughout the District show that the aggressiveness with which a community pursues industrial development depends on how great the need is; things are being done where people feel something *must* be done. The following examples are given to illustrate different approaches to different problems. They are not intended to cover the entire field, but serve only as case histories.

One type of community is that in which industry is relatively diversified. Examples of this type are York, Reading, and Williamsport. In York, the objective of industrial development activity is to maintain a balanced economy; industrial prospects are screened very carefully. Since there is no pressing need for new industry, York has no industrial development fund or corporation and is opposed to giving free financial aid. The community itself does not finance industry. Instead, the Chamber of Commerce acts as middleman between the prospective concern and financing interests. If possible, the Chamber will make arrangements for an insurance company to build a plant for the concern and then lease it to the industry for a number of years. In the case of smaller companies, it may be necessary to work out other financial arrangements.



Reading has had, since 1947, a fund which it calls "The Greater Reading Development Fund," set up to do three things: (1) aid industrial expansion in Reading and Berks County; (2) sponsor adequate housing, transportation, and cultural facilities; and (3) plan the development of the City of Reading and its environs. The fund was obtained by issuing 30-year 2 per cent debentures. Like York, Reading is opposed to giving free financial aid to industries. But with that exception, the fund can be used in a wide variety of ways—investment in real estate, mortgages, bonds, stocks, promissory notes, and open accounts. Nevertheless, the fund has not yet been used. One reason, perhaps, is that there is no really urgent need for new industry. There may be a tendency, therefore, to seek only top-grade concerns. In most cases, such concerns do not need community financing. This raises a question as to how much risk an industrial development corporation should assume, and if the need for additional industry is not really pressing, whether a fund is needed.

In past years, Williamsport has offered grants to attract new industries. Recently, however, consideration has been given to raising funds and setting up an industrial development corporation similar to those in other areas.

In contrast to York, Reading, and Williamsport, Johnstown and Altoona are essentially one-industry towns. In Johnstown, steel mills employ a large proportion of the labor force. Bituminous coal accounts for another big share of the county's employed. While both industries are important to our economy, they have been subject in the past to sharp ups and downs during the business cycle, and in recent years to uncertain labor conditions. At one time, Johnstown, like many other communities, made payments of one sort or another to attract industry. Since 1945, however, it has carried on its industrial development activities through the Johnstown Industrial Commission. This was formed to obtain a branch of the Sylvania Electric Company during the war. Using contributions of businessmen and citizens, the Commission bought property and leased it to the industry. Sylvania closed down its branch after the war but the Commission has been willing to finance other new industries. Negotiations have been carried on with several concerns, but in every case, before the deal was completed, private investors became interested and took over the financing. Here is an interesting case where a small industrial fund has helped to stimulate the flow of private financing.

Altoona is even more of a one-industry town than Johnstown. Here the Pennsylvania Railroad repair shops employ a large proportion of the community's labor force. The community is vulnerable not only because of this extreme concentration, but by the fact that the trend toward Diesel locomotives may mean a general decline in the need for repair services. In addition, the town needs industries to employ female labor. Partly for this reason, Altoona Enterprises, Inc., was formed in 1946. Funds have been raised by donations, which go into the revolving fund of the Chamber of Commerce, and by the sale of debentures. Using these funds, Altoona Enterprises will pay 15 per cent of the cost of a plant. The industry itself pays 10 per cent of the cost, and the remaining 75 per cent is financed by first mortgage with an insurance company. The plant is amortized over a period of 11 years, during which time the holders of debentures are paid interest at the rate of  $4\frac{1}{2}$  per cent. Each bondholder is permitted to buy one share of \$1 par stock for every \$100 of bonds owned. This stock does not pay dividends but allows the holder to participate in control. Since its formation, Altoona Enterprises has brought in two industries employing 700 people.

While many communities in many parts of the District are promoting industrial development, towns in the anthracite area have been the most active. Scranton is the largest city in the area. It has taken perhaps the most vigorous and successful steps of any anthracite community to compensate for the decline in the anthracite industry and to diversify its industrial structure. Its experience in industrial development goes back for many years. The Scranton Industrial Development Company has been in existence since 1914, giving financial assistance to established industries. Using \$250,000 provided by the sale of stock, SIDCO makes non-bankable character loans to existing industries. The loans usually run from three to five years and bear rates comparable to those prevailing in the market. More recently, SIDCO has bought a number of vacant buildings and sold them to industries and has built three new plants, selling one and leasing the other two. The original capital investment of SIDCO is still intact, and dividends were paid out recently for the first time. This organization appears to be unique in the Third Federal Reserve District both in its lending activities and in the fact that it has declared dividends.

The Scranton Lackawanna Industrial Building Company is more typical of the kind of organization other

communities in the anthracite area have set up. SLIBCO was formed in 1946 to finance the construction of buildings for new and established industries in Scranton and Lackawanna County. Funds were obtained by issuing \$1,400,000 of 15-year 4 per cent debentures. The remaining cost of the plants has been met by first mortgages held by a Scranton bank pool. The buildings are leased to industries on a long-term basis with an option to purchase. Mortgages and debentures are being paid off from annual rentals. SLIBCO so far has built 11 plants, employing over 1,500 people.

In 1946, Scranton also formed the Scranton Plan Corporation solely for the purpose of buying from the War Assets Administration land, building, and facilities occupied during the war by the Murray Corporation of America. Fifteen-year 4 per cent first mortgage bonds of \$1,200,000 were sold to the citizens of the community. The plant has been leased to the Murray Corporation on a five-year basis, with a five-year renewal clause and an option to purchase at any time.

Wilkes-Barre has a plan somewhat similar to Scranton's. The Wyoming Valley Industrial Development Fund, Inc., was established in 1939 to secure new industries, promote the growth of existing local concerns, and in general help develop more jobs and larger pay rolls. Its functions were broadened a year later by the creation of a wholly owned subsidiary, the Wyoming Valley Industrial Building Fund, to buy, lease, mortgage, manage, and sell land and buildings for industrial purposes. Over \$300,000 was raised by outright subscriptions from individuals and businesses. Second mortgage bonds were also issued to get money for particular projects. In the past five years, funds have been supplied to help three companies buy vacant buildings and to assist two others to build new facilities. The local banks have helped in several cases by lending on first mortgages as much as 60 per cent of the cost. The five industries helped since the war now employ 1,850 people.

Similarly, Pittston has sold \$170,000 of 4 per cent debentures, using this money and that obtained by a first mortgage with local banks to finance the construction of four new plants now employing about 700 people. In fact, Pittston was the first community in the anthracite area to finance a plant, erecting a building for the American Chain and Cable Company in 1945.

Pottsville Industries, Inc., was established a number of years ago to help build a plant for a concern moving into Pottsville. Over 9,000 shares of stock were sold to

citizens and businesses of the community. With the help of the local banks, Pottsville Industries not only built the original plant but recently completed an addition to the plant. The Chamber of Commerce is also constantly carrying on other developmental activities which are beyond the scope of this article.

Shenandoah has raised over \$500,000 by public subscription and is now completing the construction of a building to be occupied by an industry expecting to employ several hundreds of people, 80 per cent of whom will be men. The occupant of the building will amortize a mortgage over a period of twenty years.

In all of the cases illustrated thus far, the communities merely help industry pay for a plant over a period of years. Annual rentals include both interest and amortization of the plant. Some other communities in the anthracite area, however, have contributed part of the cost of buildings.

Hazleton, for example, is the envy of the entire anthracite area for the concerted effort of its citizens in contributing toward a new plant for the Electric Auto-Lite Company. Hazleton, facing an early depletion of its coal resources, raised some years ago an industrial development fund which it used to make mortgage loans, advances on machinery and, in a few cases, outright contributions to industries. The Hazleton Industrial Development Corporation was later established to help finance the construction of the Auto-Lite plant. Contributions of over \$600,000 were obtained from businessmen, employees, and others in less than three weeks. Five hundred thousand dollars of this was used for the new building, together with \$700,000 in the form of a 2 per cent mortgage supplied by six local banks. The rest of the cost—\$2,300,000—was borne by the Auto-Lite Company. The company agreed to pay \$90,000 to Hazleton annually for ten years, at the end of which time the plant reverts to the company. While these payments are more than sufficient to pay off the mortgage they will not be enough to include a normal rate of interest or amortization of the plant.

In the case of Lansford the procedure is somewhat different. The Panther Valley Industrial Association, Inc., which was organized in 1944, is unique in that it comprises a group of five communities. The Association has raised over \$500,000 from donations, partly through pay roll deduction, and has used over \$400,000 of this to build a plant for the Bundy Tubing Company. The Association agreed to pay 44 per cent and Bundy 56 per



cent of the construction cost. Bundy owns the building and makes no annual payments to the Association. It agrees, however, to employ 700 men at capacity operation, distributing the jobs equally among the five participating towns.

Another group of communities consists of those which have raised money and formed a corporation but have been unable, as yet, to secure a new industry.

Shamokin, for example, has raised \$340,000 through donations. This money the Shamokin Area Industrial Corporation is prepared to use in a number of ways: (1) to erect a building to be amortized by the industry over a period of years; (2) to contribute the site and pay 50 per cent of the cost of a building, half of which is amortized over a period of years; (3) to pay the excess in construction cost over either \$4 a square foot or the pre-war cost of construction; (4) to give \$2 a square foot toward construction of a building; (5) to contribute the down payment and the site for the building.

Freeland is another example of a community with funds ready but no industry as yet. Getting started relatively late in the game, Freeland organized last spring the Industrial Development Corporation. The people of the community contributed \$89,000 in cash, which the Corporation is ready to lend to industry or use in buying, building, selling, or leasing land and industrial buildings. It is also willing to provide free land and give industries the free use of buildings if necessary.

## WHAT ABOUT SUBSIDIES?

Depending on how urgently they need industry, communities in the Third District have varying attitudes toward giving financial or other aid without a normal financial repayment. Where industry is well diversified, opinion is against concessions. In the first place there is no necessity for it, and in the second place industries already in the community dislike such preferential treatment. Some communities used to give subsidies of one sort or another—outright cash payments, paying the industry's moving cost, and the like—but are now opposed to the practice. This may be because they are better off industrially than they once were, and their own manufacturers now object. Even in areas where industry is relatively less diversified, opinions are likely to differ. Communities which would not give cash payments or contribute part of the cost of a plant will arrange for lower assessments for property taxation. Others may be opposed to concessions in princi-

ple but when confronted with an imminent problem of attracting industry may find the competition so strong that they become willing to make a financial contribution.

A manual published by the Pennsylvania State Chamber of Commerce in cooperation with the Pennsylvania Department of Commerce gives this advice: "Certain towns and communities, because of certain deficiencies such as geographic location, lack of industrial experience, inadequate industrial real estate, bad labor history, etc., are given little or no consideration by industries seeking new locations because such conditions tend to raise locating and operating costs to a prohibitive high level. Therefore, when dealing with financially sound industries, under such conditions, certain towns and communities can justify additional and unusual requirements of any given new enterprise, providing that such necessary community investment is considered an investment in the economic future of the community or area. Although it is admitted that very occasionally there are justifiable cases of this last-named type, communities should offer gifts only as a last resort. When it is done, most careful consideration should be given (a) to the integrity of the firm, and (b) to the ability of the community to remove the local obstacles to profitable local operation."

Whether or not subsidies are justified must seem like an academic question to communities facing the bleak future of declining incomes and population. The following paragraphs give some of the pros and cons; they do not attempt to say whether subsidies are good or bad.

A *laissez faire* economy—a "hands-off" economy—is supposed to result automatically in the best location of industry. Left to its own devices, so the theory goes, industry will naturally seek the best location from the point of view of lowest costs and maximum profits. It will weigh all of the important factors—things like the location of production materials, availability of labor, sites, industrial fuel, transportation and distribution facilities, power, water, nearness and extent of the market, the nature of living conditions—and come up with the most economical location for its operations. Because it is most economical for the industry, it will be most economical for all concerned. A "problem area," therefore, should not be bolstered by subsidies or any other means. The very fact that it is a problem area indicates that it is uneconomic.

Unfortunately, the answer is not so simple as that. Industries sometimes make mistakes in picking their locations. And since competition is not perfect, inefficient



firms often stay in operation. The process of trial and error means a rapid turnover in industry—new concerns being started, others folding up—and thus a tendency toward under-utilization of resources. Finally, labor does not move as readily as we might like. People may not know of opportunities elsewhere, they may not have the skills necessary to change jobs, or they may simply prefer to stick with the home town even though it is going down hill.

Many things are being done to correct these defects in the economic machine. Industries and communities alike are analyzing what they have and what they need, and are making their findings available. Wider knowledge of employment opportunities also makes it easier for labor to move from place to place, and better education makes them better able to take advantage of these opportunities. The community can help along these lines to make the economy work better.

When a community gives industry a concession, however, it does more than this. It abandons a "hands-off" policy. In the short run it may find itself competing with nearby communities for bigger and better concessions. In the longer run, it may contribute to the uneconomic location of industry. A subsidy may be justified on a temporary basis if it puts an area on a competitive basis. This is the same argument some people give for a tariff to protect "infant industries." Whether or not an area has what it takes to be competitive, however, is a question that needs intensive analysis. If it is found that an area can compete, a gift or concession might be considered an investment in the community's economic future.

Even if an area cannot be competitive, there are arguments for giving subsidies to industry. A subsidy involves some cost. Often it is a tangible cost, such as a cash contribution by the citizens. Sometimes it is less tangible, but there is always a cost. The question is whether the cost of the subsidy is less than the cost of allowing an area to collapse. In a completely free and competitive economy, for example, people would be forced to move out of a depressed area. But this in itself involves some cost, both the costs of moving and setting up new facilities somewhere else, and the social costs of breaking up the community. There are some costs an accountant cannot measure. Those who move away are usually the most aggressive, leaving the community weaker than it was before. And when people leave a community it has a multiplying effect. When employed miners, for example, move out this means a smaller demand for goods sold in local stores,

which in turn forces some retailers to close down and move out too—and so the process continues. If the area collapses, there may be a tremendous waste of capital already invested in the area. There is even a cost if nothing is done; it shows up in lower per capita incomes.

Since communities have decided that the answer is to bring industry in, with or without subsidies, they should consider bringing in industries which will give them a diversified economy. Greater diversification *may* entail some loss in efficiency but should result in more stability. It may be that a community must strike a mean between two desirable objectives: on the one hand, growth which comes from efficiency and specialization; and, on the other hand, stability which comes from diversification. It is quite likely, however, that there is a good deal of room for greater diversification in many cases without impairing efficiency.

People who are engaged in industrial development activities stress again and again the need for community self-analysis. If a community puts itself above the market place in deciding the location of industry, it should make its decisions according to rational economic principles. Industry plans its location carefully; if communities do not plan their development activities equally carefully, they may get the worst of the bargain.

## A SOLUTION TO THE CAPITAL SHORTAGE?

Many people feel that one of the biggest financial problems of the post-war period has been a shortage of venture capital. They give several reasons for this shortage; heavy taxes, growing institutionalization of savings, and a growing search for security are some of the more outstanding. They often have in mind the type of concerns usually financed by the various community development programs—those not prominent enough to enjoy easy access to private financing facilities. The way most communities are meeting this situation is through long-term lease. The industry then can avoid tying up its cash in plant and according to present accounting procedures need not show a debt on its balance sheet.

How much industrial development corporations are contributing to a solution of the venture capital problem depends a good deal on what is meant by the term "capital shortage." As some use the term they think merely of long-term funds put into fixed assets. In this sense, the industrial development corporations are helping to solve the shortage, for with a few exceptions their

funds are put to long-term use in fixed assets.

Many people refer to a shortage of "equity capital." Strictly speaking, equity means ownership and implies participation in both profits and losses. The industrial development corporations are not providing ownership funds, and in the rare case where they have been approached by an industry to do so, usually have found that the industry's financial structure is too unsound to warrant it. Moreover, most communities hesitate to involve themselves in ownership problems. Funds supplied by the communities are more in the nature of "debt money," since they entail fixed payments out of income, than they are "ownership money."

From the industry's point of view, one main advantage of renting a plant under long-term lease rather than borrowing to build a plant is a lower tax burden. If the industry borrows to build its own plant, it can deduct from earnings the interest payments and normal depreciation. If it leases a building from a community corporation, it can deduct the annual rental, a figure ordinarily larger than normal interest and amortization. Some industries and communities may find that their agreements mean more taxes than they expected, for it is not yet clear whether those lease agreements which have repurchase options will be considered for tax purposes the same as an ordinary loan with title held as security. A more important point for the industry to consider, however, is that a long-term lease can be just as much of a burden as a long-term mortgage.

A third term often used is "risk capital." In many cases, this means the same thing as equity capital but may also mean merely an investment of any kind in a risky enterprise. In this sense, most of the industrial development corporations are taking risks. The towns needing industry badly, of course, are particularly willing to take risks. But they are taking a different kind of risk than

individuals do when they invest. Communities experience a monetary gain only indirectly through increased employment. They merely try to avoid a monetary loss so that they can keep their fund intact to bring in other industry. The risk which they are taking is more of a community risk. This is particularly the case where funds are given away. The risk is in choosing one or more industries and relying on them to solve the community's economic problem.

## CONCLUSIONS

Industrial development activity in the Third Federal Reserve District shows more than anything else that communities are doing something about their own future. Many of them are using their own capital to help finance the construction of plants. These funds may not be equity or ownership capital but they do contribute in a small way to the solution of whatever shortage of long-term financing there may be. And they do show that the spirit of venture is not absent from the economic scene. What communities are doing is far preferable to an appeal to the government for help.

The near-term outlook for industrial development activity is not as bright as it has been. Most changes in the location of industry take place through the expansion of existing industries, not through relocation. Industrial development activities, therefore, are likely to be more successful, from the community's point of view, during periods of business expansion such as we have had since the war. The rate of expansion has slowed down in the past year, so it will be harder to "go out and get an industry." But the need for communities to analyze their needs and plan their activities—perhaps with greater emphasis on encouraging their own existing industries—is even more compelling.

8

## THE MONTH'S STATISTICS

Strikes took a heavy toll in output and income during the month of October, interrupting the industrial recovery which seemed so promising in September. Manufacturing production dropped 12 per cent. In Pennsylvania, factory pay rolls were 15 per cent below the previous month's. Anthracite miners went back to work in October, and coal mining in this district snapped back to near-normal. The strikes affected durable goods output in three ways. First, and most severely, the stoppages hit the firms directly involved in disputes. Second, shortages slowed or stopped operations of plants whose inventories of steel were low. Third, many firms that had adequate inventories reduced output because their customers' operations were crippled.

The month was not without bright spots, however. The nondurable goods industries made further gains in employment, department stores sales declined much less than might have been expected, and residential construction contract awards rose. Although total contract awards declined seasonally from the previous month, they were 36 per cent above those of October, 1948, and the unfavorable difference between the first ten months of this year and last was reduced to only 6 per cent. Construction activity will probably continue to be a sustaining force in the economy for some months.

All indications point to a rapid recovery from strike losses during the remainder of the year. Latest reports from department stores show that year-end retail buying is not quite up to last year's levels in dollar terms; but with employment and income running high, there is little doubt that the Christmas season will be a happy one for the stores.

Deposits at member banks in leading cities of the District continued close to the highest levels of 1949 during most of November, and somewhat above a year ago. Loans increased further from October to November, reflecting principally expansion in real estate and miscellaneous loans, which include credit extended to consumers. In the case of business loans, there was some decline toward the close of the month from peak levels for the fall period; they continue below a year ago.

SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Oct. 1949 from		10 mos. 1949 from	Oct. 1949 from		10 mos. 1949 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
<b>OUTPUT</b>						
Manufacturing production.....	-12*	-26*	-13*	-5	-13	-8
Construction contracts.....	-4	+36	-6	+2	+45	+5
Coal mining.....	+117	-12	-27	-16	-66	-27
<b>EMPLOYMENT AND INCOME</b>						
Factory employment.....	-12*	-23*	-10*	-3	-11	-9
Factory wage income.....	-15*	-29*	-9*			
<b>TRADE**</b>						
Department store sales.....	-6	-14	-6	-5	-11	-7
Department store stocks.....	-1	-8		+2	-7	
<b>BANKING</b>						
(All member banks)						
Deposits.....	+1	0	0	+2	+1	0
Loans.....	+1	+2	+5	0	0	+3
Investments.....	+2	+7	-1	+1	+9	-1
U. S. Govt. Securities.....	+2	+6	-2	+2	+9	-2
Other.....	+1	+9	+4	0	+11	+4
<b>PRICES</b>						
Wholesale.....				-1	-8	-6
Consumers.....	0†	-3†	-1†	-1	-3	-1
<b>OTHER</b>						
Check payments.....	+13	+5	-4	+1	-5	-1
Output of electricity.....	+3	-5	-3			

LOCAL CONDITIONS	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Per cent change Oct. 1949 from	
	Per cent change Oct. 1949 from		Per cent change Oct. 1949 from		Per cent change Oct. 1949 from		Per cent change Oct. 1949 from		Per cent change Oct. 1949 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown.....	-27	-36	-29	-39					+1	-6
Altoona.....	-47	-64	-61	-73					-3	-13
Harrisburg.....	-22	-29	-22	-33					+2	-3
Johnstown.....	-70	-73	-78	-82					-14	-23
Lancaster.....	+1	-8	+3	-12	0	-11	+11	-6	+6	-4
Philadelphia.....	-1	-12	-2	-12	+2	-13	+12	-8	+19	+9
Reading.....	-4	-14	-2	-17	+4	-16	+8	-11	+9	0
Scranton.....	+1	-8	+1	-9					-1	-5
Trenton.....					0	-5	+8	-3	+4	+6
Wilkes-Barre.....	0	-9	+1	-11	-6	-18	+11	-12	-1	-13
Williamsport.....	-4	-14	-2	-17					-2	-5
Wilmington.....	-8	-15	-15	-21					+2	+7
York.....	+1	-11	+6	-16	+2	-16	+13	-3	0	-15

\* Pennsylvania. \*\* Adjusted for seasonal variation. † Philadelphia.

\* Not restricted to corporate limits of cities but covers areas of one or more counties.



## MEASURES OF OUTPUT

	Per cent change		
	October 1949 from		10 mos. 1949 from year ago
	month ago	year ago	
MANUFACTURING (Pa.)*	-12	-26	-13
Durable goods industries	-23	-41	-16
Nondurable goods industries	0	-6	-8
Foods	-1	-1	-4
Tobacco	+1	-14	-13
Textiles	+5	-10	-17
Apparel	-1	+9	-4
Lumber	-5	-16	-9
Furniture and lumber products	+6	-9	-19
Paper	+3	-6	-12
Printing and publishing	-2	-2	-2
Chemicals	-1	-16	-8
Petroleum and coal products	-2	-7	-3
Rubber	+2	-43	-25
Leather	-1	-3	-7
Stone, clay and glass	+2	-19	-13
Iron and steel	-51	-64	-16
Nonferrous metals	-13	-35	-18
Machinery (excl. electrical)	0	-30	-20
Electrical machinery	+2	-16	-12
Transportation equipment (excl. auto)	-4	-24	-3
Automobiles and equipment	-2	-6	-24
Other manufacturing	+5	-11	-15
COAL MINING (3rd F. R. Dist.)†	+117	-12	-27
Anthracite	+136	0	-26
Bituminous	-57	-87	-32
CRUDE OIL (3rd F. R. Dist.)††	-6	-13	-11
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)*	-4	+36	-6
Residential	+10	+15	-10
Nonresidential	-3	+28	-21
Public works and utilities	-16	+84	+26

\*Temporary series—not comparable with former production indexes.

\*\*Source: F.W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

†U.S. Bureau of Mines. ††American Petroleum Inst. Bradford field.

## EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries*	Employment			Payrolls			Average Weekly Earnings		Average Hourly Earnings	
	Oct. 1949 (Index)	Per cent change from		Oct. 1949 (Index)	Per cent change from		Oct. 1949	% chg. from year ago	Oct. 1949	% chg. from year ago
		mo. ago	year ago		mo. ago	year ago				
Indexes (1939 avg. = 100)										
All manufacturing	99	-12	-23	220	-15	-29	\$49.63	-7	\$1.288	-4
Durable goods industries	99	-23	-36	205	-26	-43	53.67	-10	1.417	-3
Nondurable goods industries	100	+1	-6	238	+1	-4	46.04	+2	1.177	0
Foods	129	+1	-2	270	-1	+2	46.77	+4	1.131	+3
Tobacco	88	+2	-14	204	+1	-13	30.37	+2	.780	+1
Textiles	76	+3	-10	200	+6	-10	46.73	-1	1.193	-1
Apparel	90	-1	-1	231	-2	+4	36.04	+5	.922	-5
Lumber	77	-11	-18	184	-4	-15	44.54	+4	1.098	+1
Furniture and lumber products	87	+4	-10	212	+7	-10	44.90	-1	1.025	-2
Paper	116	+2	-3	269	+3	-1	50.01	+2	1.193	+5
Printing and publishing	135	0	-2	291	-3	+2	61.14	+4	1.639	+5
Chemicals	108	-2	-14	239	0	-13	52.83	+1	1.325	+3
Petroleum and coal products	149	0	-4	311	-1	-3	63.49	+1	1.671	+4
Rubber	95	+1	-33	175	+1	-38	45.94	-7	1.353	-2
Leather	87	-1	0	188	-1	0	36.86	-1	1.047	+2
Stone, clay and glass	115	-1	-17	257	+1	-19	51.26	-3	1.273	+1
Iron and steel	61	-48	-57	115	-53	-65	50.54	-19	1.446	-5
Nonferrous metals	99	-12	-29	205	-13	-36	53.96	-10	1.404	-3
Machinery (excl. electrical)	162	0	-23	341	+1	-27	53.32	-6	1.421	+3
Electrical machinery	200	+1	-15	433	+1	-16	60.66	-2	1.528	-1
Transportation equipment (excl. auto)	191	-5	-21	381	-5	-24	60.78	-3	1.570	0
Automobiles and equipment	126	0	-7	280	-3	-2	60.92	+5	1.539	+5
Other manufacturing	128	+5	-8	263	+8	-7	42.90	+1	1.171	+2

\* Production workers only.

## TRADE

Third F. R. District Indexes: 1935-39 Avg. = 100 Adjusted for seasonal variation	Oct. 1949 (Index)	Per cent change		
		Oct. 1949 from		10 mos. 1949 from year ago
		month ago	year ago	
SALES				
Department stores	259	-6	-14	-6
Women's apparel stores	210	-6	-24	-7
Furniture stores		+11*	+10*	-4*
STOCKS				
Department stores	230	-1	-8	
Women's apparel stores	204	-3	-8	
Furniture stores		+5*	-16*	
Recent Changes in Department Store Sales in Central Philadelphia				Per cent change from year ago
Week ended Nov. 5				-2
Week ended Nov. 12				-4
Week ended Nov. 19				-6
Week ended Nov. 26				-1

\* Not adjusted for seasonal variation.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales		Stocks (end of month)	
	% chg. Oct. 1949 from year ago	% chg. 10 mos. 1949 from year ago	% chg. Oct. 1949 from year ago	Ratio to sales (months' supply) October
				1949 1948
Total — All departments	-15	-7	-7	2.8 2.6
Main store total	-14	-7	-7	3.0 2.8
Piece goods and household textiles	-16	-7	-9	3.1 2.9
Small wares	-7	-3	-7	3.8 3.7
Women's and misses' accessories	-15	-5	-4	3.1 2.8
Women's and misses' apparel	-27	-7	+3	2.1 1.5
Men's and boys' wear	-21	-5	-1	4.1 3.3
Housefurnishings	-1	-10	-14	2.7 3.1
Other main store	-9	-9	-15	3.8 4.1
Basement store total	-19	-6	-7	1.9 1.7
Domestics and blankets	-4	-4	-8	2.2 2.3
Small wares	-8	-5	0	2.1 1.9
Women's and misses' wear	-25	-5	-5	1.6 1.3
Men's and boys' wear	-26	-7	-7	2.5 2.0
Housefurnishings	-3	-7	-15	1.7 2.0
Shoes	-12	-7	0	2.8 2.4
Nonmerchandise total	-12	-3		

## CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receiv- ables (end of month)
	% chg. Oct. 1949 from year ago	% chg. 10 mos. 1949 from year ago	% chg. Oct. 1949 from year ago
Department stores			
Cash.....	-20	- 8	.....
Charge account.....	-12	- 3	- 5
Installment account.....	+ 7	- 4	+ 7
Furniture stores			
Cash.....	- 4	0	.....
Charge account.....	-13	-11	.....
Installment account.....	+15	-10	+ 7
Loan Credit Third F. R. District	Loans made		Loan bal- ances out- standing (end of month)
	% chg. Oct. 1949 from year ago	% chg. 10 mos. 1949 from year ago	% chg. Oct. 1949 from year ago
Consumer instalment loans			
Commercial banks.....	+45	+ 9	+17
Industrial banks and loan companies.....	- 5	- 6	+ 2
Small loan companies.....	+18	+ 7	+ 9
Credit unions.....	+17	+16	+21

## PRICES

Index: 1935-39 average =100	Oct. 1949 (Index)	Per cent change from		
		month ago	year ago	
Wholesale prices — United States.....	189	- 1	- 8	
Farm products.....	210	- 2	-13	
Foods.....	202	- 1	-10	
Other.....	179	0	- 5	
Consumer prices				
United States.....	169	- 1	- 3	
Philadelphia.....	169	0	- 3	
Food.....	198	- 1	- 5	
Clothing.....	185	0	- 6	
Rent.....	121	0	.....	
Fuel.....	145	+ 1	+ 2	
Housefurnishings.....	192	0	- 6	
Other.....	152	0	0	
Weekly Wholesale Prices—U. S. (Index: 1935-39 average =100)	All com- modi- ties	Farm prod- ucts	Foods	Other
Week ended Nov. 1.....	188	206	201	178
Week ended Nov. 8.....	188	206	202	178
Week ended Nov. 15.....	188	206	202	178
Week ended Nov. 22.....	188	206	202	179
Week ended Nov. 29.....	188	204	200	179

Source: U. S. Bureau of Labor Statistics.

## BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions \$)	Oct. 26, 1949	Changes in—	
		four weeks	year
Money supply, privately owned.....	168.0	+1.4	- .1
Demand deposits, adjusted.....	84.6	+1.4	- .5
Time deposits.....	58.4	0	+1.1
Currency outside banks.....	24.9	+ .1	- .7
Turnover of demand deposits.....	18.5*	- .5*	-4.1*
Commercial bank earning assets.....	119.8	+1.1	+5.7
Loans.....	41.9	+ .2	+ .3
U. S. Government securities.....	67.7	+ .9	+4.5
Other securities.....	10.2	0	+ .9
Member bank reserves held.....	16.1	+ .1	-3.9
Required reserves (estimated).....	15.3	+ .2	-3.8
Excess reserves (estimated).....	.8	- .1	- .1
Changes in reserves during 4 weeks ended October 26, reflected the following:			
		Effect on reserves	
Net payments by the Treasury.....		+ .8	
Decline in Reserve Bank holdings of Governments..		- .4	
Decline in loans to member banks.....		- .2	
Other transactions.....		- .1	
Change in reserves.....		+ .1	
* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.			
OTHER BANKING DATA	Nov. 23, 1949	Changes in—	
		four weeks	year
Weekly reporting banks — leading cities United States (billions \$):			
Loans —			
Commercial, industrial and agricultural.....	13.8	+ .1	- 1.8
Security.....	2.0	+ .1	+ .2
Real estate.....	4.3	+ .1	+ .3
To banks.....	.2	0	0
All other.....	4.3	+ .1	+ .5
Total loans — gross.....	24.6	+ .4	- .8
Investments.....	42.4	- .5	+ 5.1
Deposits.....	75.2	- .3	+ 1.4
Third Federal Reserve District (millions \$):			
Loans —			
Commercial, industrial and agricultural.....	478	- 2	- 57
Security.....	33	0	+ 6
Real estate.....	108	+ 5	+ 17
To banks.....	10	+ 4	+ 5
All other.....	306	+ 9	+ 31
Total loans — gross.....	935	+ 16	+ 2
Investments.....	1,828	- 43	+ 182
Deposits.....	3,052	- 13	+ 83
Member bank reserves and related items United States (billions \$):			
Member bank reserves held.....	16.0	- .1	- 3.9
Reserve Bank holdings of Governments.....	17.7	+ .3	- 5.3
Gold stock.....	24.5	- .1	+ .4
Money in circulation.....	27.5	+ .2	- .8
Treasury deposits at Reserve Banks.....	.4	0	- 1.2
Federal Reserve Bank of Phila. (millions \$)			
Loans and securities.....	1,213	+ 18	- 468
Federal Reserve notes.....	1,611	+ 19	- 50
Member bank reserve deposits.....	743	+ 1	- 203
Gold certificate reserves.....	1,249	+ 20	+ 142
Reserve ratio (%).....	51.1%	+ .1%	+11.4%

THE

# BUSINESS REVIEW

TABLE OF CONTENTS—1949

## FEDERAL RESERVE BANK OF PHILADELPHIA

---

<i>1949: Is Recession "Just Around the Corner"?</i> .....	<i>January</i>
<i>Consumer Spending . . . In the Stores</i> .....	<i>February</i>
<i>Buying on Credit</i> .....	<i>February</i>
<i>Spending versus Saving</i> .....	<i>February</i>
<i>Bank Operations, 1948</i> .....	<i>March</i>
<i>G. I. Lending</i> .....	<i>March</i>
<i>The Number Language of Business</i> .....	<i>April</i>
<i>Construction and Mortgage Finance: A New Picture</i> .....	<i>May</i>
<i>The Black Diamond Country</i> .....	<i>June</i>
<i>The Business Situation: A Mid-Year View</i> .....	<i>July</i>
<i>State and Local Finance</i> .....	<i>August</i>
<i>Investing in Municipals</i> .....	<i>August</i>
<i>Return of the Deficit</i> .....	<i>September</i>
<i>The Role of Public Works</i> .....	<i>September</i>
<i>Tobacco: Weed of Wealth</i> .....	<i>October</i>
<i>Capital Expenditures in 1950</i> .....	<i>November</i>
<i>Operation Boot Strap</i> .....	<i>December</i>