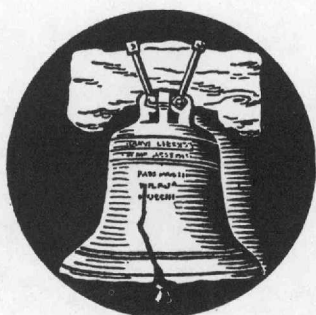


THE

BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



STABILITY — A MUTUAL RESPONSIBILITY

The goal of the Federal Reserve System is to maintain stable economic progress.

But it cannot do the job alone.

The policies of other institutions and groups also influence the level of business activity.

The use of fiscal policy has been getting more attention, especially since the 'thirties, and management of the public debt has become of great significance.

Government lending policies and the actions of various economic groups all can make for stability or instability.

This article, the last in a series of four, examines the role of monetary policy, fiscal policy, and direct controls.

It concludes that stability requires coordinated action on all fronts.

CURRENT TRENDS

Construction gains outshone other, mixed business trends in March. Bank deposits, loans, and investments increased somewhat.

STABILITY — A MUTUAL RESPONSIBILITY

The Federal Reserve System can not achieve the goal of stable economic progress alone. As pointed out in last month's Business Review, Federal Reserve tools operate primarily through their influence on the supply and the cost of bank reserves. System actions are limited mainly to affecting the quantity of money that people have available to spend. The Federal Reserve can not affect directly people's willingness to spend.

If stability is to be achieved, the work of the Federal Reserve must be supplemented by appropriate policies on the part of other institutions and groups which also have a significant influence on the volume of business activity. Because of the large Federal budget, the receipt and expenditure activities of the Treasury have an important influence on the spending stream—both public and private. Management of the Federal debt, especially because of its size and its wide distribution, affects directly the income-expenditure stream and indirectly the success of Federal Reserve authorities in using the tools available to them.

Since we have a money and credit economy, an important share of the responsibility for smoothing out booms and busts rests on those who determine monetary and fiscal policies. It does not end here, however. The demands of labor and other organizations for more pay affect not only the distribution of money income but the total amount to be distributed. Decisions of individuals and business firms also influence the volume of spending. If their receipts exceed their expenditures, there is a depressing effect; if their expenditures exceed their receipts, the effect is expansionary. Stability is inherently a collective responsibility. This article, which concludes the series of four on monetary problems, deals with fiscal and debt management policies, their relation to monetary policies, indirect methods as compared to direct controls, and the need for coordinated action on all fronts.

The use of fiscal policy—Treasury receipts, expenditures, borrowing and debt retirement—to help smooth out business fluctuations is primarily a depression-inspired idea which came into prominence during the early 'thirties. Formerly, Government finance was viewed primarily as a problem of collecting enough receipts to meet expenditures so that the budget could be balanced annually. Debt management is even a newer tool than fiscal policy. The development of this principle received most of its impetus from the growth and wide distribution of the Federal debt during World War II, and from the difficulties encountered in attempting to use Federal Reserve tools effectively to check inflation after the war.

The greater emphasis placed on fiscal policy as a tool for maintaining economic stability has been due to several factors. Most important, perhaps, was the loss of faith in monetary policy during the depression of the early 'thirties. The prolonged economic paralysis of this period demon-

strated a serious limitation of monetary policy. The Federal Reserve System reduced the cost of bank reserves by lowering the discount rate and helped build up excess bank reserves by open market purchases of Government securities, but it could not make individuals and business firms borrow. Excess reserves expand the total spending stream only if (1) commercial banks use their excess reserves to expand their loans and investments, thus increasing total deposits; and (2) the new money made available is actually spent. However, business firms were unwilling to borrow and increase their expenditures until the prospects for making a profit were better—and the profit outlook would not improve until business and consumer spending increased. To break this type of deadlock it was suggested that the Federal Government should spend more and borrow from the banks, thus initiating an increase in income and an increase in demand for goods and services which would tend to stimulate private industry. A second reason

for more emphasis on fiscal policy was the growing importance of fiscal operations. In fiscal year 1929, for example, Federal cash expenditures were 2.8 per cent of gross national expenditures; in fiscal year 1949, they were 15.8 per cent. It came to be recognized that such large operations necessarily influence the level of business activity and employment. Whether they are to be used to promote stability or to accentuate instability is a decision the Government must make. A third reason was the inflationary impact of deficit financing in two world wars. These experiences demonstrated that Government borrowing and spending can be a potent force swelling the spending stream and increasing the total demand for goods and services.

The tremendous increase in the Federal debt during World War II focused attention on the effects of debt management. At the end of 1929 the Federal debt was \$17.5 billion or 8.2 per cent of total debt, public and private. At the end of 1949 it was \$257 billion or 52 per cent of the total. The huge growth in the debt not only magnified the effects of debt management, but its wide distribution resulted in the effects being felt directly by millions of individuals and business firms.

Although monetary, fiscal, and debt management policies must bear the major part of the responsibility in our quest for economic stability, other policies will influence the success achieved. Government-sponsored credit agencies make direct loans, as well as influence the lending policies of private institutions. The price policies of business firms and the demands for higher wages by labor and for higher money income by other organizations also affect the income-expenditure flow.

FISCAL POLICY

The scope of fiscal policy is easily defined. It includes the collection of \$36.6 billion of Treasury receipts and \$42.0 billion of Treasury expenditures. These are recent Budget Bureau estimates for fiscal year 1950. It also refers to new borrowing or debt retirement, which may amount to several billion dollars annually.

In the development of the idea of using fiscal policy for maintaining economic stability, two types of policies emerged. One was the compensatory principle—the timing of public expenditure, primarily public works—to offset changes in the volume of private production and employment. In 1917 the state of Pennsylvania passed a law setting up an emergency public works commission to administer a fund “to provide increased opportunities for

employment in useful public works during periods of extraordinary unemployment caused by industrial depression.” A fund of \$50,000 was appropriated but was later reduced to \$40,000 by the Governor. The Act was repealed in 1923.

The idea of resorting to Government to stimulate private industry is a very old one. For example, in 1723 the colony of Pennsylvania passed an Act providing for a 15,000 pound sterling issue of paper money to remedy the “extreme” scarcity of money because of which the trade of “this province is greatly lessened and obstructed.” This new money was to be put into circulation by mortgage loans on land and houses. The first issue of 15,000 pounds sterling was followed shortly by another of 30,000 pounds sterling, and according to reports of both the Assembly and the Governor there was a noticeable revival in business activity. The use of public expenditures to stimulate recovery from depression did not emerge, however, until early in the present century. In 1916, William Hard, a journalist, inspired by the stimulating effects of the large orders received from abroad during the early years of World War I, recommended pump priming. He stated: “When the waters of business are stagnant, gentlemen, it becomes necessary, if I may say so, to prime the pump.” The real impetus to the pump-priming idea came during the severe depression of the 'thirties.

Recently these two principles have been merged, and fiscal policy is viewed as a tool for influencing the volume of spending in the interest of maintaining economic stability—to damp down income and spending during boom periods, and to stimulate the flow of income and expenditure during periods of depression.

How It Operates

Before taking up the use of fiscal policy as a stabilization tool, it is well to examine briefly how it operates.

Receipts. Treasury receipts, whether from taxation or the sale of Government securities to non-bank holders have the immediate effect of shifting deposits from the taxpayer and purchaser of Government securities to the Treasury. There is no effect at this time on bank reserves. It is when the Treasury transfers its deposits from the commercial banks to the Federal Reserve Banks in preparation for meeting its expenditures that commercial bank reserves are reduced by a corresponding amount. If the Treasury deposits the checks in the Federal Reserve Banks in the first place, member banks lose reserves when the checks are collected. The final effect is the same in either case—

a decrease in the deposit balances of individuals and business firms, and a decrease in bank reserves.

The sale of Treasury securities to the banking system results directly in an increase in Government security holdings and in Government deposits. Purchases by the commercial banks increase Treasury deposits without decreasing the deposits of individuals and business firms. Federal Reserve purchases from commercial banks increase bank reserves only, while purchases from non-bank owners increase both reserves and deposits.

Treasury receipts from taxation and the sale of securities to non-bank holders decrease money balances at the disposal of individuals and business firms. Receipts from the sale of securities to the commercial banks increase total deposits, and sales to the Federal Reserve System increase both bank reserves and deposits. The higher the taxes and the larger the amount of securities sold to the non-banking public, the greater the reduction in spending power. The lower the taxes and the smaller the volume of security sales to the non-banking public, the larger the amount of funds remaining for expenditure by the public.

Expenditures. Treasury expenditures have the direct effect of adding to bank reserves and the deposit balances of individuals and business firms. When those who receive the Government checks drawn on the Federal Reserve Banks deposit them, commercial bank deposits rise; and when the checks are sent to the Reserve Banks for collection, banks get additional reserves. In the aggregate, Treasury expenditures tend to return the deposits and reserves which Treasury receipts drain away.

The use of Treasury receipts to pay off some of the Federal debt has varying effects according to the ownership of the issues retired. (1) The repayment of Treasury securities held by non-bank investors increases commercial bank deposits and reserves, as explained in the preceding paragraph. (2) The retirement of securities held by the commercial banks directly decreases their holdings of Government securities and increases their reserves, which provides the basis for an increase in deposits. (3) The retirement of securities held by the Federal Reserve Banks decreases their holdings of Government securities and Government deposits. There is no direct effect on commercial bank reserves and deposits.

Surplus or Deficit. The net impact of Treasury operations depends primarily on the relation between receipts and expenditures. Both the amount and the distribution of funds available for expenditure may be affected. As we have seen, the expansionary impact of expenditures tends

to cancel out the deflationary effect of receipts. If, however, the Treasury takes away from the people via receipts more than it returns via expenditures, the tendency is to decrease money balances and spending; if the Treasury pays out more than it takes in, the tendency is to increase them. In each case the final effect depends on how the surplus is used or how the deficit is financed.

The following table illustrates the various effects a \$100 Treasury cash surplus or cash deficit may have on member bank reserves and deposits:

NET DIRECT EFFECT OF \$100 TREASURY CASH DEFICIT OR SURPLUS ON MEMBER BANKS

<i>Transaction</i>	<i>Deposits</i>	<i>Reserves</i>
Deficit financed through purchase of securities by:		
Non-bank holders	0	0
Member banks	+100	0
Federal Reserve Banks	+100	+100
Surplus:		
Held as deposit in Reserve Banks	-100	-100
Used to retire securities held by:		
Non-bank holders	0	0
Member banks	-100	0
Federal Reserve Banks	-100	-100

Fiscal policy may also affect the distribution of funds available for expenditure. If by the Treasury receipts-expenditure process, funds are taken from those who would have held them idle or would have spent them less freely, and are paid out to those who spend more freely, total spending would be increased. Shifting money balances from those who spend more freely to those who spend less freely tends to decrease total expenditures. The effects of such shifts on the total spending stream are very uncertain, however, because as soon as the money is spent it is transferred to another group who may spend either more or less freely than the first group.

Treasury operations may also influence the pattern of expenditures. If receipts are drawn mainly from the higher incomes and paid out to the lower income groups, the tendency may be to diminish investment and increase consumer spending. By varying the distribution of money balances, fiscal policy may affect the pattern of consumer and business spending.

Administrative Problems

The principle of using fiscal policy as a tool for helping maintain economic stability is relatively simple. When spending becomes excessive relative to the available supply of goods, an excess of Treasury cash receipts over expendi-

tures is a means of reducing the amount of funds at the disposal of individuals and business firms. On the other hand, during periods of depression, when the total volume of spending and demand tend to be deficient the Treasury can provide a stimulus by paying out more funds than it takes in. If private spending remains the same, the tendency is to generate an expansion in production and employment by increasing the total demand for goods and services.

The results obtained in actual practice, however, are likely to fall considerably short of the ideal because of the administrative difficulties involved in carrying out such a program. The most important administrative problem is that of proper timing. Proper timing breaks down into two aspects: deciding what type of action should be taken and when, and being able to vary Treasury receipts and expenditures accordingly.

Accurate forecasting is essential to the successful timing of fiscal policy as a tool of stabilization. Farming provides a simple illustration of the problem involved here. Farmers have been advised for many years to adapt their planting to the season, using drought-resisting crops for dry years. Some farmers had the temerity to ask that they be notified *at planting time* whether they were going to have a wet or a dry season. A similar problem exists with fiscal policy. It is easy to say that there should be a cash surplus during a boom and a deficit during depression, and that both will be much more effective if action is taken promptly—a transition to a surplus as soon as a boom starts and to a deficit as soon as depression begins. The problem, however, is to know which to plan for. Treasury receipts and expenditures cannot be turned on and off like a spigot. Several months at least are required for Congress to change the tax laws and expenditure programs, and additional time elapses before such changes have any substantial effect on Treasury receipts and expenditures. Advance planning of public construction projects helps to cut down the time lag and to prevent the waste involved in hasty, improvised schemes. Even with advance planning there is still considerable time lag between the decision to start and a substantial flow of expenditures. The inflexibility of Treasury receipts and expenditures enhances the importance of accurate forecasting. The problem of proper timing also varies with the immediate objective: whether fiscal policy is used to iron out minor or only major business fluctuations. It would require much greater flexibility and more accurate forecasting to use fiscal policy effectively to smooth out relatively short-term fluctuations.

To overcome some of the administrative problems involved in a flexible fiscal policy, especially with respect to proper timing, it has been suggested that flexibility be “built-in” so that it would function automatically. This may take the form of changes on either the receipts or the expenditure side of the budget or both. One proposal is that tax rates be set so that the Federal budget would be balanced at high levels of production and employment. A decrease in the level of income and employment would automatically reduce Treasury receipts and initiate a deficit which would have stimulating effects. If inflationary pressures tended to push the level of income and employment beyond that required for a balanced budget, Treasury receipts would exceed expenditures and the surplus would have a restraining effect. The timing problem would be dealt with, at least on the receipts side, by an automatic variation in receipts with changes in the level of income.

“Built-in flexibility” has some advantages. It helps in some respects to solve the knotty problem of timing. It also relies more on sustaining private spending rather than compensating for fluctuations by opposite changes in public spending.

“Built-in flexibility” also has some important disadvantages. It solves the timing problem only in part. To be successful, it requires a long-range forecast as to the levels of taxation and Government spending that will produce full employment with a balanced budget. It also requires designing a tax structure that will take just the right amount of an increase in income or release the required amount with a decline in incomes, to sustain full employment. The amount required would vary according to the distribution of the tax burden because the rate of spending probably varies for different income groups. For the “built-in” mechanism to work best, tax receipts must be very sensitive to changes in income, taking an increasing proportion of the additional income when incomes are rising. This, however, diminishes the inducement for efficiency and for greater effort. Finally, too much reliance on an automatic device may tend to divert attention from maladjustments which may be the basic causes of a boom or a depression.

The Federal budget already has some built-in flexibility. The unemployment insurance fund has an excess of cash receipts over expenditures in good times and cash deficits in bad times. The farm price support program also provides an increase in Treasury payments to farmers as the market prices of agricultural commodities drop below and a decrease as they rise above support levels. The progres-

sive income tax takes a larger proportion of additional income as incomes are rising, and tends to bring about an automatic decrease in the effective tax rate as incomes decline. As a result of these programs, personal income after taxes is less closely tied to the volume of business activity than previously. The year 1949 illustrates this point. Despite a decrease in the volume of production and employment, personal income after taxes remained at approximately the same level as in 1948, in part because of an automatic increase in Government payments, such as to the unemployed and for supporting the prices of certain agricultural products.

DEBT MANAGEMENT

Management of the outstanding Federal debt—especially of maturing or callable issues—affects the money market directly, and indirectly exercises an important influence on monetary policies. These broader aspects of debt management have become especially important because of the wartime growth and wide distribution of the Federal debt. The Federal debt now exceeds \$250 billion; it represents over 50 per cent of all debt, public and private, and the refunding of maturing and callable issues exceeds \$40 billion annually.

Impact on Money Market

The type of security, the maturity, and the interest rate on new Treasury obligations, whether for new money or refinancing maturing or callable issues, have an important influence on the rate structure and prices of securities, both public and private. The terms offered on new Treasury issues not only affect the rate structure, but also determine largely who buys them.

An important problem in debt management is to tailor the terms on new issues to fit the needs of those with funds to invest. The various segments of potential buyers have different investment needs. Life insurance companies, savings banks, pension and trust funds, for example, usually want relatively long-term, higher-yield issues. At the end of 1949, life insurance company holdings of Treasury obligations averaged about 14 years to maturity, and mutual savings bank holdings, about 12 years. On the other hand, commercial banks, because of large demand liabilities, hold mostly shorter-term, lower-yield securities. Their holdings of Governments averaged only 3 years to maturity. States, municipalities, and large corporations often have temporary funds such as the proceeds of bond

issues which they like to invest in short-term issues pending actual disbursement of funds. Unless the needs and the demand of the major ownership groups are given consideration in fixing the terms of new Treasury issues, substantial shifting of securities among the ownership groups may result.

The interest rates on new Government securities, because of the mobility of funds in the securities market, affect the yields on private and outstanding Government obligations. A drop in the rate on new Treasury certificates, for example, affects immediately the price and yield on Treasury certificates outstanding as well as other short-term Treasury obligations. As the yield on short-term Governments declines the yield on short-term private securities becomes more attractive, and investment funds tend to spill over into these issues, raising their price and bringing their yields down in line with those on short-term Treasury obligations.

The effect of Treasury financing on the interest rate structure and the security market may tend to discourage or encourage corporate financing for capital expenditures. Lower rates on Government securities tend to raise prices and lower the yields on other securities. A buoyant securities market means that corporations can obtain money on more suitable terms, thus encouraging borrowing for capital expenditures. Higher rates on Treasury issues, by spreading to other securities, tend to damp down the flow of credit into investment via the flotation of new securities.

Reserves and the Money Supply

Management of the Federal debt may also influence the volume of bank reserves and the money supply. If debt management policies result in changes in Federal Reserve and commercial bank holdings of Treasury obligations, bank reserves and deposits are affected. The Treasury may affect Federal Reserve and commercial bank holdings both by its policies with respect to new issues and the retirement of maturing or callable issues.

An increase in Federal Reserve and commercial bank holdings tends to increase bank reserves and the money supply. This result may be encouraged by fixing terms and selecting new issues which are more likely to be purchased by these institutions. The refunding program can also be used to foster an expansion in reserves and the money supply by offering new issues more likely to go to the Federal Reserve and commercial banks and using the proceeds to pay off Treasury securities held largely by non-bank holders. This policy would tend to shift

Government securities into the banking system, increasing reserves and deposits. On the other hand, by putting out new securities attractive mainly to non-bank holders and using the proceeds to retire securities held largely by banks, the net reduction in Federal Reserve and commercial bank holdings would have the opposite effect.

MONETARY AND FISCAL POLICY

Since the great depression in the 'thirties, considerable emphasis has been placed on fiscal policy as a tool for smoothing out business fluctuations. For many, fiscal policy came to be regarded as the primary and monetary policy as the secondary tool. Experience and closer analysis have produced a swing back toward monetary policy in recent years. The real question is not one of monetary versus fiscal policy, but one of monetary *and* fiscal policy. An effective stabilization program requires that the two be coordinated so as to gain the advantages of each. These tools operate basically in much the same way; each has certain strong and weak points, and the operation of each is influenced by the magnitude of the Federal debt.

Mechanics of Operation

The processes by which monetary, fiscal, and debt management policies may influence the income-expenditure flow have already been described. Here the operations of these tools will only be highlighted for purposes of comparison.

Monetary, fiscal, and debt management policies operate primarily through bank reserves and deposit balances available for expenditure. To some extent these tools, especially fiscal policy, may influence spending by altering the distribution of deposits. An increase in the Federal Reserve discount rate makes additional reserves acquired by borrowing more expensive. An increase in reserve requirements immobilizes more reserve funds; open market sales of Government securities reduce the volume of bank reserves; and, if to non-bank owners, bank deposits. A Treasury cash surplus held as deposits in the Federal Reserve Banks or used to retire Government securities held by the Federal Reserve System, reduces bank reserves and deposits. Debt management policies which result in a shift of Government securities from the Federal Reserve to non-bank holders reduce both reserves and deposits, while a shift from commercial bank to non-bank investors decreases deposits only. Expansion may be encouraged by processes just the opposite of those explained above.

Both monetary and debt management policies affect the interest rate structure directly, and these along with fiscal policy affect it indirectly. The Federal Reserve through purchases and sales in the open market can influence the yields on Government securities. The Treasury can also influence the yields on outstanding issues by the terms and rates offered on new securities. Indirectly, through their influence on the volume of bank reserves and the money supply, monetary, fiscal, and debt management policies affect interest rates.

Strengths and Weaknesses

The nature of the direct effects of monetary, fiscal, and debt management actions is so similar that only a few advantages accrue to some of these instruments in this respect. Monetary policy deals more directly with the sources of changes in the money supply. Only the Federal Reserve Banks create or extinguish reserves, and the commercial banks create or extinguish deposits. Federal Reserve tools enable the authorities to influence the amount of reserves and deposits created or extinguished. Open market operations provide a means of creating more reserves or of siphoning off existing reserves and deposits. Fiscal policy and debt management cannot create or extinguish money of themselves. They can only initiate action which may lead to such results with the cooperation of the banking system, or shift funds from relatively inactive Government deposits to possibly more active private balances. Fiscal policy via a Treasury cash surplus applies effective restraint on expansion, in general, only to the extent (1) that the surplus is held on deposit or used to retire securities held by the Federal Reserve, thus decreasing bank reserves; and (2) that the Federal Reserve does not create more reserves to offset it. The retirement of debt held by commercial banks only decreases deposits, leaving banks with excess reserves. In a period of expansion, it is almost certain that banks will lend and invest these excess reserves, restoring deposits to their former level.

There are practical difficulties which tend to limit the effective use of fiscal-debt management policies to check inflation. Experience indicates that it is difficult to maintain a sizable Treasury cash surplus even during a boom. It seems to be much more popular to borrow and spend than to tax and pay back. The large debt also encourages a cheap money policy to hold down the interest burden. As stated previously, the debt also has tended to limit the use of monetary policy to check inflation.

In depression, the fiscal-debt management tools have some advantages over some of the Federal Reserve tools. The discount rate is only a means of making reserves less expensive, and lowering reserve requirements merely creates excess reserves. They only make possible an increase in deposits and buying power; someone must borrow if more deposits are to be created. If the Government steps in and borrows from the Federal Reserve and commercial banks, it adds to reserves and bank deposits. The new funds are put into circulation by Government purchases of goods and services. It is a means of helping make an easy money policy effective. Of course, Federal Reserve purchases of Government securities in the open market have a similar effect—an increase in reserves if purchased from commercial banks and an increase in reserves and deposits if purchased from non-bank holders. The initial increase in demand, however, is for Government securities instead of goods and services as in the case of Treasury expenditures.

It is probably true that a Treasury cash surplus or deficit may affect the deposit balances of a larger number of individuals than an equal volume of open market sales or purchases by the Federal Reserve. The initial expenditure of the Treasury is also probably more stimulating to private industry than Federal Reserve purchases. New funds paid out by Government deficit financing may go initially to recipients more likely to spend a larger proportion of them than the non-bank holders from whom the Federal Reserve purchased Treasury securities. On the other hand, System purchases of Government securities are not as likely to have unfavorable repercussions on private spending and investing as deficit financing.

Flexibility is another important quality influencing the use of these instruments. Monetary policy has a great advantage in flexibility. Federal Reserve action can be taken promptly and can be mild or drastic as the occasion requires. Both debt management and fiscal policies are much less flexible. The terms on new Treasury issues are a market factor only when there is new borrowing or refunding of maturing or callable issues. Fiscal policy is a very cumbersome tool. As already explained, it is very difficult to time fiscal policy so that a Treasury surplus or deficit will come at the right time and in the right amount. Built-in flexibility may help to overcome this difficulty somewhat.

Effects of the Large Federal Debt

The magnitude and the wide distribution of the Federal debt are important influences on monetary, fiscal, and debt

management policies. So far the debt has tended to weaken the restraining powers of monetary policy. The debt and the large budget have greatly enhanced the effects of fiscal-debt management policies, although not necessarily in the direction of greater economic stability.

As was pointed out in last month's *Business Review*, the objective of maintaining a stable market for Government securities limited the effectiveness of Federal Reserve actions to check inflation. To maintain a stable price and interest rate structure on Government securities, the Federal Reserve bought large quantities of Treasury bonds which added to bank reserves and deposits, thus tending to offset other types of restrictive action. For the same reason, the support program limited the restraining effects of the Treasury cash surplus. Reserves siphoned off in this or any other way could easily be replaced through the sale of Government securities at favorable prices. The necessity of selling to restore reserves, however, did have some restraining effect.

The task of maintaining a stable Government security market is influenced not only by the size of the debt but also by debt management policies. The danger of undesirable repercussions from a rise in interest rates is much greater for long-term than short-term marketable bonds because the decline in price resulting from a rise in interest rates would be much greater for the long-term issue. The interest rate offered by the Treasury on new issues also has an important influence. If the rate is below the market rate, the Federal Reserve may have to step in or the Treasury financing operation may encounter considerable difficulty. A consistently low interest rate policy, regardless of economic conditions, makes it difficult for the Federal Reserve to follow policies of ease or restraint as the business situation demands.

The case for a flexible interest rate policy does not rest primarily on the effectiveness of higher or lower rates in discouraging or stimulating a demand for credit. That is a minor point. The main objective is to influence the *availability* of credit. If during a period of inflation, bank reserves and the supply of credit are restricted, as they must be if inflation is to be checked, interest rates will rise as a consequence regardless of the type of tool used. The alternative to a rise in the interest rate is for the banking system to supply all of the credit that borrowers are willing to take at existing rates. In a period of depression, on the other hand, the alternatives are either to permit interest rates to fall or for the Federal Reserve to sell securities to prevent the prices from rising. If the latter, sales by the

Federal Reserve absorb reserves and tend to restrict credit expansion just when it should be encouraged. The case for a flexible interest rate policy is primarily to enable the effective use of monetary and fiscal policies in maintaining an appropriate money supply. It does not rest on the effectiveness of interest rates in checking or stimulating borrowing.

The management of Government trust funds provides a tool which might be helpful in maintaining an orderly market for Government securities. Trust fund receipts tend to draw down reserves and deposits just as any other Treasury receipt from non-bank sources. The use of these funds to purchase Government securities merely returns reserves and deposits drawn down initially when the receipts were collected. New reserves and deposits are not created as in the case of Federal Reserve purchases.

Trust fund expenditures, just as Treasury expenditures, tend to restore reserves and deposits drawn down by receipts. If expenditures exceed receipts, the additional funds may be obtained by selling some of their Government securities. If the sales are to non-bank buyers, there is no effect on bank reserves and deposits; if to commercial banks, deposits are increased; and if to the Federal Reserve Banks, both bank reserves and deposits are increased. In case trust fund expenditures do not exceed receipts, the same results could be achieved by selling marketable securities and issuing special Treasury obligations to the trust funds, and then paying out the proceeds in meeting general Treasury expenses. Trust fund sales are a means of restraining a rise in Government security prices without putting pressure on bank reserves, as in the case of Federal Reserve sales in the open market.

The large Federal debt seems to have set up chain reactions which have partially sterilized both monetary and fiscal-debt management policies as tools for smoothing out business fluctuations. During the post-war inflation, the restraining effects of Federal Reserve tools were blunted as a result of maintaining a stable market for Government securities and of facilitating the large Treasury refundings at low interest rates. The support program in turn tended to nullify the restrictive effects of fiscal-debt management policies. The funds drained away from individuals, business firms, and commercial banks by a Treasury cash surplus were easily replaced by borrowing on easy terms or by the sale of Government securities at favorable prices. Both tools were rendered less effective for checking inflation. For effective results, both tools should be co-

ordinated toward the common objective of maintaining stability.

In depression, the size of the Federal debt and the annual refundings are likely to limit the use of fiscal policy to encourage expansion. They will probably hold down the amount of deficit financing because of apprehension over adding substantially to an already large debt. And if substantial deficits should be resorted to, fear and anxiety over the results, especially the tax burden, may discourage private investment. The restraint which may be placed on deficit financing, in turn, limits the use of this method for making an easy money policy effective.

OTHER POLICIES AFFECTING STABILITY

Space does not permit a complete analysis of other policies affecting economic stability. There are some, however, important enough to warrant a brief explanation. Federal financial institutions and policies such as those with respect to prices and wages have an important bearing on the level of general economic activity and employment.

Federal Financial Institutions

A significant financial development, especially since the early 'thirties, has been the growing number of financial institutions sponsored by the Federal Government. Some of the Government credit agencies make loans directly and others insure or guarantee loans made by banks and other private lending institutions. Some of the Government agencies were designed primarily to make direct loans, while others were intended to make certain types of loans safer and more liquid so that they would be acceptable to private lending agencies.

Government credit agencies cannot in themselves create deposits and expand the money supply. Indirectly, however, they may affect the flow of funds both through the volume of loans made and through their effects on interest rates and the lending policies of private institutions. Direct loans of Government corporations and credit agencies are a relatively small proportion of total private credit extended. At the end of 1949, outstanding loans of these agencies totaled nearly \$13 billion—about one-half consisting of foreign loans. The effect of these loans on the money supply depends upon the sources from which the funds are obtained. If derived directly or indirectly from the commercial banks, either from the sale of their own or Treasury obligations, deposits are expanded in the proc-

ess just as if the banks had made the loans directly. To the extent, however, that the funds loaned by these agencies come from non-bank investors, either via taxes or the sale of Treasury securities, there is no net increase in deposits and the total money supply. The spending power of the taxpayer and the purchaser of the securities is merely transferred to the recipient of a loan from the Government agency.

A more important influence, perhaps, is the effect these agencies have on the lending policies of private institutions. In the first place, perhaps for non-monetary reasons, the Government has seen fit to make credit available for certain purposes such as housing, regardless of the inflationary consequences. Secondly, the policies of Government credit agencies affect both the demand for and the supply of credit. By encouraging easier credit terms, such as lower interest rates, smaller down payments, and longer maturities, these agencies make it possible for many borrowers to obtain credit who otherwise would be unable to do so. The demand for credit is thus stimulated. Insuring and guaranteeing loans made by private lenders tend to increase the supply of credit by encouraging them to make loans and take risks they would not take otherwise.

Most of these Government credit agencies were created to meet special problems which arose during the severe depression of the early 'thirties. Many of them were intended as temporary institutions, and no general provision has been made to coordinate their activities with over-all credit policy. Individually, their influence is not great but collectively they may exert a substantial influence on the interest rate structure and on the flow of credit. It is important, therefore, that the policies of these institutions be coordinated with monetary and fiscal policies toward the common objective of economic stability. If in a period of expansion the Government encourages lower interest rates and an enlarged flow of credit into certain areas, it makes more difficult the checking of expansion by the monetary and fiscal authorities.

Other Policies

There is a tendency to focus attention almost exclusively on fiscal, debt management, and monetary policies as tools for achieving the goal of economic stability. But it is important to recognize that actions of others are important also. A few illustrations will suffice to make this clear.

Labor-management policies have an important bearing on our success in achieving stability. An actual work stop-

page, shutting down an important industry and throwing thousands of men out of work, is a good illustration that monetary and fiscal-debt management policies alone cannot assure stability at high levels of production and employment. Even the negotiation of a new contract without a work stoppage may have an important influence on maintaining stable economic progress. Wage contracts affect not only the distribution of income between the contracting parties, but also the amount to be distributed and ultimately the flow of expenditure through the entire economy. If labor and other organized groups exert enough pressure to force money incomes up faster than the increase in productivity, monetary and fiscal authorities may be confronted with choosing between two alternatives—an expansion in the money supply to support higher costs and rising prices, or unemployment. Thus, monetary and fiscal policies no matter how well conceived and expertly executed may not be able to maintain stability in the face of inappropriate wage and other income policies.

The price policies of corporations also have an important bearing on economic stability. If employers elect to maintain prices in the face of declining demand, there may be a decrease in output and employment. If, on the other hand, they choose to cut prices, individuals may spend more—thus tending to maintain production and employment. Businessmen by their decisions with respect to expenditures for plant, equipment, and inventories, influence the volume of investment and the flow of expenditures. Moreover, the decisions of individuals, which account for the major portion of total expenditures, exert a powerful influence both on the distribution of our productive resources and on the general level of business activity. If, when resources are fully employed, people generally spend and invest more than their income—by borrowing and perhaps calling on past savings—they enlarge the flow of spending without enlarging correspondingly the flow of goods and services. The effect is inflationary. On the other hand, if people in general decide to defer a major part of their spending, the flow of spending may become deficient relative to the flow of goods, thus tending to drag down the level of production and employment.

INDIRECT VERSUS DIRECT CONTROLS

Thus far in this series of articles we have been dealing mainly with monetary, fiscal, and debt management policies as tools for achieving economic stability. These are indirect and impersonal types of regulation; they should

be distinguished from direct controls such as Government price controls, wage controls, rationing, allocations, and so on.

Monetary and fiscal instruments have definite advantages over direct controls. One of the most important is that they are compatible with the essentials of a system of free enterprise. There is much less interference with the freedom of the individual. These tools are primarily quantitative instruments; they affect over-all aggregates such as the cost and the availability of money and the total income-expenditure flow. They do not involve control over detailed decisions and particular sectors of the economy. These tools, for example, may be used to limit the supply of bank reserves, but the banker is left free to make his own decisions as to how much he will lend or invest within the limits permitted, to whom he will make loans, and the terms on which he will make them.

Restrictive monetary policies may help hold prices down by limiting the amount of funds available for expenditure, but they do not fix a long schedule of prices and production quotas for individual products. The millions of decisions with respect to production, prices, wages, hours, and so on, which must be made every day are left to the individual subject only to the limitations of general market forces.

A second advantage of monetary-fiscal tools is that they are more impersonal and their impact is determined by market forces. It is true that they affect individuals and business firms differently, but these differences are determined by market processes, not by the decisions of Government officials. The incentive for efficiency which comes from freedom to make decisions, an important advantage of the free enterprise economy, is not impaired. Direct controls, on the other hand, narrow greatly the field of management and diminish the incentive for efficiency and that extra effort.

Direct controls have the advantage that they can be selective—they can be applied in one particular area. Unusual circumstances, such as during or shortly after a war, may give rise to conditions which call for direct controls temporarily. A major function of prices is to ration the available supply of the various commodities. Prices ration goods according to the ability of consumers to pay. Higher prices tend to cut out the purchases of those in the lower income groups or those wanting a commodity less intensely, while lower prices have the opposite effects. If there is a serious shortage of housing, for example, it might not be socially desirable to permit the limited supply to be ra-

tioned by an unrestricted rise in rentals. This method might place too much of the sacrifice on the lower income groups. Under these circumstances, there may be a case for Government control of rentals pending an increase in the supply of houses. In general, however, direct controls should be used only in clear-cut emergencies when indirect controls are inadequate to meet the situation.

CONCLUSIONS

That money does not always manage itself in the best interest of society is one of the lessons of history. The attempts that have been made to improve our monetary system so that it would function more efficiently have been surveyed briefly in this series of four articles. One of the major problems has been that of finding some way to adjust the money flow to the flow of goods so that our banking system will help to smooth out instead of intensify business fluctuations. The achievement of stable economic progress has been the underlying and ultimate objective of Federal Reserve policy from the beginning of the System. Monetary policies must play a key role in any effective program for maintaining economic stability. They influence the basic sources of the money flow—the supply of bank reserves and the expansion and contraction of deposits. Federal Reserve tools influence the actions of those institutions which create reserves and deposits; namely, the Federal Reserve Banks and the commercial banks. Another advantage of monetary tools is their flexibility.

Even though a major part of the responsibility for maintaining stability must rest on monetary policy, it cannot do the job alone. Monetary policies only influence the cost, the availability, and the supply of money. Many other policies affect the demands made upon the banking system. One is the fiscal operations of the Government. If the Government has a cash deficit and borrows from the banks, it tends to bring about an increase in deposits; if it uses a cash surplus to retire debt held by the banks, the tendency is to decrease deposits. Debt management, by encouraging an increase or decrease in bank holdings of Government securities, may also inaugurate an increase or decrease in reserves and deposits. If private businesses spend more than their income, their borrowing tends to add to the volume of deposits, while an operating surplus used to repay bank loans has the opposite effect. Organized groups may exert enough pressure so that the money incomes of important segments are raised faster than productivity. The result may be either an expansion in the money supply

CURRENT TRENDS

Business trends in the Third District were mixed in March. In the industrial field, production and pay rolls declined from February levels but employment remained steady. Department store sales were lower, consumer prices were slightly higher, and construction contract awards and coal production increased substantially. Bank deposits, loans, and investments also rose.

Most of the decline in manufacturing output and pay rolls occurred in the durable goods industries. Iron and steel production had not recovered completely from the interruption caused by the coal dispute which was settled in early March. Coal production spurred after the signing of the bituminous contract on March 5 and the anthracite pact a few days later. Output of the industries producing nondurable goods dropped slightly, but due to an increase in hourly earnings, pay rolls were sustained. While Pennsylvania manufacturing production for the first quarter of 1950 was 10 per cent below that of the corresponding period last year, greater output is expected on the basis of increased orders on hand. Employment in both durable and nondurable goods industries remained steady from February to March but it was still below year-ago levels. The heavy industries continued to be responsible for the greatest declines in employment from last year. The working force in the transportation equipment lines shrank again as production was further reduced in shipyards and in plants making railway equipment.

The volume of construction contract awards continued above last year's level. The increase was mainly in the residential field, but more non-residential building took place as well. In the Philadelphia metropolitan area, a sharp increase in new housing starts pushed activity in residential construction well above that of last spring.

The month's pre-Easter sales of department stores at 4 per cent below those of last Easter were somewhat disappointing. Sales of women's apparel in both department stores and specialty shops declined more than the price of clothing. However, other lines made a fairly good showing and total sales for the first quarter equaled those of the same period last year.

Deposits, loans, and investments of Third District member banks increased during March. During April, however, they declined at weekly reporting banks. Business loans were down somewhat in April, but were still only 5 per cent below last year's level.

SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Mar. 1950 from		3 mos. 1950 from	Mar. 1950 from		3 mos. 1950 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
OUTPUT						
Manufacturing production ..	- 2*	-10*	-10*	+ 1	+ 1	- 2
Construction contracts	+11	+44	+20	+ 19	+55	+50
Coal mining	+81	+94	+ 1	+228	+66	-21
EMPLOYMENT AND INCOME						
Factory employment	0*	- 8*	- 9*	+ 1	- 3	- 5
Factory wage income	- 3*	- 9*	- 9*	.....	.....	.....
TRADE**						
Department store sales	- 5	- 4	0	- 2	- 2	- 1
Department store stocks	+ 1	- 1	.....	+ 2	+ 1	.....
BANKING (All member banks)						
Deposits	+ 1	+ 5	+ 4	- 2	+ 3	+ 3
Loans	+ 2	+ 6	+ 5	+ 1	+ 2	+ 2
Investments	+ 1	+10	+ 9	+ 5	+18	+13
U. S. Govt. securities	+ 1	+ 9	+ 8	+ 5	+18	+13
Other	+ 4	+14	+13	+ 5	+20	+17
PRICES						
Wholesale .....	.....	.....	.....	0	- 4	- 4
Consumers	+ 1†	- 2†	- 2†	0	- 1	- 2
OTHER						
Check payments	+37	+18	+11	+ 20	+ 5	+ 5
Output of electricity	+ 2	+ 8	+ 3	.....	.....	.....

LOCAL CONDITIONS	Factory*				Department Store				Check Payments	
	Employment		Payrolls		Sales		Stocks		Per cent change	
	Mar. 1950 from		Mar. 1950 from		Mar. 1950 from		Mar. 1950 from		Mar. 1950 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	0	- 6	+1	- 5	.....	.....	.....	.....	+24	+ 9
Altoona	+4	- 6	+1	- 7	.....	.....	.....	.....	+12	0
Harrisburg	-2	- 5	-4	- 8	.....	.....	.....	.....	+28	- 1
Johnstown	0	-15	+1	- 2	.....	.....	.....	.....	+16	-11
Lancaster	0	- 5	+1	- 3	+35	+19	+ 5	0	+20	+28
Philadelphia	-1	- 9	-1	- 7	+19	0	+ 9	-1	+44	+23
Reading	+1	- 6	+1	- 4	+23	+ 1	+12	-5	+25	+ 7
Scranton	+1	+ 6	+3	+15	.....	.....	.....	.....	+23	+19
Tranton .....	.....	.....	.....	.....	+26	+ 7	+ 5	-5	+10	- 4
Wilkes-Barre	-1	-14	-5	-14	+30	+ 1	- 7	-1	+19	- 3
Williamsport	+1	+ 3	-2	+ 6	.....	.....	.....	.....	+16	+ 5
Wilmington	+2	- 2	+2	- 4	.....	.....	.....	.....	+37	+17
York	-2	+ 3	-1	+ 6	+23	+ 6	+10	+1	+20	- 7

*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		
	March 1950 from		3 mos. 1950 from year ago
	month ago	year ago	
MANUFACTURING (Pa.)*	- 2	- 10	- 10
Durable goods industries	- 4	- 15	- 16
Nondurable goods industries	- 1	- 3	- 3
Foods	- 2	- 3	- 2
Tobacco	- 4	- 12	- 13
Textiles	- 2	+ 3	0
Apparel	- 1	+ 3	+ 8
Lumber	- 1	- 14	- 13
Furniture and lumber products	+ 1	+ 22	+ 14
Paper	+ 3	+ 2	- 1
Printing and publishing	+ 2	- 3	- 2
Chemicals	0	- 10	- 11
Petroleum and coal products	- 2	- 8	- 7
Rubber	- 4	- 6	- 1
Leather	- 1	- 1	- 1
Stone, clay and glass	0	- 9	- 11
Iron and Steel	- 8	- 18	- 15
Nonferrous metals	0	- 12	- 17
Machinery (excl. electrical)	+ 3	- 17	- 22
Electrical machinery	+ 2	- 2	- 7
Transportation equipment (excl. auto)	- 12	- 50	- 43
Automobiles and equipment	- 2	+ 3	+ 4
Other manufacturing	+ 1	- 6	- 12
COAL MINING (3rd F. R. Dist.)†	+ 81	+ 94	+ 1
Anthracite	+ 66	+ 108	+ 13
Bituminous	+ 445	+ 35	- 47
CRUDE OIL (3rd F. R. Dist.)††	+ 12	- 7	- 9
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)**	+ 11	+ 44	+ 20
Residential	- 1	+ 130	+ 33
Nonresidential	+ 6	+ 33	+ 27
Public works and utilities	+ 38	+ 5	- 3

*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* Indexes (1939 avg. = 100)	Employment		Payrolls		Average Weekly Earnings		Average Hourly Earnings	
	Mar. 1950 (Index)	Per cent change from mo. ago year ago	Mar. 1950 (Index)	Per cent change from mo. ago year ago	Mar. 1950	% chg. from year ago	Mar. 1950	% chg. from year ago
All manufacturing	113	0 - 8	261	- 3 - 9	\$51.81	- 1	\$1.348	0
Durable goods industries	131	0 - 12	281	- 4 - 15	55.87	- 4	1.466	0
Nondurable goods industries	97	0 - 2	237	0 + 2	46.96	+ 3	1.210	+ 3
Foods	115	- 1 - 3	244	- 1 + 2	47.49	+ 5	1.167	+ 4
Tobacco	82	- 2 - 15	187	- 3 - 9	29.82	+ 7	.803	+ 4
Textiles	77	- 1 0	200	- 2 + 4	46.43	+ 5	1.208	+ 1
Apparel	92	0 + 2	250	- 1 + 5	38.53	+ 3	.976	+ 2
Lumber	83	- 1 - 7	182	+ 1 - 11	40.78	- 4	1.105	+ 3
Furniture and lumber products	99	+ 2 + 17	250	+ 2 + 28	46.84	+ 9	1.080	+ 6
Paper	118	+ 2 + 2	279	+ 3 + 9	51.05	+ 7	1.224	+ 6
Printing and publishing	131	0 - 3	297	+ 3 + 1	64.31	+ 4	1.714	+ 5
Chemicals	111	0 - 11	247	0 - 7	53.11	+ 4	1.325	+ 3
Petroleum and coal products	142	- 1 - 5	291	- 2 - 8	62.29	- 4	1.644	0
Rubber	127	+ 2 0	255	- 4 - 2	49.83	- 3	1.406	- 2
Leather	87	0 + 1	197	0 + 5	38.67	+ 4	1.093	+ 6
Stone, clay and glass	114	+ 1 - 9	260	+ 1 - 8	52.19	+ 1	1.287	+ 1
Iron and Steel	123	0 - 11	252	- 9 - 18	55.40	- 8	1.538	0
Nonferrous metals	114	- 1 - 12	254	0 - 11	57.97	+ 1	1.440	0
Machinery (excl. electrical)	163	0 - 18	358	+ 2 - 16	55.60	+ 2	1.421	+ 1
Electrical machinery	208	0 - 4	446	+ 2 - 5	59.91	- 1	1.496	- 3
Transportation equipment (excl. auto)	125	- 11 - 48	260	- 11 - 50	63.32	- 2	1.579	- 3
Automobiles and equipment	117	- 2 0	272	- 3 + 9	64.11	+ 9	1.562	+ 5
Other manufacturing	115	+ 1 - 1	239	+ 1 0	43.33	+ 1	1.195	+ 4

*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. = 100 Adjusted for seasonal variation	Mar. 1950 (Index)	Per cent change			Per cent change from year ago
		Mar. 1950 from		3 mos. 1950 from year ago	
		month ago	year ago		
SALES					
Department stores	263	- 5	- 4	0	
Women's apparel stores	205	- 6	- 17	- 12	
Furniture stores		+ 25*	+ 10*	+ 2*	
STOCKS					
Department stores	237P	+ 1	- 1		
Women's apparel stores	221	+ 2	+ 1		
Furniture stores		+ 8*	+ 1*		
Recent Changes in Department Store Sales in Central Philadelphia					
Week ended April 1				- 4	
Week ended April 8				- 6	
Week ended April 15				- 20	
Week ended April 22				+ 6	
Week ended April 29				- 2	

*Not adjusted for seasonal variation. P—preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales		Stocks (end of month)		
	% chg. Mar. 1950 from year ago	% chg. 3 mos. 1950 from year ago	% chg. Mar. 1950 from year ago	Ratio to sales (months' supply) March	
				1950	1949
Total — All departments	- 1	- 1	- 1	2.8	2.7
Main store total	- 1	0	0	3.0	3.0
Piece goods and household textiles	- 19	- 13	+ 5	3.7	2.8
Small wares	- 3	0	+ 3	3.9	3.6
Women's and misses' accessories	+ 3	0	+ 9	2.8	2.6
Women's and misses' apparel	- 6	- 8	- 3	1.8	1.7
Men's and boys' wear	+ 8	+ 3	+ 9	4.0	3.9
Housefurnishings	+ 4	+ 11	- 7	3.3	3.7
Other main store	- 2	- 5	- 12	3.1	3.3
Basement store total	- 3	- 5	- 4	1.8	1.8
Domestics and blankets	- 10	- 6	- 4	2.3	2.2
Small wares	+ 12	+ 11	- 6	1.8	2.2
Women's and misses' wear	- 4	- 8	- 3	1.3	1.3
Men's and boys' wear	+ 4	- 1	+ 3	2.4	2.4
Housefurnishings	- 3	- 2	- 18	2.3	2.7
Shoes	+ 3	- 2	0	2.8	2.9
Nonmerchandise total	+ 2	+ 1			

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receiv- ables (end of month)
	% chg. Mar. 1950 from yearago	% chg. 3 mos. 1950 from yearago	% chg. Mar. 1950 from year ago
	Department stores		
Cash.....	- 4	- 7	
Charge account.....	+ 1	0	+ 5
Instalment account.....	+16	+27	+25
Furniture stores			
Cash.....	+15	- 7	
Charge account.....	+ 3	+ 5	
Instalment account.....	+ 9	+ 7	+15

Loan Credit Third F. R. District	Loans made		Loan bal- ances out- standing (end of month)
	% chg. March 1950 from year ago	% chg. 3 mos. 1950 from year ago	% chg. March 1950 from year ago
	Consumer instalment loans		
Commercial banks.....	+81	+72	+26
Industrial banks and loan companies.....	- 6	- 1	+ 3
Small loan companies.....	-36	-36	+13
Credit unions.....	+26	+35	+27

PRICES

Index: 1935-39 average = 100	March 1950 (Index)	Per cent change from	
		month ago	year ago
Wholesale prices—United States.....	189	0	-4
Farm products.....	210	0	-7
Foods.....	197	-1	-5
Other.....	180	0	-3
Consumer prices			
United States.....	167	0	-1
Philadelphia.....	166	+1	-2
Food.....	192	+1	-2
Clothing.....	181	0	-5
Rent.....	122	0	+1
Fuel.....	144	0	-1
Housefurnishings.....	189	0	-3
Other.....	152	0	0

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	Allcom- modi- ties	Farm prod- ucts	Foods	Other
Week ended April 4.....	189	207	197	179
Week ended April 11.....	189	208	196	180
Week ended April 18.....	189	207	196	180
Week ended April 25.....	191	212	200	181

Source: U.S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions \$)	March 29 1950	Changes in—	
		five weeks	year
Money supply, privately owned.....	167.1	-1.0	+3.0
Demand deposits, adjusted.....	83.3	-1.3	+2.2
Time deposits.....	59.2	+ .3	+1.2
Currency outside banks.....	24.6	- .1	- .5
Turnover of demand deposits.....	19.3*	+2.1*	+ .5*
Commercial bank earning assets.....	120.3	- .3	+7.8
Loans.....	43.7	+ .5	+1.3
U.S. Government securities.....	65.8	-1.3	+4.9
Other securities.....	10.8	+ .5	+1.6
Member bank reserves held.....	15.8	- .4	-3.2
Required reserves (estimated).....	15.3	- .1	-3.2
Excess reserves (estimated).....	.5	- .3	0

Changes in reserves during 5 weeks ended March 29 reflected the following:

	Effect on reserves
Net payments to the Treasury.....	-6
Decline in Reserve Bank holdings of Governments.....	-1
Decrease in monetary gold stock.....	-1
Increase in loans to member banks.....	+3
Other transactions.....	+1
Change in reserves.....	-4

*Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	Apr. 26 1950	Changes in—	
		five weeks	year
Weekly reporting banks—leading cities United States (billions \$):			
Loans—			
Commercial, industrial and agricultural.....	13.5	- .4	- .7
Security.....	2.4	+ .4	+ .5
Real estate.....	4.5	+ .1	+ .4
To banks.....	.3	- .1	0
All other.....	4.6	+ .1	+ .8
Total loans—gross.....	25.3	+ .1	+ 1.0
Investments.....	41.6	- .6	+ 4.3
Deposits.....	74.4	- .5	+ 2.6
Third Federal Reserve District (millions \$):			
Loans—			
Commercial, industrial and agricultural.....	486	- 9	- 24
Security.....	39	0	+ 6
Real estate.....	108	0	+ 18
To banks.....	8	- 26	+ 5
All other.....	321	+ 2	+ 46
Total loans—gross.....	962	- 33	+ 51
Investments.....	1,831	+ 66	+ 225
Deposits.....	3,061	-121	+ 196
Member bank reserves and related items United States (billions \$):			
Member bank reserves held.....	16.0	- .1	- 3.1
Reserve Bank holdings of Governments.....	17.6	+ .1	- 3.6
Gold stock.....	24.2	0	- .1
Money in circulation.....	27.0	0	- .4
Treasury deposits at Reserve Banks.....	.8	+ .1	- .3
Federal Reserve Bank of Phila. (millions \$)			
Loans and securities.....	1,181	+ 5	- 285
Federal Reserve notes.....	1,599	+ 3	- 10
Member bank reserve deposits.....	748	- 17	- 142
Gold certificate reserves.....	1,331	+ 10	+ 163
Reserve ratio (%).....	53.4%	+ .2%	+ 8.8%