

# business review



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## HIGHWAYS: THE \$33 BILLION WAY OUT OF THE MUDDLE?

*Motorists are already paying for \$33 billion of new highways to be constructed during the next 13 years. It's not the size of the price tag that will break up the traffic jams but the spending of the right amounts at the right places.*

## THIRD DISTRICT BANKING

*While earning assets increased little in the past year, there was a marked shift from investments to loans. This contributed to a substantial increase in earnings.*

## CURRENT TRENDS

*Business activity ran at just about the speed limit through June. For the rest of the year it looks as if more of same is in order.*

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**HIGHWAYS:**

**THE \$33 BILLION WAY**

**OUT OF THE MUDDLE?**

Late in June, Congress passed a monumental \$33 billion road-building bill. Sponsors of the bill said that it sets in motion “the greatest governmental construction program in the history of the world,” and the American people “will ride safely upon many thousands of miles of broad, straight, trouble-free roads, four to eight lanes wide, criss-crossing America from coast to coast and border to border, built to the very highest standards that our highway engineers can devise.”

Keystone of the program is a 41,000-mile network of modern highways linking 42 state capitals and 90 per cent of all the cities of more than 50,000 population. Federal outlays of \$26 billion

are authorized to meet 90 per cent of the cost of completing the interstate system over a period of 13 years. State highway departments will do the actual construction and states will bear 10 per cent of the cost—almost \$3 billion. The bill also provides for a gradual step-up in the regular Federal-aid highway program by the authorization of \$2½ billion in the next three years. For this part of the program, Federal outlays are matched dollar for dollar by the states.

Construction of roads in national parks, forests, and Indian reservations financed entirely by the Federal Government involves additional outlays of almost a half-billion dollars over the next three

years. Altogether, the program adds up to \$28 billion in highway outlays by the Federal Government and approximately \$5½ billion for the states.

Before the ink had a chance to dry on the brand-new bill, highway-user taxes were imposed to defray the cost. The Federal gasoline tax was raised from 2 cents a gallon to 3 cents; the diesel fuel tax was jacked up from 2 to 3 cents a gallon; taxes on tires were jumped from 5 cents a pound to 8 cents; a 3 cents-a-pound tax was imposed on rubber used for recapping and retreading tires; the sales tax on the manufacturers' prices of trucks, buses, and truck trailers was raised from 8 to 10 per cent; and a tax of \$1.50 per thousand pounds was imposed on motor trucks weighing in excess of 13 tons. The new levies, which went into effect on July 1, the beginning of the Government's new fiscal year, were referred to by the press as "pay-as-you-ride" tax provisions, but in reality they are "pay-before-you-ride" on the new roads yet to be built. According to early estimates, the average motorist will find his fuel and tire costs increased \$6 to \$9 a year.

The new highway bill represents a departure from traditional American highway policy in that the bill provides for a much greater participation by the Federal Government than heretofore. To be sure, the Federal Government has been making substantial contributions for the construction of our road system, but never before on the grand scale provided in the new legislation. The greatly increased Federal participation is based, in part, on the huge construction job faced by the states whose programs were interrupted by World War II. Meanwhile the volume of traffic soared. Another reason for the increased Federal participation is the need for a greatly improved highway system as part of the over-all national defense program.

## THE COLOSSUS OF ROADS

Most of the expenditures authorized in the new bill are to be used for the improvement of existing roads rather than for the construction of additional mileage. This is as it should be because we already have a vast network of roads and highways, and our most pressing problem is not additional mileage but relief from the appallingly overcrowded conditions on the most heavily traveled sections of our road system.

The street on which your front door faces is part of a continental network of 3.4 million miles of city streets and country roads—enough to encircle the world 135 times. Over 3 million miles, or about 90 per cent, are rural or country roads and the remainder consists of city streets. Qualitatively, the network ranges from narrow and winding, gravelly pathways to broad, smooth-surfaced, high-speed expressways. On the basis of who builds, manages, and maintains the roads, there are several well-defined systems of highways.

The Federal-aid primary system consists of about a quarter-million miles, predominantly rural, connecting all of the principal cities, county seats, ports, manufacturing areas, and other traffic-generating localities. These are the main state trunk-line roads. Examples are U.S. Route 1 which runs from Maine through Philadelphia to Florida, and U.S. Route 30 which runs from Atlantic City through Philadelphia to the West Coast. The U.S. shield bearing the route number of these roads has no particular significance except that it aids the motorist to find his way through unfamiliar territory.

The Federal-aid secondary system, slightly over one-half million miles in length, consists of important feeder roads linking farms, factories, distribution outlets, and smaller communities of the nation with the primary system. They are commonly called the farm-to-market system.

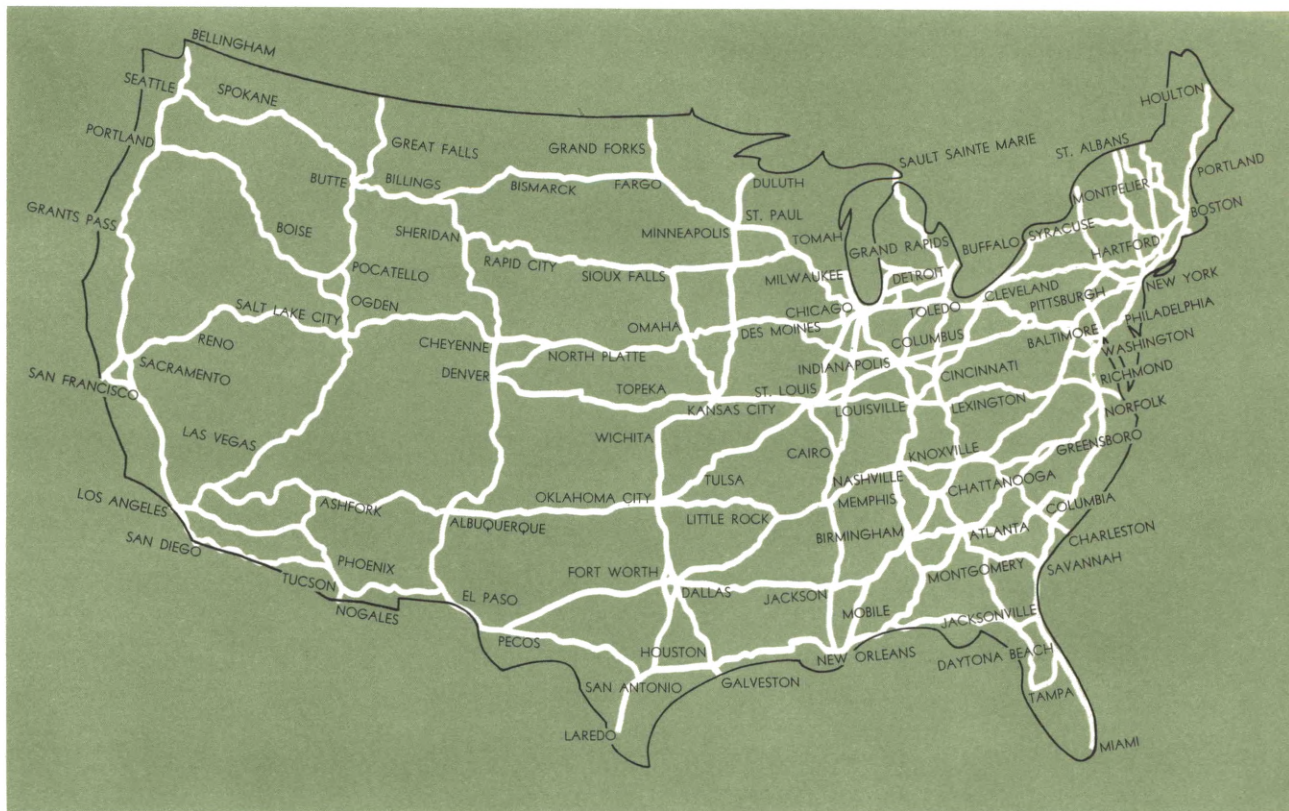
Local examples are Route 3 out of Philadelphia to West Chester, and Route 23 from Philadelphia to Lancaster via Phoenixville.

Responsibility for construction of these two Federal-aid systems traditionally has been shared in about equal amounts by the Federal Government and the states, in accordance with a formula taking into account land area, road mileage, and population. Some sections of the primary system are more important than others, from the standpoint of national interest. Consequently, Congress, in 1944, authorized the selection of a special network not to exceed 40,000 miles in

length, which in the language of the act would be so located as "to connect by routes, as direct as practicable, the principal metropolitan areas, cities, and industrial centers, to serve the national defense, and to connect at suitable border points with routes of Continental importance in the Dominion of Canada and the Republic of Mexico." This system, which came to be known as the National System of Interstate Highways, joins 42 state capitals and 90 per cent of all cities over 50,000 population.

The interstate system of highways, which the new bill extended to 41,000 miles, embraces only

## THE INTERSTATE HIGHWAY SYSTEM



Source: Adapted from "Freedom of the American Road," published by the Ford Motor Company, Dearborn, 1956

1.2 per cent of the total mileage, but carries about one-seventh of all the traffic, serves 45 per cent of the rural and two-thirds of the urban population. Actually, the interstate system is the most heavily traveled portion of the Federal-aid primary system. It is a basic network from the standpoint of Federal interest, interstate commerce, and national defense. Federal-aid highway systems make up about one-fifth of all the mileage, so it is apparent that the great bulk of our highway mileage consists of country roads and city streets that are outside the Federal-aid system. They have been constructed and are maintained and administered by a great diversity of political units. This may be illustrated with reference to Pennsylvania.

Pennsylvania has 100,000 miles of highways and they are administered by more than 2,500 governmental units. The state administers 41 per cent of the mileage, the counties administer about 1 per cent, cities 6 per cent, boroughs and towns 5 per cent, first-class townships about 2 per cent, and second-class townships 45 per cent. (A first-class township is one with a population of 300 or more per square mile; all others are second-class.)

For the country as a whole, we have about 35,000 governmental units administering the entire network of roads. Approximately 17,000 of these units are cities, boroughs, and villages engaged in construction and maintenance of streets and highways within their borders. More than 18,000 governmental units have some type of jurisdiction over the local rural roads. Local road units vary in size from little districts that take care of a mile or two to very large districts like California's San Bernardino County which is larger than New Hampshire and Vermont combined. With such a diversity of governmental road builders, our network of highways has a surprising unity.

### **Turnpike trends**

Florence, N. J., and Edgely, Pa., were united in turnpike matrimony on May 25, 1956 with gubernatorial ribbon-cutting on the new bridge over the Delaware linking the New Jersey and Pennsylvania turnpikes. The press hailed the union by pointing out that it is now possible for a motorist to drive from Augusta, Maine, to the Ohio-Indiana border unimpeded by stoplights except for a short stretch in Massachusetts.

Just as glamor girls command attention out of all proportion to their importance among their less well-favored sisters, so turnpikes—the glamor gangways—command attention out of all proportion to their economic importance in our highway system. Turnpikes are just a small fraction of our highway mileage.

Pennsylvania, it was pointed out in the July *Business Review*, built the country's first turnpike from Philadelphia to Lancaster in the late 18th century, and Pennsylvania was also responsible for the revival of the turnpike movement in the present century. The original 160-mile section of the Pennsylvania Turnpike between Irwin and Middlesex was begun in the fall of 1938, with the help of an RFC loan, a PWA grant, and the partially graded right-of-way of an abandoned railroad, including tunnels bored through several mountains. Completion of the turnpike was interrupted by World War II, after which Pennsylvania built the Philadelphia extension between Middlesex and King of Prussia. In 1951 the turnpike was extended to the Ohio state line, and in 1954 the eastern end was extended to the Delaware River. Construction costs ranged from a half-million dollars per mile for the original section of the turnpike to \$2 million a mile for the Delaware River extension.

Despite the huge cost of construction, the Pennsylvania Turnpike operated at a profit from the

very outset. Outstanding bonds are being redeemed years ahead of schedule. Since the opening of the original section of the turnpike, revenue from vehicular traffic has increased every year except for two years during World War II when gasoline rationing restricted civilian motoring.

The success of the Pennsylvania Turnpike started a stampede of toll-road construction. Over 1,800 miles of toll roads have been built. Most of the mileage is in New York, New Jersey, Pennsylvania, and Ohio. Almost 1,400 miles of toll roads are in process of construction, and about 5,000 miles were proposed or at least were under consideration at midyear. Among the toll roads in operation, the Pennsylvania Turnpike is the oldest, New York's 427-mile Thruway from New York City to Buffalo is one of the swankiest, New Jersey's 118-mile turnpike running almost the full length of the state is the most profitable, and West Virginia's 88-mile turnpike from Charleston to Princeton is most-often cited as a turnpike mistake because the road is losing money. Traffic on the New Jersey Turnpike turned out to be more than three times the pre-completion estimates of the engineers. Ohio's 241-mile turnpike, linking the Pennsylvania and Indiana turnpikes, has not had sufficient time to determine its profitability but thus far the results have been somewhat disappointing.

Much of the success of the Pennsylvania and New Jersey turnpikes, and particularly the latter, may be ascribed to their location right in the heart of the most heavily populated section of the country, which assures an abundance of motor traffic.

Reinfected by its own success, Pennsylvania drew up plans to add about 850 miles of toll roads to its present 360-mile system. Presently under construction is the 110-mile extension from Philadelphia to Scranton. Authorized or ready to begin construction are extensions from Scranton

to Sayre, from Norristown to the Delaware line, from Gettysburg to the Maryland line, from Pittsburgh north to Erie and south to the West Virginia line, from the Pocono Mountains to the Delaware Water Gap, and another turnpike all the way across the state from Stroudsburg to Sharon. But these plans may be altered as a result of recent developments.

Prior to the passage of the 1956 highway act, investment ardor for toll-road bonds had already cooled off considerably because revenue on some of the various issues did not come up to expectations. Sales of toll-road bonds declined from \$1.6 billion in 1954 to less than half that amount last year. Even in Pennsylvania where the turnpike boom started there is turnpike trouble. Despite continuing favorable earnings on the section of the turnpike from Valley Forge westward, which is a good many years ahead of schedule on its bond-retirement program, the Delaware River extension and the uncompleted northeast extension to Scranton have thus far failed to earn their sinking-fund reserve requirements. Consequently, the Turnpike Commission recently announced a system-wide toll increase of 41 per cent for passenger cars and a 20 per cent cut in tolls for trucks to generate more revenue. The action precipitated a storm of protest, whereupon the new schedule of tolls was withdrawn awaiting further study.

The new highway bill may well give the *coup de grâce* to the languishing toll-road construction boom. Under the new program, toll roads in use and those already under construction *may* be integrated into the interstate system if Congress so decides at a later date. But with respect to new toll roads contemplated, what state would assume the risk when, under the new highway act, states can get 90 per cent of the construction costs from the Federal Government?

### THE ROAD TO CHAOS

Speaking before the 48th Annual Conference on Taxation, assembled in Detroit last October, Dick Netzer of the Federal Reserve Bank of Chicago said:

In the 50 years since the advent of the automobile, public agencies have spent close to \$80 billion on improving and maintaining roads and streets. Despite this vast outlay, correcting highway deficiencies—that is, making possible the cheap and rapid movement of passengers and freight our growing economy requires—is now the nation's most expensive governmental problem, aside from defense. Our present difficulties are the result of a combination of factors—unexpectedly large increases in the demand for highway facilities over the past decade, unusual lags in road outlays during the 1940's, and for most governments during most of the past five

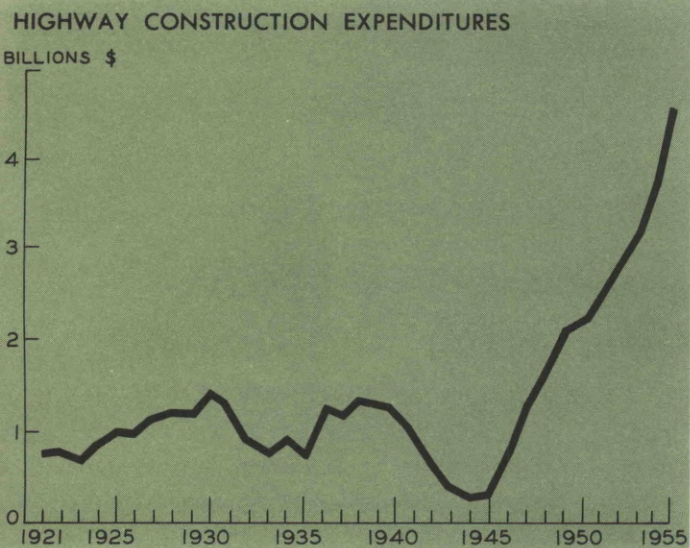
decades, spending on the wrong roads in the wrong places in the wrong ways, to paraphrase General Bradley.

The increase in demand for highway facilities is easily documented by citing the multiplication of motor vehicles on the highways. During the decade ending 1955, passenger-car registrations doubled from 26 million to 52 million, and motor-truck registrations also doubled from 5 million to 10 million. Thus, total motor-vehicle registrations doubled from 31 million to 62 million. These doubles are the beginning of our troubles.

The unusual lags in road outlays during the 1940's are clearly portrayed in the chart of highway-construction expenditures. During World War II, construction expenditures almost came to a standstill. Increased outlays since the end of the war did not accomplish as much as the rising curve might indicate because higher costs of labor and materials did not produce as much roadway as in former years. In real terms, the progress made in the post-war decade was scarcely better than that prevailing during the 1930's.

"Spending on the wrong roads in the wrong places in the wrong ways" has been hallowed by tradition. In the July issue of the *Business Review* it was pointed out how the advent of the automobile gave rise to the cause for good roads and the great emphasis that was placed on getting the farmer out of the mud. Most city streets had already been paved when the motor car appeared, so huge sums of money were spent in surfacing the vast network of rural roads, and the outmoded area-and-population formula for sharing costs among the various levels of government has long survived its usefulness because it short-changes metropolitan areas. The better-roads argument always made good campaign material for rural candidates to state legislatures.

It is now quite some years since farmers have



Source: "Modernizing the Nation's Highways,"  
Research and Policy Committee of the  
Committee for Economic Development, New York

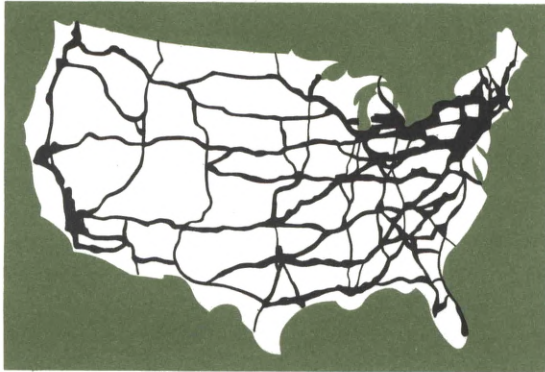


been pulled out of the mud, but much of the thinking and planning and spending for highways continues to be "mud bound." Approximately a million miles of local rural roads serve no more than about a dozen vehicles a day; they are, in effect, little more than public driveways. Yet they continue to get almost as much attention as the major highways.

Someone has figured out that if all the country's motor vehicles were evenly distributed over the country's entire network of roads there would be one vehicle for every 650 feet on every lane in both directions on all streets and highways. The trouble is that cars are never so distributed. Too many of them crowd into too little of the mileage. Our major highway problems are no longer out in the country but in the metropolitan areas. The unequal distribution of motor traffic on our over-expanded highway mileage is portrayed, in part,

#### TRAFFIC ON THE INTERSTATE ROUTES

*(Thick lines clustering around cities show where needs are greatest)*



Source: "Freedom of the American Road," published by the Ford Motor Company, Dearborn, 1956

by the accompanying map showing traffic density on interstate routes. Note the heavy concentration of traffic in southern New England, the Middle Atlantic states, the East-North-Central

region, and the Pacific Coast. As is to be expected, traffic density coincides with population density. It is the cities and their suburbs that are choked with motor traffic. Here is where traffic grinds to a stop-and-go crawl; here is where fenders are bashed and bumpers are smashed; here is where the automobile becomes a great scientific frustration.

Urban areas generate half or more than half of all traffic; yet they have been receiving less than one-fifth of the highway-construction funds contributed by motorists in the form of Federal, state, and local taxes and tolls. Since funds for highway construction are not unlimited, it would seem to make sense that most of the expenditures should be applied to the most heavily traveled roads. While it is true that urban vehicle owners often use main intercity roads, which justifies some diversion of funds to the construction of these roads, there is, however, little justification for the heavy diversion to local rural roads which has been the practice for so many years.

Traffic surveys indicate that most of the congestion in the big cities is caused by local traffic, and in the smaller cities and towns most of the difficulty is caused by through traffic. In many instances, relief has been afforded for the smaller communities by the construction of by-passes and alternate routes so that the traffic is diverted from "Main Street," to the satisfaction of both the local communities and the out-of-town motorists. In the big cities, however, traffic problems are really acute.

The ebb and flow of city traffic are as regular as the tides. In the morning, suburban and country commuters from all directions converge on the city and particularly upon the downtown business district; and 5 o'clock in the afternoon touches off the big stampede to get home in an even greater hurry. In the summertime the daily cycle

is supplemented by a weekly cycle to add to the traffic confusion. On Friday night great hordes of urban "cliff dwellers" flee to the mountains or the seashore for a breath of air, and on Sunday night or Monday morning they fight their way back through the traffic tribulation and arrive too fagged out to work.

Traffic experts and highway engineers have resorted to every conceivable means to alleviate the chaos. The means are familiar to all motorists: traffic lights, traffic circles, clover leaves, multiple lanes, overpasses, underpasses, divided highways, stop signs, one-way streets, no left turns, no right turns, no U turns, no parking, pigeon-hole parking, underground parking, rooftop parking, parking lots, parking meters, parkaterias, traffic counts, origin-and-destination surveys, radar traffic direction, safety drives, traffic courts, drunken-driver crusades, education, and exhortation. Despite all these and other devices, the swarming mob of motor cars continues to grow, and traffic queues get longer and longer because of the elementary law of physics that no two objects can occupy the same space at the same time.

### **BREAKING THE BOTTLENECKS**

The question is, will \$33 billion and 13 years break the traffic jam? This depends upon whether the money is spent at the right places. If most of the money goes into the construction of great intercity super-expressways without opening the congested streets and highways in metropolitan areas, we shall be little better off than we are now.

We do not need high-speed, transcontinental highways nearly so much as we need wider streets and open roads in and around our cities where most of the motor traffic is constantly milling around. The possibility of long-distance motor trips unobstructed by traffic signals and intersec-

tions has glamor and dramatic appeal, but the records of toll collection on our turnpikes show an overwhelming predominance of shorter trips. The heaviest traveled section of the New Jersey Turnpike is the 17-mile stretch between the tunnel and ferry discharge points on the Hudson River and the Secaucus interchange near Newark. This short stretch accounts for almost half of the revenue of the entire 118-mile-long toll road. Spot checks made by the Pennsylvania Turnpike Commission indicate that the average trip is less than 100 miles.

One of the major defects of our highway system heretofore was the diffusion of highway-user funds; that is, spending on the wrong roads. What really happened was that the lightly traveled roads were subsidized by the heavily traveled roads. The latter produced a "profit" in the sense that they yielded user revenue in excess of their cost, and the "profit" was used for the construction and maintenance of the lightly traveled roads that operated at a "loss."

The heavily traveled roads will continue to be those in our metropolitan areas, and they are the ones that should receive the major overhauling. They are also the roads that will be the most costly to rebuild because of the high cost of moving public-utility installations, building bridges and overpasses, and acquiring the more expensive rights-of-way.

### **In 1969**

While the roadbuilders are busily calculating the millions of tons of cement, steel, and stone, and the man-hours of labor required to perform the \$33 billion road-building job, we, the people who drive on the roads, may be prone to look upon the job as 13 years of detours while the reconstruction is in progress, after which we shall emerge in 1969 with handsome highways and no more traffic

problems! That is probably expecting too much.

In the next 13 years the motor industry can put a great many additional vehicles on the roads. During the past 13 years the number of motor-vehicle registrations increased 100 per cent. Continued growth at that rate would give us 124 million registrations by 1969; sustained growth at only half the rate would give us 93 million motor vehicles. That would be bad enough even with a \$33 billion improved highway system.

### SKYSCRAPERS AND ROADSCRAPERS

Look at New York City where people are piled higher than anywhere else in the world. What a traffic tangle! Cross-town motoring in Manhattan is frequently slower than walking. Incoming trains often pour people into the stations faster than the taxis can take them away, whereupon the astute traveler checks his bag on arrival, walks out along the avenue to capture a taxi discharging its fare, and then returns to the station to pick up his bag and goes on his way. Nothing but sheer brute strength prevents the subway commuter from being shoved into the wrong train by the surging mob during the rush hour. Anyone who has ever been caught in the Manhattan maelstrom of motor cars, trucks, buses, taxis, pushcarts, and pedestrians will avoid driving through the city if possible.

Basically, it is the mass of skyscrapers that makes the mess of traffic. The higher the skyscrapers go the more people they accommodate and the farther out into the country the roadscrapers must go to build roads to accommodate the commuters. "It would take a great mind indeed," said Lewis Mumford, "to decide which set of planners is more irrational—the people who are piling up high structures in the overcrowded business districts of our cities, or the people who

are creating cross-country expressways that dump more traffic into them."\*

In other cities, traffic conditions are essentially like those in New York except that they are not quite so acute. In Philadelphia, for example, we haven't gone skyscraper mad but we have our full share of traffic troubles. Even here bulldozers are chewing away at the edges of Fairmount Park to make way for another major traffic artery that will feed more traffic into the narrow downtown streets overrun with private motor cars, trolleys, buses, and great motor trucks hauling squealing pigs and cackling chickens to market. Some day we may have to adopt the proposal that downtown Chestnut Street be closed to vehicles and reserved entirely for pedestrian traffic—as New York has done in the Wall Street district.

The common carriers—the street railways and bus lines—are an integral part of the entire metropolitan network of transportation. In many instances the common carriers are fighting a losing battle with the private motor car. The common carriers face ever-rising costs of operation and they are constantly losing traffic to the private motor car, with the result that they are forced either to raise fares or curtail service—policies ill-designed to attract traffic. Strategically located bus garages, truck terminals, railway stations, street-car and bus lines, and transfer points are at best temporary palliatives. The skyscrapers are too far ahead of the road scrapers.

What shall we do then—tear down our cities and rebuild them to accommodate the motor age? That is obviously impossible, but it does raise some very basic questions. Should new urban buildings be required to provide parking facilities for the motorists they will be housing? Do new facilities like vehicular tunnels, off-street parking,

\* "From the Ground Up," by Lewis Mumford (Harcourt, Brace and Company, Inc., New York, 1956).

limited-access expressways, and parkways relieve traffic congestion in urban areas, or attract more traffic making for bigger traffic jams in the future? Are we spending too much for roads and not enough for other forms of transportation?

The motor car is one of the most powerful forces hastening the obsolescence of cities. The evidence is readily apparent on comparing the stunted growth of cities with the lush growth of their suburbs. Since 1920, the population of Philadelphia grew 18 per cent, but the population of the seven surrounding counties grew by amounts ranging from 54 per cent in Chester County to 183 per cent in Delaware County. Commercial and industrial activities are also spilling over the city limits. Industries that formerly flourished in the city, increasingly cramped for space, moved out into the neighboring counties where there is more "elbow room." First to move were the heavy industries, like the manufacturers of locomotives and some of the printing and publishing concerns, which needed more space and found it more economical to move their heavy metal presses and printing presses out into the country rather than upstairs on their city premises. More recently, manufacturers of scientific instruments, storage batteries, radio, etc., joined the industrial migration into the suburbs. New firms that have come into the area in recent years

have not built in Philadelphia, but in the outlying districts. Examples of firms that came into the area but not into town are the steel mills, rubber tire manufacturers, office machinery builders, scientific laboratories and research organizations.

Still more recently, the big downtown department stores have joined the out-of-town movement by establishing suburban branches. The dozen suburban branches already established are prospering more than their parental headquarters downtown. Suburban customers prefer to do their shopping at the neighborhood branches which offer parking facilities rather than become embroiled with downtown traffic where parking is inconvenient, costly, and sometimes impossible to find. The situation in Philadelphia is not unique; it is typical of all big cities.

The planning of urban highways and approaches cannot or should not be considered apart from the over-all problem of city planning. The street system, which ordinarily takes up about one-third of a city's land area, is part of the larger problem of land use. A city, however, is more than a heap of concrete, steel, and glass. It is also a heap of living together with diversified activities—industrial, commercial, financial, cultural, civic, religious, educational, and political. But in giving maximum expression to all of these activities, the street system plays a very essential role.

## THIRD DISTRICT BANKING

Banking operations in the Third District over the year ended June 30 show substantial changes in the composition of bank assets; little change in the over-all volume of deposits; higher earnings; pressure on reserve positions; and numerous bank mergers.

Member bank loans expanded month by month and the aggregate increase of \$486 million to

\$4,046 million was one of the largest in any twelve-month span on record. Approximately two-fifths of this increase was in accommodation to business concerns. Growth in business loans doubtless reflected a need for funds to help pay the costs of modernization and additions to plant and equipment, carry larger inventories, and meet other expenses incident to high level operations. Details

provided by a group of large banks indicate that expansion was concentrated in loans to manufacturers, but included substantial increases in advances to utilities and trading concerns. Sizable increases also were reported in loans to finance real estate and in consumer instalment paper, although growth in the latter slowed materially in the first half of 1956.

Sharply rising loans were accompanied by heavy sales of securities, with the result that total earning assets of member banks in this district show an increase over the twelve months of only \$115 million to \$7,089 million. Holdings of Federal Government securities declined \$294 million and other investments, \$77 million. The over-all level of deposits was up even less than earning assets, showing an increase of only \$45 million to \$8,011 million.

Some pressure on reserve positions was evidenced in this district by a lower volume of excess reserves than in the preceding year and borrowings from the Reserve Bank in greater amount than excess reserves. This "net borrowed reserve" position was due chiefly to reserve city banks, located in Philadelphia, the money center of the district. Semi-monthly averages for the "country" banks of the district show lower excess reserves and somewhat larger borrowings from the Reserve Bank than in the preceding year, but in all of the periods excess reserves were larger than borrowings from the Reserve Bank.

The natural result of the substantial growth in loans and somewhat higher interest rates was a material rise in income from this source. Higher earnings also were reported from service charges, trust operations, and miscellaneous sources, but not from investments. Preliminary tabulations show that the total earnings of member banks in this district reached \$160 million in the first half of 1956, an increase of \$19 million over the cor-

responding period last year. Current expenses also rose considerably, but not as much, so that earnings after current expenses moved up \$7.4 million, or nearly 14 per cent, to \$62.1 million. An increase of several millions of dollars in net losses and transfers to reserves reflected in part the building up of valuation reserves on loans. Income tax payments changed little. After all of these transactions are taken into account, the preliminary record showed net profits of \$29.3 million available for distribution, a figure \$4 million higher than in the first half of 1955. Dividends were larger, but absorbed little more than one-half of the net profits.

At mid-year, 553 commercial banks in this district were members of the Federal Reserve System. Over the twelve months from June 1955, 7 non-member banks merged into member institutions, while only 3 members merged into nonmembers. There were 21 instances of mergers or consolidations between member banks.

MEMBER BANKS Third Fed. Res. District (Millions \$)		
	June 30, 1956*	Changes in one year†
Loans .....	4,046	+486
U.S. Gov't securities.....	2,269	-294
Other securities .....	774	- 77
Total earning assets .....	7,089	+115
Deposits, total .....	8,011	+ 45
<b>Earnings, expenses and profits</b>		
	First half 1956*	Changes in one year†
Earnings:		
On securities .....	36.6	- 0.1
On loans .....	98.6	+16.9
Service chgs on deposits..	5.9	+ 0.6
Trust department .....	12.2	+ 1.4
Other earnings .....	6.7	+ 0.4
Total earnings .....	160.0	+19.2
Current expenses .....	97.9	+11.8
Net current earnings.....	62.1	+ 7.4
Net losses and transfers to reserves .....	11.0	+ 3.5
Taxes on income .....	21.8	- 0.1
Net profits .....	29.3	+ 4.0
Cash dividends declared....	15.3	+ 0.9

\*Preliminary tabulations.

†Adjusted for mergers, etc.

## CURRENT TRENDS

It's been quite a year so far! For a while, business analysts couldn't tell whether the economy was still booming or undergoing a mild recession. Activity in two or three industries, which have been bellwethers of the post-war business boom, was falling noticeably short of year-ago levels. Conversely, other industries felt a reassuring surge of demand for their products over the first half of the year. There was uncertainty in the minds of many as to whether increases or decreases were dominant. Recently, however, the question was resolved. The increases were larger than the decreases. The Commerce Department reported successive rises in total spending over the first two quarters of 1956.

Gross national product in the second quarter of 1956 approximated \$408.5 billion at an annual rate. This was \$5 billion higher than in the first quarter—an all-time high. An average of about 64 million people were working over the first half of the year out of a civilian labor force of 67 million. This represented an all-time record for employment, and meant that just 4 per cent of the labor force couldn't find work. In short, our economy ran at the speed limit over the first half of 1956. But we did it the hard way. We did it despite a few knocks in the engine.

The year through June probably was not the first six-month period during which we had a decline in the demand for automobiles and a sizable rise in business activity. Nor was it the first time that new housing starts ran below year-ago levels in the midst of a general boom. And sometimes in the past, television and radio sales have not followed the general trend upward; but try to find a previous peacetime period when automobile sales, new housing starts, and television and radio

shipments declined at the same time while business activity, on the whole, zoomed along at the speed limit.

These three industries have been important in the post-war business boom. In fact they have been used, to some extent, as barometers of business activity. With automobile production 25 per cent below 1955 levels, housing starts 18 per cent down, television and radio shipments off 10 per cent, it is no wonder that many business analysts were surprised to find gross national product running at so high a rate in the second quarter of this year.

Obviously, some areas of business were running very fast to make up for the lagging sectors. Business spending on plant and equipment was considerably up from a year ago, and might possibly have been higher still were it not for shortages of some strategic materials. State and local government spending, mainly on highways and schools, continued upward. This kind of spending has gone up each year since 1944. Consumer spending on services, another old stand-by of strength, increased for at least the 68th and 69th consecutive quarters. Consumer spending on food and clothing has been strong, too.

All in all, the pluses have been larger and the economy generally has not had to even slow down for repairs. Now the big question is, how does the second half of the year shape up?

In December 1955, this *Business Review* made its annual forecast for 1956, called "1956: Driving at the Speed Limit?" At that time the Review looked for G.N.P. in the fourth quarter of 1955 to be about \$400 billion, and said that a speed-limit rate for the four quarters of 1956 would be \$404 billion, \$408 billion, \$412 billion, and \$416

billion. The projection for the year of a G.N.P. of \$410 billion was considerably higher than most other forecasts.

Actually, according to the revised series, G.N.P. was \$401.9 billion in the fourth quarter of 1955, and \$403.4 billion and \$408.5 billion, respectively, in the first two quarters this year. Is it too much to believe that total spending in the final two quarters of the year will approximate \$412 billion and \$416 billion, or that for the year as a whole spending will total \$410 billion? Maybe not.

The figures look high but they don't look as high now as they did last December. The steel strike, of course, took something out of the third quarter but it may put more back into the final part of the year. A shakedown in steel inventories was coming in any event. The strike caused the paring-down process to take place much more rapidly than otherwise would have been the case.

Certainly, on the basis of the McGraw-Hill and S.E.C.-Commerce Department surveys, it is expected that business spending on plant and equipment will continue strong for the foreseeable future. The present shortage of steel may put a little crimp in this spending in the third quarter of the year, but expenditures over the final months of 1956 may more than make up for this.

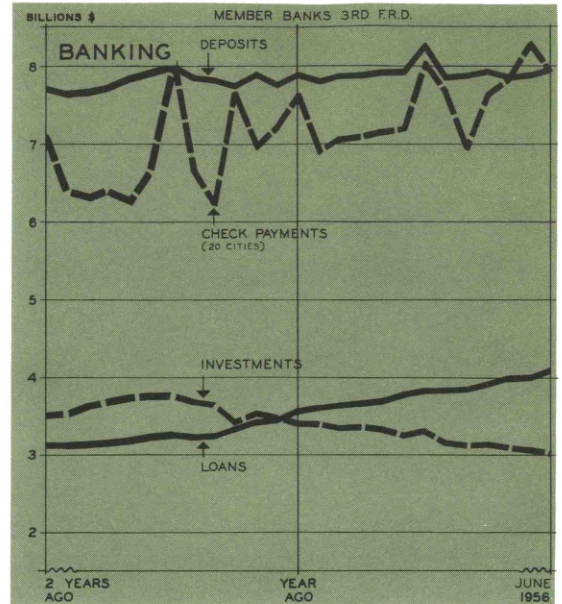
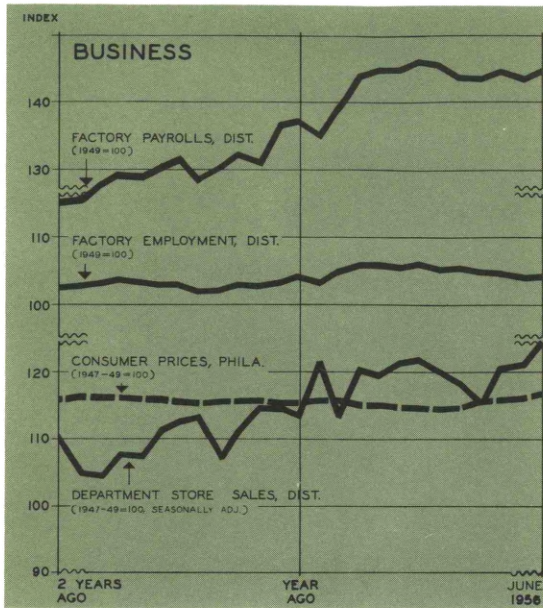
Nearly everyone expects that Federal Govern-

ment spending will be somewhat larger over the latter half of 1956. And who would look for any diminution in state and local government expenditures? Pressures from all sides for bigger and better-equipped schools and more and wider highways seem to assure further hikes in government outlays.

Finally, it is altogether possible that some of the industries that have been suffering by year-ago comparisons will improve their positions later this year. The automobile industry, by cutting back production, has helped its dealers to trim inventories. The prospect is for an orderly introduction of 1957 models. Style changes are expected to be more extensive, so that sales could spurt in the final months of the year. Appliance makers seem to have a good thing going for them in portable television sets. A second set that can be moved from recreation room to bedroom to patio is becoming "a must" for many middle-income families.

It is still—as it was in December—difficult to see how the economy can drive at the speed limit for the entire year. But this trick was pretty much accomplished over the first part of the year. A total spending figure for 1956 of \$410 billion looks a lot more possible in August than it did last December.

# FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	June 1956 from		6 mos. 1956 from year ago	June 1956 from		6 mos. 1956 from year ago
	mo. ago	year ago		mo. ago	year ago	
<b>OUTPUT</b>						
Manufacturing production	0	-2	+2	0	+1	+4
Construction contracts*	-3	+3	+3	-1	+4	+10
Coal mining	+2	+19	+13	-1	+14	+16
<b>EMPLOYMENT AND INCOME</b>						
Factory employment (Total)	0	0	+2	0	+1	+3
Factory wage income	+1	+6	+9			
<b>TRADE**</b>						
Department store sales	+3	+10	+7	+2	+8	+6
Department store stocks	+4	+8		+2	+7	
<b>BANKING</b> (All member banks)						
Deposits	+1	+1	+1	+1	+2	+2
Loans	+2	+15	+17	+2	+17	+17
Investments	-1	-11	-12	-1	-10	-11
U.S. Govt. securities	-1	-12	-12	-1	-12	-12
Other	-2	-9	-12	0	-4	-3
Check payments	-4†	+4†	+9†	+1	+5	+9
<b>PRICES</b>						
Wholesale				0	+4	+3
Consumer	+1‡	+1‡	0‡	+1	+2	+1

\*Based on 3-month moving averages.  
\*\*Adjusted for seasonal variation.

‡20 Cities  
‡Philadelphia

LOCAL CHANGES	Factory*		Department Store		Check Payments					
	Employment	Payrolls	Sales	Stocks						
	Per cent change June 1956 from		Per cent change June 1956 from		Per cent change June 1956 from					
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago				
Allentown	+1	+4	0	+14			-3	+9		
Harrisburg	+2	+6	0	+17			-2	+3		
Lancaster	0	+1	-1	+3	-15	+9	-6	+7	+1	+11
Philadelphia	0	-1	+2	+6	-4	+10	-8	+9	-6	+5
Reading	-2	-2	-2	+5	-4	+9	-9	+1	-5	+1
Scranton	+1	+6	+3	+15	-10	+9	-6	+8	-3	+1
Trenton	0	+2	-2	+10	+9	+7	+2	-1	-24	-3
Wilkes-Barre	0	-6	+1	-2	-4	0	-6	-3	-5	-7
Wilmington	-1	-4	0	-1	0	+16	-6	+12	+23	+1
York	0	0	+1	+6	+11	+24	-1	+11	+4	+3

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