

National Goals and International Responsibility:
Sounding a Channel Between the Shoals

A Half-Century of Federal Reserve Policymaking, 1914-1964

July the Fourth Came Early This Year

FEDERAL RESERVE BANK OF PHILADELPHIA

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ANNOUNCEMENT

The Federal Reserve Bank of Philadelphia has published the following two books dealing with the Federal Reserve System and Federal Reserve policy:

A Half-Century of Federal Reserve Policymaking, 1914–1964,
by Clay J. Anderson, Economic Adviser.

This book deals with the thinking of Federal Reserve officials underlying policy formulation during a turbulent first fifty years, **as recorded in the minutes and proceedings of the policymaking groups.** Most of these official records of policy discussions are not available to scholars outside the Federal Reserve System. The primary purpose of the book is to bridge this gap; to make available a summary of official thinking about policy as it evolved to meet the problems created by an ever-changing environment, such as two world wars, the stock market boom in the late twenties, and the Great Depression. It covers various aspects of policy, including the role of the Federal Reserve System, objectives, guides as to when action should be taken to achieve them, use of the tools, and theories as to the causes of booms and depressions.

The Federal Reserve on Record: Readings on Current Issues from Statements by Federal Reserve Officials,
by David P. Eastburn, Vice President.

This book of readings contains an editorial by the author on "The Second Fifty Years" and statements of Federal Reserve officials on such current issues as: objectives and guides for policy; the role of monetary policy; current issues with respect to policy, including cost push, structural unemployment, and differential impacts; instruments of monetary policy; international aspects of policy; organization and structure of the Federal Reserve System; and relationship of the System to the Government.

Single copies of these books will be available free of charge to libraries, teachers, and students. Paper-bound copies will be mailed to others on receipt of a check or money order for \$1.00. Orders for 5 or more books will be filled at a price of \$.75 per book. Requests and orders should be addressed to the Bank and Public Relations Department, Federal Reserve Bank of Philadelphia, Philadelphia, Pa. 19101.

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Requests for additional copies should be addressed to Bank and Public Relations, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania.

NATIONAL GOALS AND INTERNATIONAL RESPONSIBILITY: SOUNDING A CHANNEL BETWEEN THE SHOALS*

by Karl R. Bopp

In the two years since I spoke to you last, we have endured strains and stresses: the assassination of a President; international political crises, ranging from the Gulf of Tonkin incident to the policy of strategic bombing in Viet-Nam north of the 17th parallel and the threat of a communist take over in the Dominican Republic; the deposition of Premier Khrushchev, and the wrath of General De Gaulle.

On the economic front, the superstructure of economic finance created since World War II has helped us to weather crises ranging from speculative flare-ups in the London gold market to a major attack on the pound sterling.

Wherever we look we see complex problems without apparent solutions on which all can agree. Some individuals propose their own simple solutions—*but* when one compares their several solutions they frequently cancel out. We have all been forced to reconsider our objectives and the appropriate means of achieving them. Today I should like first to trace how new problems have emerged and forced us to recognize the inadequacy of our inherited solutions, and second to comment on the current efforts to achieve our multiple objectives.

I begin with my own introduction to the study of economics some forty years ago. We developed an internally consistent theory—or as it is now phrased, we constructed a model—in which reasonably full utilization of resources, a reasonably stable level of prices and reasonable balance in our international accounts were *consistent* goals whose achievement would produce growth.

In broadest outlines, the theory ran something like this. Let us suppose that a country is experiencing a recession. It will have rising unemployment and declining prices. The lowered prices will make it a favorable place from which to buy and a poor market in which to sell. The developing favorable balance of trade would be financed by gold imports and capital exports. Pursuit of all objectives would call for a cheaper and easier monetary policy. As such policies stimulated aggregate demand, employment would rise, in due course prices would rise also, and the international trade position would become unfavorable. At this point all signs would point to a tightening of monetary policy.

I need not tell you that American economic development since the end of the war has not fit this model. During the war and early post-war period it was assumed that *unemployment*

* A talk given at the 62nd Annual Convention, New Jersey Bankers Association, Atlantic City, May 20, 1965.

would be our major economic problem. You may recall the gloomy predictions of economic chaos. The specter of the 1930's reappeared. The vast increase in productive capacity created during the war brought visions of large chronic unemployment. One result of our concern with unemployment was passage of the Employment Act of 1946, which directed all agencies of Government to coordinate their efforts toward the end of fostering maximum employment.

Yet even then anxious eyes were scanning the horizon for other problems which might disrupt the nation's economic equilibrium, problems which would increase the likelihood of conflict in the attainment of multiple objectives.

These problems were quick to emerge. Fears of massive unemployment soon gave way to a growing concern with inflation. The high volume of liquid assets accumulated during the war years, combined with generally rising current income and removal of direct controls, helped to stimulate a massive demand for goods. The result: rapidly rising prices.

Between 1945 and 1949 consumer prices jumped 25 per cent and wholesale prices climbed over 30 per cent. The President, in his economic reports to Congress, expressed grave concern over the problem. Though restrained in its actions by the policy of supporting Government security prices, the Federal Reserve stressed the importance of price stability.

In short, the problem of maintaining price stability had taken its place beside that of promoting maximum employment. In the late 1940's a dip in Gross National Product and in personal income was accompanied not only by rising unemployment but by *rising* prices—not *falling* prices, as our theory implied. The multiple objectives of national economic policy raised the possibility of conflict and led to re-

vival of the so-called cost-push theory of inflation.

Nor did the problem of multiple goals stop here. As the postwar period progressed, political developments added new dimensions to our economic problems.

At the end of World War II, this nation heaved a collective sigh of relief. The war was won. The nation seemed confident that peace had been achieved in our time. American troops came home. Military forces were reduced. Indeed, so rapid was the return to civilian life that some called it a military disintegration rather than a demobilization.

Soon, however, the bright hopes of peace and world cooperation were dashed upon the stark reality of Soviet expansionism. The awesome power of Soviet military might—200 divisions in Europe plus the forces of its satellites—faced the largely disarmed and economically feeble Western European democracies.

That was the world scene. Something had to be done to redress the strikingly one-sided balance of power. The United States was the only nation which could do the job.

In the process of coming to grips with the Soviet threat—and that, of course, is a long story in itself—new national economic goals emerged. Increasing emphasis was placed upon growth. We wanted not only maximum employment but also a rising real output per capita, so that we could meet commitments abroad and, at the same time, raise living standards at home.

But our increasing foreign commitments had even further effects on our set of economic goals. Building and manning military bases and installations and aid for reconstruction and development created a large outflow of dollars. As long as foreigners used dollars to buy our products and to build depleted monetary reserves

to desired levels, all went well. Indeed there was widespread concern that the world was faced with a “dollar gap” that could not be filled.

But insoluble problems are transient. By the end of the fifties the dollar gap became a dollar glut. As the countries devastated by war were rebuilt, they became relatively less dependent upon the United States for imports—indeed, became competitors in foreign and domestic markets. With business booming abroad, our citizens and corporations invested in productive enterprises and high-yielding loans and securities in foreign lands.

Once again the American people had a lot of new thinking to do. By 1958, when great strides were made toward currency convertibility abroad, we found ourselves paying to foreigners far more than we received. Reduction of this deficit was added to our list of national economic goals. Once more the probability increased that multiple goals might come into conflict and that relative priorities would have to be reconsidered and a proper mix of national economic policies would have to be developed to bring optimum results.

This is precisely where we find ourselves today. Let us, therefore, focus our attention on the more recent behavior of our policy goals. What has been the recent trend of prices, employment, the balance of payments and economic growth? What guides do these trends offer to the Federal Reserve System?

As for prices, we are experiencing the most sustained period of stability in wholesale commodity prices in our entire economic history. This would suggest that policy has been about right and should not be changed.

On the other hand, unemployment has remained a serious problem, holding at near five per cent of our labor force, well above the four

per cent interim target level of national economic policy. Unemployment, as a guide to monetary action, would suggest a need for greater monetary ease.

Next, our balance of payments showed a sizable deficit in 1964, and as a guide to policy, would call for greater restraint.

Finally, real output per capita rose substantially more in 1964 than in all but one of the past five years. Unfortunately, our enthusiasm for this result is modified by the fact that we still have large unused material as well as human resources. As a guide to policy, therefore, growth does not give a clear indication.

Totaling up the scoreboard, then, we have one vote for no change: prices; one vote for greater ease: unemployment; one vote for more restraint: the balance of payments; and one indecisive vote: growth. Obviously the objectives of policy give us conflicting guides to the implementation of policy.

We need more than mere statistics. We need to use judgment. We, as central bankers, like you, as commercial bankers, must weigh risk against return.

According to the theory of my youth our only option would be to weigh the benefits that tighter money might confer on the balance of payments against the risks that it would weaken the underpinnings of domestic growth and employment. Faced with this dilemma, it is surely understandable that one would take another look at his theory.

Although the balance of payments and unemployment are related, there is merit in analyzing them separately with the hope of devising means of dealing constructively with each without imperiling the other. This selective approach is the direction in which national economic policy has been moving.

Let us look first at employment. It is increasingly clear that in a rapidly automating society, full employment without inflation calls for both a high level of aggregate demand and for qualified workers in the right place.

On the side of stimulating consumer demand we have had the income tax cuts of 1964 and 1965 and have excise tax cuts in prospect. The Federal Reserve, on its part, has facilitated the flow of a large and increasing volume of funds at moderate rates through the capital and mortgage markets. Total funds flowing through the capital markets increased from \$58 billion in 1962 to \$62 billion in 1963 and \$71 billion last year.

In dealing with structural unemployment, it is recognized the skills and education necessary to gain employment often do not coincide with the skill and educational level of the job seeker. Examples of actions designed to deal with that problem include the Manpower Development and Training Act of 1962; the Economic Opportunity Act of 1964, better known as the Anti-Poverty Bill, which established such programs as the Job Corps to provide work experience and training for youths in conservation camps and in urban and rural training centers with emphasis on remedial education and manual skills, Neighborhood Youth Corps for training and part-time work aimed at 16 to 21 year olds who are school dropouts or potential dropouts; the Elementary-Secondary Education Bill with a first year expenditure estimated at \$1 billion to be allocated to school districts which have large numbers of low-income families; the Appalachia Assistance Bill, which authorizes expenditures of more than \$1 billion for the development of that depressed region.

In other words, we have attacked unemployment both by increasing consumer demand and

by trying to reduce the frictions that create structural unemployment.

Let us now look at the balance of payments. Here, too, we have combined the general with the selective approach. The chief contribution that monetary policy has made has been in the short-term area. Treasury bill rates, which were below $2\frac{1}{2}$ per cent in 1961 are now near 4 per cent. The banking system, which held net free reserves of about \$100 million a year ago, has recently been operating under the constraint of more than \$100 million of net borrowed reserves. At the height of the sterling crisis last year the discount rate was increased from $3\frac{1}{2}$ per cent to 4 per cent, as high a level as any in the past 35 years. The Treasury has contributed to these results by issuing additional bills. Taken together, these actions have enabled U. S. Treasury bills to remain competitive on a covered basis with short-term Government issues in London and Canada.

In addition, interest rates on official foreign and international time deposits were made exempt from Regulation Q and maximum rates on other time deposits were raised successively to enable American banks to compete for foreign private deposits.

The Federal Reserve has entered into arrangements with foreign central banks whereby reciprocal lines of credit are made available to provide financing for temporary balance-of-payments needs. At present such swaps with eleven central banks and the Bank for International Settlements exceed \$ $2\frac{1}{2}$ billion. Their effectiveness in preventing crises has been illustrated on numerous occasions, such as the time of the assassination of President Kennedy. Frequently natural forces have operated to enable such swap drawings to be repaid before maturity. Incidentally, a complete report of such opera-

tions is published regularly in the *FEDERAL RESERVE BULLETIN*.

The Government has taken other measures to absorb dollars that might otherwise have been converted into gold. It has sold special issues of securities—the so-called Roosa bonds—to countries that have accumulated excess dollars. It has negotiated agreements with individual countries to use accumulated dollars to prepay debts owed to the United States. It has made agreements with West Germany to offset our defense expenditures there with German equipment purchases here. It has intensified its effort to trim military outlays abroad and to see that all possible foreign-aid dollars are spent in this country.

With restoration of convertibility in the late 1950's, vast new opportunities for private American investment became available, and such investment added to our balance-of-payments problem. We continued to export each year more than we imported; but the balance was not sufficient to offset our continuing governmental expenditures for defense and development and these rising investments. Each year we became wealthier on international account, but as we increased our solvency, we reduced our liquidity.

Measures have been taken to increase the net yield of domestic investment relative to that of foreign investment. Depreciation allowances were increased. An investment tax credit of 7 per cent is allowed for new plant and equipment. The corporate income tax rate has been reduced both last year and this.

An interest equalization tax has been imposed on purchases by United States citizens of stock and debt issues of selected foreign nations to make investment in those countries less attractive. Recently, the tax has been extended to

bank loans of one year or more maturity to the same countries. A program is also being prepared to encourage foreign investment in the United States.

In February, the President called on banking and business to exercise restraint in lending and investing abroad. He asked the Federal Reserve System to guide the program as it affects financial institutions and the Secretary of Commerce to supervise others.

Guidelines have been developed to permit a maximum of flexibility and yet achieve the national purpose. For banks, over-all targets have been established at 5 per cent above the level of credit extended at the end of last year. Within this target priorities are established for export credits and underdeveloped countries.

Although it is too early to measure the results of the program, preliminary indications are highly favorable. Euro-dollar rates have risen and there is evidence that dollars are not so readily available abroad. Occasional complaints are heard from some of those who were most emphatic that we “do something” about our balance of payments, that we now be careful not to go “too far.”

The use of selective as well as general measures arises from the complex nature of our problems. They are designed to redress our balance of payments without depressing domestic prosperity and thus aggravating our unemployment.

Looking to the longer run, we have some powerful economic forces working for us. We have maintained stability in our wholesale price level. In contrast, industrial prices in the European Common Market have increased more than 10 per cent in the past four years. We have achieved this record through research and development which has increased our efficiency

and resulted in rising standards of living. It is imperative that we continue this excellent record; and, though it will take some real doing, it can be done.

Second, our investment in the rest of the world exceeds foreign investment here by some \$40 billion. The net return each year is a powerful plus in our balance of payments. As Western Europe catches up and develops its own capital markets, the relative attractiveness of their markets for our funds may well diminish, particularly if we maintain or increase our rate of growth at home.

Third, continued negotiations with our allies to share more equitably the military and economic aid burdens and to reduce tariff barriers and other trade restrictions could produce significant results for our balance of payments.

We do, indeed, have powerful forces working for us in the long run. But we are confronted with temporary difficulties. It is important, therefore, that the voluntary restraint program be successful. Once we demonstrate that we have brought our balance of payments under control, we can hope to make progress in devising a more effective international monetary and financial system. Such a system should put pressure on a member that is running a deficit because of domestic inflation. It should not require a member that has stable prices and large unused resources to put pressure on its own economy.

An economic sneeze in the United States may no longer spread pneumonia abroad, but it remains true that the greatest bulwark of the western world is a prosperous and growing United States.

The following is the final chapter of a book, **A Half-Century of Federal Reserve Policy-making, 1914-1964**, published by this Bank. (See Announcement on inside front cover of this Review.) The primary aim of the book is to explain the thinking of Federal Reserve officials about policy as it evolved during the first fifty years.

A HALF-CENTURY OF FEDERAL RESERVE POLICYMAKING, 1914-1964: IN RETROSPECT

After the event, even a fool is wise.

—Homer

In historical analysis there is a bias toward being critical: one is looking back on events that have unfolded with the advantage of knowing what happened instead of making the decisions looking toward an uncertain future; and what should be done always seems much clearer to the outsider than to policymakers who must take responsibility for the effects of their actions. The “Monday-morning quarterback” may be wrong, but he is never in doubt.

The value of historical analysis is not in establishing blame, and certainly not in trying to appear wise “after the event.” It is to enable us to profit from the experience of others. In this spirit the author gives his opinion as to some of the highlights and principal lessons of the first fifty years.

EBB AND FLOW OF POLICY

One of the striking features of the first half-century was the broad swings in the role of the Federal Reserve and monetary policy. The first part of the twenties was a period of notable progress; from the mid-thirties to the spring of

1951, monetary policy was relatively impotent, and the period since the accord has been one of reappraisal and resurgence.

High tide

Environmental changes resulting mainly from World War I ushered in one of the brightest eras in Federal Reserve history—the first part of the decade of the twenties. The war swept away the international gold standard, and principles developed by the Bank of England were not appropriate for the institutional structure in the United States. As one official remarked, the Federal Reserve was like a ship without a rudder. Being held responsible by many for the postwar boom and depression was a strong incentive to study carefully the role of the new central bank in order to develop objectives and policies appropriate in the postwar environment in the United States.

The decision that Federal Reserve policy should be directed primarily toward domestic economic conditions instead of the balance of payments and the gold reserve was a milestone

in the history of central banking. Federal Reserve officials, especially the President of the Federal Reserve Bank of New York, took a leading role in working out arrangements to help foreign countries stabilize their currencies and return to the gold standard; but in policy formulation, domestic conditions were always given priority.

The primary objective of Federal Reserve policy was accommodation of commerce and business, as indicated in the Act, but accommodation in a particular sense. Credit should be used to finance production and the orderly distribution of goods from producer to consumer, but not to build up inventories in anticipation of higher prices—to hold goods off the market—or for speculative activity of any kind, whether in stocks, commodities, or real estate. Confining the use of credit in this sense, many believed, would prevent booms and depressions and result in generally stable prices. In effect, the goal was business and price stability.

The decision to direct policy primarily toward domestic economic goals meant that new guides were needed for policy formulation. The reserve ratio lost whatever significance it had in the days of the gold standard. The search for guides did not uncover one or even a few factors believed to be adequate in reaching policy decisions. Instead, formulating policy to promote general business stability required a broad range of information as to the volume and use of credit, and the state of the economy in general. To provide the information, statistical and research functions were expanded substantially.

The intellectual ferment about policy extended to use of the tools. The discount rate had been regarded as the traditional central bank tool for influencing credit. It had been so regarded by

Federal Reserve officials, not only because of tradition but also because Reserve Bank credit was extended by means of discounts and advances to member banks. Changing the discount rate was thus the principal means of encouraging or discouraging the flow of Reserve Bank credit.

Two postwar developments stimulated the doctrine of direct pressure through administration of the discount window—actually a form of selective control. Excessive borrowing by many member banks led to serious consideration of how the problem might be dealt with. Progressive discount rates were given a short trial and found wanting. Surveys and studies of the effects of discount rate changes indicated the rate was not effective in regulating borrowing by a member bank. It was not practical to keep the discount rate above commercial bank loan rates. Consequently, it was necessary to rely on administration of the discount window to prevent excessive borrowing by individual member banks.

A second and important source of support for direct pressure came from advocates of the real-bills doctrine. They believed use of credit for speculation and other nonproductive activities was the major cause of the postwar boom and subsequent depression. The lesson was that use of credit for nonproductive purposes should not be permitted to generate another boom which sooner or later would be followed by depression. The discount rate was regarded as ineffective for this purpose because an increase would not curb speculation but would have harmful effects on legitimate business. Direct pressure—refusal of Reserve Bank discounts and advances to member banks making loans for speculation and nonessential purposes—would be more effective in curbing misuse of credit

without restricting the flow for legitimate business.

Direct pressure, strongly opposed by some as impractical, was a prominent issue in the twenties. Support for it as a means of selective regulation later subsided, but administration of the discount window has continued to be an important means of preventing excessive borrowing by individual member banks.

A desire to bolster Reserve Bank earnings led to discovery of one of the System's major policy instruments—open market operations. Some Reserve Banks began buying Government securities in 1921 to augment earnings impaired by the depression. The monetary effects were soon recognized. Then the System had two channels through which funds could be supplied: the discount window at the initiative of member banks, and open market operations at the initiative of the System. The flow through the discount window was regulated by the discount rate and administration of discounts and advances to member banks. Regulation of the flow through open market operations was hampered by decentralized control, but a committee was soon established to centralize and coordinate transactions of the Reserve Banks. These twin instruments of Federal Reserve policy—the discount rate and open market operations—began to be coordinated so as to make each more effective.

The early twenties was a period in which developments in central banking thought, and in policy and its implementation, were at high tide. There were rapid strides toward the role of a modern central bank: focusing policy on domestic goals; broadening the scope of objectives; exploring possible guides and expanding the information needed in decisionmaking; and developing and coordinating the tools of Federal Reserve policy.

Low tide

The severe depression of the early thirties followed by persistent stagnation undermined faith in monetary policy built up during the new era philosophy in the twenties. Many economists concluded that monetary policy was a weak reed; that fiscal policy should be the principal instrument for achieving economic stability. Policy discussions do not indicate that System officials were influenced significantly by this shift in economic thought.

The mid-thirties marked the beginning of a long period in which effectiveness of Federal Reserve policy was impaired. Excess reserves built up by an easy money policy in the latter stage of the depression, and augmented by devaluation of the dollar in 1934 and by large gold imports, seriously impaired the System's ability to influence credit. The policy of maintaining a pattern of rates on Government securities during the war and in the postwar period until the spring of 1951, largely shifted control over the supply of credit to holders of Government securities.

From the mid-thirties until the early forties, member-bank excess reserves were so large that the System's tools were rendered ineffective. The System's portfolio of securities was not large enough, even if liquidated, to absorb sufficient excess reserves to exert any significant restraint. The discount rate was ineffective because banks did not need to borrow. Reserve requirements were raised to the legal maximum in 1936–1937 to try to restore the System's ability to influence credit; but the reduction in excess reserves was short-lived.¹ Huge excess reserves was a major reason for using open

¹ Reserve requirements were reduced somewhat in the spring of 1938 as a result of the depression but the reduction was only a minor factor in the continued build-up of excess reserves.

market operations to maintain stability in the Government securities market instead of to alter reserve positions.

Enfeeblement imposed by excess reserves was the result of forces beyond System control. Impotence from the spring of 1942 to the spring of 1951 resulted from the support policy which the System considered appropriate. The Federal Reserve and the Treasury agreed to maintain a pattern of rates on Government securities for the duration of the war in order to facilitate financing the Government's massive expenditures in World War II.

At the end of the war, Federal Reserve authorities decided to maintain the wartime pattern of rates except for more flexibility in the short-term sector. There were three principal reasons for the decision.

A large volume of refunding operations was required in managing the huge federal debt outstanding at the end of the war. Second, traditional methods of restraint accompanied by widely fluctuating interest rates were not considered appropriate in the postwar environment of large and widespread holdings of Government securities. Credit restraint accompanied by substantial increases in interest rates would not only create difficulties for Treasury financing; policymakers were fearful that a sharp decline in prices of Government securities might touch off a wave of selling and possibly undermine the strength of some financial institutions. Some believed that intermediate- and long-term rates could be maintained; that moderate flexibility in short rates would permit effective System control of reserves and bank credit. Third, Treasury officials were vigorously opposed to any significant rise in interest rates. It would complicate their problems and, in their opinion, would not be effective in combatting inflation.

The period from the mid-thirties to March, 1951, was one of relative stagnation in the evolution of Federal Reserve thought on policy. During the period of huge excess reserves, official thinking was focused mainly on the implications of this new experience and the System's impaired ability to act effectively. During the war, System officials were preoccupied with problems of war financing. In the postwar period, thoughts were directed mainly toward obtaining more flexibility in short-term rates, and to devising some technique that would restore more effective control while continuing to support the prices of Government securities. In both respects, their efforts were largely fruitless.

Resurgence and flexibility

The accord of March, 1951, removed the shackles of the support policy and marked another milestone in Federal Reserve history. System officials were confronted with the problem of how to use their restored power and freedom. There followed an era of study and reappraisal of the principal tools and their use.

Open market policy soon moved to the other extreme of minimum intervention in the Government securities market. An ad hoc subcommittee of the Open Market Committee was appointed to make a thorough study of open market operations and their implications for the Government securities market. Within two years after gaining its freedom from the support policy, the System, in effect, put itself in another straitjacket by adopting certain continuing operating policies, including the policy of bills usually.

The philosophy underlying the continuing operating policies embodied four main points: these policies act as safeguards against using

open market operations to establish or support any particular rates or structure of rates on Government securities; by improving the depth, breadth, and resiliency of the Government securities market, they make open market operations a more effective instrument of monetary policy; funds withdrawn or injected into the short-term sector soon permeate the entire market; and open market operations influence the supply and availability of credit and total demand for output primarily, if not solely, through their effect on reserves.

There are good reasons for questioning the validity of these points. Public announcement of the continuing policies tended to inhibit the Committee from taking whatever action it considered most likely to be effective under the circumstances. Evidence available thus far does not support the expectation that reduced flexibility would be more than compensated for by improved functioning of the Government securities market.

The third point—that effects of transactions in short-term securities soon spread to other maturities—is inconsistent with the main contention that adoption and announcement of the ground rules would dissipate dealer uncertainty about the impact of open market transactions on prices of longer maturities and thereby lead to a broader, improved market in Government securities. If the impact spreads promptly to other maturities, dealer risk in positioning longer maturities would not be reduced. On the other hand, if the impact does not soon spread to other maturities, confining open market transactions to short securities, preferably bills, means foregoing opportunities to exercise greater influence on intermediate- and longer-term rates. Flexibility and effectiveness of open market operations as a tool of monetary policy

would thus be impaired.

The fourth point that open market operations should be used solely to supply and absorb reserves reflects too narrow a concept of this instrument. Granting that the reserve effect may be the principal one, it does not follow that marginal effects should be ignored. At times, marginal effects may be of great significance in helping to achieve System objectives.

Study and reappraisal of policy in an unpegged market led to less significant changes in other areas than in open market operations. Past policies with respect to the discount rate and administration of the discount window were largely reaffirmed. Objectives were broadened somewhat and refined. Sustained economic growth became a major objective along with price stability and business stability with a full use of resources. Guides to policy formulation were further explored and refined, but reliance continued to be primarily on a variety of information needed in formulating policy to achieve broader objectives.

The pressure of events led to two significant developments in the early sixties—termination of bills usually and the other continuing directives, and a revival of System operations in foreign exchange. The bills usually policy did not impair the System's capability nearly so much as the support policy, but it did prevent the flexibility needed to meet the dilemma of trying to achieve two desirable but conflicting objectives. A policy of ease was needed to stimulate recovery from the 1960–1961 recession but low interest rates, especially short-term rates, encouraged an outflow of funds and aggravated the balance-of-payments deficit. Open market operations could be used more effectively in this situation if the direct effect on rates were diverted from short to longer maturities. Pur-

chases of longer maturities would relieve the direct downward pressure on short-term rates, and the downward impact on longer-term rates would have beneficial domestic effects by facilitating the flow of funds into investment. The Committee abandoned bills usually and the other continuing operating policies in order to achieve the flexibility needed to meet existing and prospective conditions.

The persistent balance-of-payments deficit put a substantial amount of dollars at the disposal of foreigners and rendered the dollar more susceptible to speculative operations. After careful study, it was decided early in 1962 that the System should begin operations in foreign currencies as an additional step to help safeguard the value of the dollar in foreign exchange markets.

The Federal Reserve negotiated swap arrangements—standby credit agreements—with central banks of the major industrial and commercial countries. Foreign currencies available under these arrangements have been used primarily to absorb dollars that foreign central banks accumulate and otherwise might use to purchase gold from the United States. At times, operations have been conducted in both spot and forward foreign exchange as a means of diminishing the incentive for an outflow of short-term funds. The System has also participated with other central banks in putting a pool of central bank credit at the disposal of a foreign central bank to help defend its currency, and has joined with other central banks in helping to stabilize the price of gold in the London gold market.

THE GREAT DEPRESSION

Federal Reserve policy in the severe depression of the early thirties has been criticized by many

students of monetary policy. The essence of the criticism is why didn't the Federal Reserve pursue a policy of more active ease to check the depression and promote recovery?

Official records of policy discussions indicate that Federal Reserve authorities had a pretty good knowledge of unfolding business and financial developments, but for some time they did not anticipate the severity of the decline or the developing financial crisis. Consequently, the first phase of Federal Reserve policy, adopted shortly after the stock-market break in the fall of 1929, was directed toward making credit readily available at reasonable rates to help check deflation. Discount rates were reduced sharply and Government securities were purchased in moderate amounts to enable member banks to repay some of their indebtedness. In the second phase of depression policy—the spring of 1932 to the spring of 1933—the objective shifted to building up excess reserves in order to encourage banks to expand their loans and investments. Finally, following the banking holiday in March, 1933, the program of buying Government securities was resumed but as a means of cooperating with the Government's national economic recovery program instead of supplying more reserves *per se*. This program was terminated in the fall of 1933.

Now, as to why policymakers did not pursue a more aggressive policy of ease. An important reason was the theory some policymakers still held as to the nature and causes of depression. Orderly liquidation of speculative credit built up during the boom was considered a prerequisite for sound recovery. Others believed the depression was largely the result of excess capacity and overproduction. Too much ease would not be helpful; it might retard or even prevent the liquidation and readjustments required for en-

during recovery.

A second reason was general agreement that recovery should be sought within the framework of the gold standard. As depression deepened, the majority favored more ease and early in 1931 a threefold program was agreed on: further reduction in discount rates, lower buying rate on acceptances, and additional purchases of Government securities. Heavy deposit withdrawals continued, and in the fall of 1931 this internal drain was aggravated by an outflow of gold. The drain on gold reserves was met in the traditional way—an increase in the discount rate. Protecting the reserve and safeguarding the gold standard was the principal reason for the temporary tightening in the fall of 1931.

A third and closely related reason was that responsibility began to weigh heavily on some officials, especially Reserve Bank presidents, as continued cash withdrawals seriously impaired the reserve position of some Reserve Banks. Some of the presidents became seriously concerned over the ability of their Reserve Banks to assist member banks facing runs and to meet other possible emergency needs. There was general agreement that the Reserve Banks should be liberal in extending credit to banks facing runs. Banking policy, as it was often referred to in those days, had become more important in the opinion of some than monetary policy. But as reserve positions became more precarious, officials faced a dilemma: should dwindling reserves be conserved in order to be able to make advances and to issue Federal Reserve notes to member banks facing runs and for other possible emergencies; or should the Reserve Banks purchase more Government securities in the hope that deflation would be arrested and conversion of deposits into cash curtailed?

Government securities purchases usually re-

sulted in a reduction of member-bank indebtedness to the Reserve Banks and therefore less eligible commercial paper was available as collateral for Federal Reserve notes. A shortage of eligible paper meant that the Reserve Banks had to substitute gold as collateral in order to issue notes. Impaired ability to issue notes was serious at a time when member banks were facing runs. The presidents of some Reserve Banks, with little free gold left, refused to participate in purchasing additional Government securities. Legislation early in 1932 permitted Government securities as collateral behind Federal Reserve notes and relieved much of the anxiety over the diminishing supply of reserves and eligible paper. Open market purchases were stepped up, and maintaining excess reserves of \$250 million to \$300 million became an objective of open market policy about mid-1932.

A fourth factor that discouraged a more aggressive open market policy as the depression deepened was the tendency of banks to build up excess reserves. The build-up of excess reserves was regarded by some as evidence of the futility of buying more Government securities until banks used the reserves already supplied. Only a minority thought building up excess reserves would sooner or later put enough pressure on banks to stimulate credit expansion.

Appraising policy formulation during such a severe depression involves the problem of visualizing the situation in the perspective of the times. The discount rate of the Federal Reserve Bank of New York was reduced from 6 per cent in October, 1929, to 2½ per cent in June, 1930, and to 1½ per cent by May, 1931. Discounts and advances to member banks, which totaled around \$1 billion prior to the onset of the depression, averaged a little more than \$300 million in the first half of 1930, and declined

to about \$230 million in the second half. Prior to the early thirties the discount window was the principal source of reserves. Rates on short-term commercial paper dropped from over 6 per cent in the fall of 1929 to less than 3 per cent by the end of 1930 and to 2 per cent by mid-1931. Excess reserves averaged \$62 million in the second half of 1930; \$99 million in the second half of 1931; and \$377 million in the second half of 1932. These amounts seem small, but in relation to required reserves were equivalent to current excess reserves of \$550 million, \$975 million, and \$4,300 million, respectively.

Federal Reserve authorities did pursue a policy of ease, according to the principal indicators of conditions in the money and credit markets. Whether more aggressive ease initiated earlier would have arrested the depression or substantially diminished its severity cannot be proved or disproved. There were unusually deepseated forces at work—depressed conditions in agriculture and a substantial number of bank failures in the twenties, and runs on reserves in leading financial centers abroad in 1931. From the vantage point of hindsight, it appears that more aggressive ease in the early part of the depression would have been helpful; however, it is doubtful that it would have substantially dulled the impact of an unusual conjuncture of forces tending to produce financial crisis and severe depression.

WAR FINANCING

In both world wars, Federal Reserve policy was directed primarily toward facilitating the huge volume of Treasury operations required in financing Government expenditures. There were good reasons. The spirit of the times was that all efforts, including those of the Federal Reserve, should be channeled toward winning the

war. Preventing inflation in wartime, although desirable, was regarded by System officials as mainly the responsibility of Government through its fiscal and debt management policies, and direct controls over prices, wages, and materials. Federal Reserve officials conferred with Treasury officials on war financing programs, but final decision for fiscal and debt management policies rested with the Treasury.

Treasury borrowing in both wars was at unusually low rates. Although the mechanics differed, Federal Reserve policy made Reserve Bank credit readily available at the low rates. War financing resulted in the build-up of a vast amount of purchasing power which, once direct controls were removed, generated sharply rising prices and inflation.

At the end of each war, Federal Reserve officials were confronted with the same dilemma: maintain low rates to facilitate large postwar Treasury financing operations and to avoid possible serious repercussions from sharply declining prices of Government securities thus continuing to feed the inflationary boom; or apply effective restraint which by raising interest rates would complicate the Treasury's debt management problems and inflict losses on many investors who bought Government securities at low rates to help finance the war.

There is no easy answer to this dilemma; however, three questions deserve serious study. First, is it really in the public interest to finance a war at unusually low rates of interest? Good reasons were given for low rates, a major one being to help hold down the cost of the wars. War expenditures are so huge that savings wherever possible seem important. But more attention should be given to the longer-run effects. Interest cost on the debt was only 3 per cent of total Government expenditures during

the period 1942 to 1945, inclusive. Higher interest rates on Treasury securities would have made the securities more attractive and stimulated additional nonbank purchases; less promotional and sales efforts probably would have been needed to sell the securities.

Much more important, however, is the problem created for the postwar period. Financing a war at low interest rates may give an illusion of economy but the price in other respects may be high. Maintaining in World War II an interest rate pattern established in a period of economic stagnation and large excess reserves contributed to a large increase in the money supply which was unleashed as soon as direct controls were removed. Effective monetary restraint at the end of the war on further expansion would have resulted in rising interest rates and a reduction in artificial capital values based on the low wartime rates. Maintaining the rate pattern turned the Federal Reserve into an "engine of inflation," feeding further upward turns in the wage-price spiral. Hardships imposed by choosing either horn of this dilemma were really a part of the cost of the low interest rate policy followed in financing the war. This dilemma could be avoided only by financing a war at an interest rate structure that would be appropriate in a noninflationary postwar environment of vigorous aggregate demand.

A second question which merits serious consideration is whether it is in the public interest for the central bank to adopt wartime policies that in effect put reserve creation at the initiative of the market. In practice, maintaining any rigid pattern of rates, as in World War II, amounts to posting fixed buying rates for key maturities of Government securities. Perhaps some program of Treasury borrowing to finance a war could be developed that would enable the

Federal Reserve to facilitate the borrowing program without putting Reserve Bank credit on tap at low rates.

A third question, in the event war financing has been at low rates, is whether over-all public interest is better served by maintaining the low rates to assist the Treasury and to avoid repercussions from declining Government securities prices, or by exerting enough restraint to avoid further inflation. Looking back, it appears that in both postwar periods, Federal Reserve authorities overestimated the dangers and hardships that would be imposed by effective restraint and the resulting rise in interest rates; they underestimated the inflationary impact of maintaining the low wartime rates in the postwar environment. Experience indicates that hardships imposed by an inflationary rise in prices of goods and services are probably greater than the burden of higher interest costs and capital losses to holders of outstanding fixed-income securities. A general rise in prices of goods and services is a high price tag for maintaining stable Government securities prices and low interest rates.

ROLE OF RESEARCH

The art of central banking has been described as "reaching adequate conclusions from inadequate facts." Lack of adequate information became much more obvious when the objective of policy shifted from protecting the gold reserve to domestic economic stability.

This shift in objectives accelerated development and expansion of the research and statistics functions in order to provide the greater amount of information needed in policymaking. And as policy objectives became broader in scope, the larger the amount of information needed for sound policy decisions. One of the

principal tasks of the research function has been to provide statistics and other information for policy formulation. The growing size and complexity of the economy has put increasing demands on research.

The contribution of research to wise policy decisions extends beyond information-gathering. Diagnosis of the data and implications of recent developments for Federal Reserve policy are also needed by policymakers. Keeping abreast of economic developments and analyzing their significance for policy is a major function of professional economists. Both the Board and the Reserve Banks enlarged their staffs of economists, especially in the past 25 years, to provide analytical information that would be useful in formulating monetary policy.

Theoretical analysis is one of the principal reasons policymakers, provided with the same data and other types of economic information, often come out with different diagnoses and decisions as to policy that should be pursued.

Central bankers confront somewhat the same type of problem as the practicing physician. He first gathers relevant information in order to diagnose the state of his patient's health. Then, drawing on his knowledge of medical science, he prescribes treatment. His ability to prescribe an effective remedy is limited by the state of development of medical science as well as by the amount of relevant information for diagnosis.

The real-bills doctrine provides an outstanding illustration of the role of theory in Federal Reserve policy formulation. One of the principles underlying the Federal Reserve Act was that extension of Reserve Bank credit, whether in the form of Federal Reserve notes or discounts and advances to member banks, should be by means of short-term, self-liquidating commercial paper. This type of paper, according

to the doctrine, would expand and contract with the volume of legitimate business, i.e., the volume of production and orderly marketing of goods. Reserve Bank credit would thus respond to changes in the volume of business activity. Consequently, confining credit to productive uses would automatically result in the proper quantity of credit. Advocates of the real-bills doctrine thus favored direct pressure to regulate certain uses of credit instead of the discount rate which affected the total quantity of credit.

Experience gradually disproved the basic principles of the real-bills doctrine. The quality of paper discounted or put up as collateral for an advance from a Reserve Bank had no effect whatever on use of the proceeds. More important, attempts to confine credit to productive uses did not result in an appropriate total quantity of credit. Credit extended for productive use could expand beyond capacity to produce and thus help generate inflation; a shortage of eligible commercial paper in the Great Depression handicapped the Reserve Banks and contributed to deflation. Even though unsound in principle, the theory was an important influence in policy formulation in the first two decades of the Federal Reserve System.

The depressions of 1920–1921 and 1929–1933 also illustrate the influential role of theory. In the latter part of 1920, Federal Reserve authorities thought that a depression was developing. But it was generally regarded as the inevitable aftermath of the war and postwar boom. Moreover, they believed that excesses generated during the boom, such as large-scale use of credit for speculative and nonproductive purposes, top-heavy inventories, and inflated prices had to be removed in order to establish the basis for sound recovery. Hence the policy prescription of lending freely at high rates to

promote orderly liquidation. Lending freely was the means of avoiding forced liquidation and its resulting losses and hardships. High rates would encourage orderly liquidation as funds became available for repayment and would discourage extending new loans for wasteful and nonproductive purposes. Granting this theory of depression, which at the time was widely held outside as well as inside the System, Federal Reserve officials prescribed the appropriate policy.

Some policymakers thought depression was caused mainly by nonmonetary factors such as excess capacity and overproduction. They vigorously opposed aggressive ease to stimulate recovery on the basis that it would not be helpful and might retard recovery by encouraging further expansion of capacity and by hampering readjustments essential for a healthy recovery.

Effectiveness of central bank policy is limited more by inadequate development of monetary theory than by lack of ability to diagnose the health of the economy. Economists disagree as to the role of money and credit in maintaining stability and sustained growth, and as to the channels through which Federal Reserve actions influence total spending and the price level. Some stress the quantity of money, some interest rates, and others regard liquidity as the "center-piece" of monetary policy. The art of central banking might well be defined as trying to apply a confusion of theories to an ever-changing economy to achieve socially accepted objectives.

DECISIONMAKING PROCESS

The task of policy formulation has become increasingly complex as objectives have broadened and as the economy has become more and more

intricate. In earlier years, policymakers searched for rules or formulas that would simplify the task. But experience indicates there is no substitute for discretion.

Rules and rigidities have never been reliable methods of reaching sound policy decisions. Under the international gold standard prior to World War I, the reserve ratio was presumed by many to provide an automatic signal for central bank action. In 1920, four Reserve Banks adopted progressive discount rates as a means of preventing excessive member-bank borrowing. Progressive rates proved unsatisfactory and were soon abandoned. Maintaining the pattern of rates for several years after World War II and continuing operating policies, including bills usually, governing open market operations were other notable illustrations of rigidities that interfered with the flexibility of Federal Reserve policy.

Rules and rigidities, whether to serve as an automatic means of implementing policy or merely to inhibit change, are inherently unsound. The implication is that policy can be better formulated for future conditions that cannot be foreseen than when policymakers confront the problem and have all available information about the specific situation. At best, rigidities become imbedded in official thinking and tend to inhibit freedom of action.

Flexibility in thought as well as action is essential for effective policy. The Federal Reserve System operates in an institutional, economic, and social environment that is constantly changing. The reason judgment is essential in policy formulation was well expressed in the following quotation given by a former System official:

We can be certain that reliance upon any simple rule or set of rules would be dangerous. Eco-

*conomic situations are never twice alike. They are compounded of different elements—foreign and domestic, agricultural and industrial, monetary and nonmonetary, psychological and physical—and these various elements are combined in constantly shifting proportions.*²

Informed judgment, based on all germane information available, statistical and analytical, is an essential ingredient of policy formulation.

Policy in the Federal Reserve System is formulated by the Board of Governors and the presidents of the Reserve Banks instead of by one person or small group. To the management expert, the decisionmaking process probably appears too decentralized and unwieldy. It is somewhat cumbersome and is not so conducive to prompt, decisive action as when authority is highly centralized. Federal Reserve history reveals several instances in which strongly divergent views among officials contributed to delay and compromise actions.

But there are offsetting advantages, especially for an institution with the responsibility of formulating policy solely in the public interest. The policymaking procedure taps a broad cross section of views—public and private, producer and consumer, borrower and lender, professional economists and men actually engaged in a variety of economic activities. This blending of a wide variety of views is an appropriate procedure for the formulation of national monetary policy. It assures that practically every conceivable angle of a problem will be brought to the attention of the policymakers before a final decision is made. Moreover, the distribution of authority is a safeguard against the inherent tendency for one's viewpoint to be influenced by

the prevailing attitude and environment in which he lives and works, whether the securities market, politics or government. In this connection, it is reassuring that the minutes of policy discussions show that Federal Reserve officials—whether members of the Board of Governors or a Reserve Bank president—have been motivated by the public interest, not by private or regional interests. This is as it should be.

The democratic process of frank and free discussion by informed and responsible men is much less likely to lead to colossal blunders than vesting authority in one man. The disadvantages of the democratic process, whether in formulating central bank policy or in running a government, are part of the price we pay for safeguards against possibly erratic and irresponsible decisions that sometimes result from highly centralized control.

RELATION TO THE GOVERNMENT

The first fifty years of Federal Reserve history reveal, paraphrasing Nicholas Biddle, that a large and habitual borrower is not a good administrator of the institution that creates the money. The major controversies between the Federal Reserve and the Treasury over monetary policy have always found the Treasury on the side of lower rates and less restraint. This is not surprising. Responsibility for borrowing and managing a large federal debt provides an inducement to support a monetary policy that facilitates the Treasury's financial operations. So it is with private control. There is an inducement to slant policy toward private instead of the national interest. Control by a large borrower, public or private, results in a conflict of interest.

The crucial question is what arrangement is most likely to result in Federal Reserve policy

² Allyn A. Young, Harvard University, quoted by Allan Sproul in "The Federal Reserve System—Working Partner of the National Banking System for Half a Century," in *Banking and Monetary Studies*, Deane Carson, Editor (Homewood, Illinois: Richard D. Irwin, Inc., 1963), p. 68.

being formulated effectively and solely in the interest of the country as a whole. For the central bank to be most effective in contributing to the achievement of national economic goals, policy formulation should be in the hands of qualified and experienced central bankers.

To provide an environment conducive to formulating policy solely in the public interest, these central bankers should be insulated from both political and private pressures. The need for independence from political pressure was stressed by Carter Glass after he had served as Secretary of the Treasury and ex officio Chairman of the Board of Governors, and as a member of Congress:

Moreover, I commend, without qualification of any description, as worthy of emulation Mr. Wilson's wise determination to refrain from executive interference with federal reserve administration and his refusal to permit politics to become a factor in any decisions taken. Unless the example thus set by President Wilson shall be religiously adhered to, the system, which so far has proved a benediction to the nation, will be transformed into an utter curse. The political pack, regardless of party, whether barking in Congress or burrowing from high official sta-

*tion, should be sedulously excluded.*³

It is equally important that System officials not be subject to undue private influence. The organizational structure of the Federal Reserve System reflects attempts of Congress to protect Federal Reserve policymakers from either undue private or political pressures.

This arrangement does not mean independence from Government. Congress in creating the Federal Reserve System provided a comprehensive legal framework governing its operations and amends this framework as it sees fit. Congress also requires periodic reports covering the System's policy actions and operations. But within this legal framework, Federal Reserve officials are given sufficient freedom to formulate policies that in their judgment will best contribute to achievement of national economic goals such as business and price stability, and sustained economic growth. It is logical that Federal Reserve authorities, with training and experience in central banking, are better qualified than other officials to determine Federal Reserve actions needed to achieve such economic objectives.

³ H. Parker Willis, *The Federal Reserve System* (New York: The Ronald Press Co., 1923), p. ix.

JULY THE FOURTH CAME EARLY THIS YEAR

Resorts in the Third Federal Reserve District look to a banner vacation season this summer—perhaps the best in history. This is the consensus of merchants, realtors, landlords and bankers along the seacoast of southern New Jersey and Delaware, and in the Pocono Mountains area of Pennsylvania, expressed in response to a survey by the Philadelphia Reserve Bank.

Early indications support this optimistic view. Traffic on the unfinished Atlantic City Expressway (to be completed August 1) over the long Memorial Day weekend exceeded 50,000 toll-paying vehicles, a new record. Steel Pier counted more admissions than on any prior Decoration Day. Observers in Rehoboth Beach, Delaware, and in Stroudsburg, Pennsylvania, characterize Memorial Day as “equal to, or better than, Fourth of July last year,” in spite of cool weather spotted by showers. Bankers in all areas report a flood of deposits following exceptional weekend business.

Rental inquiries received by the Greater Atlantic City Chamber of Commerce are 18 per cent ahead of 1964, the year that the city hosted the Democratic National Convention. Campsites at Promised Land and Ledgedale Park in the Poconos are fully committed for July and August. Point Pleasant, Beach Haven, Ocean City and Wildwood term advance reservations—accompanied by cash deposits—as “never better.” Prospects are so good that some businessmen say privately that the coming season is “weather-proof.”

More facilities

New luxury motels will greet tourists in all resort areas of the District; established hotels, restaurants and amusement places have undertaken extensive renovations. Substantial beachfront building has long since erased wreckage left by the disastrous coastal storm of March, 1962.

The Poconos are literally racing toward more tourist attractions with a harness track at Pocono Downs that will open July 15, and new Pocono International Raceway (automobiles) near Blakeslee Corners. The latter will compete with Watkins Glen, New York this year, and hopes in two years' time to rival Sebring, Daytona and Indianapolis.

Rehoboth Beach, Delaware, has a new 1,000-seat convention hall with which it expects to extend its summer season, now squeezed (as are many resorts) between closing and opening school dates. Two more vessels will service the Cape May-Lewes ferry line beginning June 15; a two-year labor contract should avoid repetition of a strike the line suffered the end of August last year. Ocean City has replaced its teenager dancing pavilion, destroyed by fire over the winter, with a temporary structure, and expects to erect a permanent hall next year. Atlantic City will open three new high-rise apartments, one designed for senior citizens who are retiring at the shore in increasing numbers.

Rates, length of stay

Rental rates are firm in all resorts, but overall

are not deemed higher than those of last year. Relatively high prices charged by newer motels and rental cottages seem a factor in shortening the length of stay of many tourists, a trend noted for several seasons. Complete facilities offered by some hotels and motels—pools and rinks, cocktail lounges, dining rooms, entertainment—are expected to continue to affect night clubs adversely.

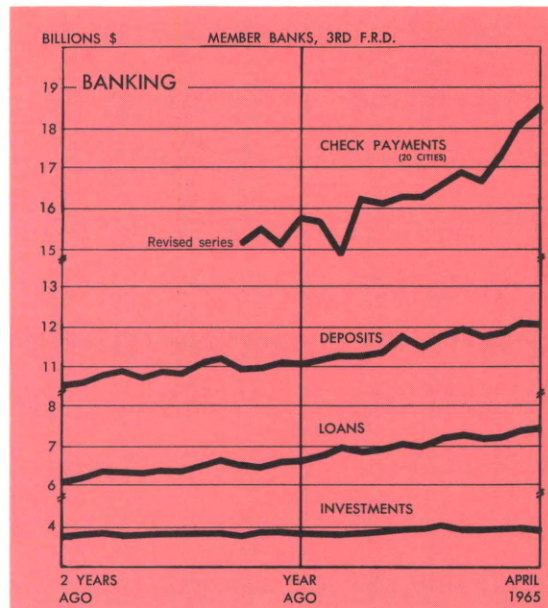
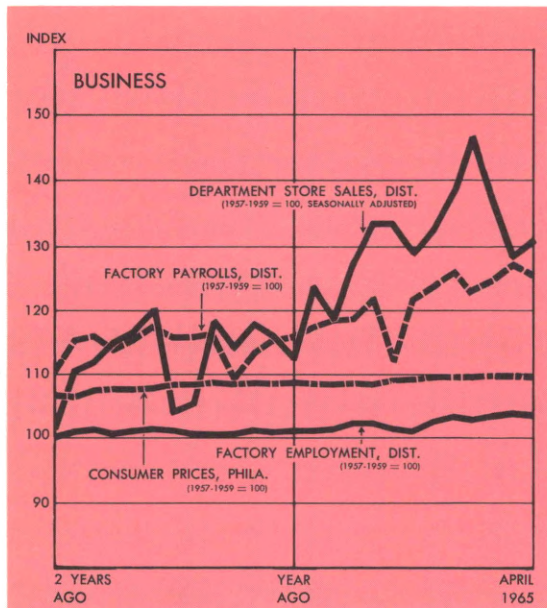
Real estate activity has been more than satisfactory; sales prices have been good, particularly for homes built recently. Land values in the Poconos are rising rapidly. Some coastal communities, such as Sea Isle City, Avalon and Stone Harbor, are running out of building sites, forcing new construction onto the mainland. A major new home development project is underway in Brigantine Beach. A number of seashore resorts have begun urban renewal and public

housing programs; some are now beyond the planning stage.

Volume of business anticipated for the resorts is causing apprehension about a possible shortage of labor. New construction has created keen competition for carpenters, stone masons and electricians. Service help—waitresses, sales personnel, attendants, cooks—are at a premium. An official of the Pennsylvania State Bureau of Employment Security says that in former years resorts insisted on good-looking waitresses in their twenties; now they're pleading for anyone at all.

Barring a national calamity, and given a reasonable break in the weather to bring out weekenders who are frosting on the vacation cake, it seems affluent Americans will provide Third District resorts with a memorable summer season. In the words of more than one veteran resort businessman, "I don't see how we can miss."

FOR THE RECORD...



SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Apr. 1965 from		4 mos. 1965 from year ago	Apr. 1965 from		4 mos. 1965 from year ago
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
MANUFACTURING						
Production	...	...	...	+ 1	+ 9	+ 9
Electric power consumed	- 3	+ 9	+ 9	...	...	...
Man-hours, total*	- 2	+ 6	+ 8	...	...	...
Employment, total	0	+ 3	+ 4	...	...	...
Wage income*	- 1	+ 9	+ 11	...	...	...
CONSTRUCTION**						
	+ 5	+ 15	+ 13	+ 13	+ 9	+ 1
COAL PRODUCTION						
	- 16	- 8	+ 2	+ 5	+ 10	+ 7
TRADE***						
Department store sales	+ 2	+ 1	+ 4	...	...	...
BANKING						
(All member banks)						
Deposits	0	+ 9	+ 8	- 1	+ 10	+ 9
Loans	+ 1	+ 13	+ 12	+ 1	+ 14	+ 14
Investments	0	+ 2	+ 2	0	+ 3	+ 3
U.S. Govt. securities	- 2	- 5	- 4	- 1	- 5	- 4
Other	+ 2	+ 13	+ 13	+ 3	+ 15	+ 13
Check payments***	+ 3†	+ 18†	+ 15†	+ 2	+ 11	+ 11
PRICES						
Wholesale	...	...	...	0	+ 1	+ 1
Consumer	0†	+ 1‡	+ 1‡	0	+ 1	+ 1

*Production workers only.
 **Value of contracts.
 ***Adjusted for seasonal variation.

†15 Cities
 ‡Philadelphia

LOCAL CHANGES	Factory*								Department Store Sales†		Check Payments	
	Employment		Payrolls		Per cent change April 1965 from		Per cent change April 1965 from		Per cent change April 1965 from			
	Per cent change April 1965 from		Per cent change April 1965 from		Per cent change April 1965 from		Per cent change April 1965 from		Per cent change April 1965 from			
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago		
Lehigh Valley	+ 1	+ 8	+ 4	+ 19	...	...	+ 5	+ 15		
Harrisburg	- 1	+ 1	- 3	+ 4	...	...	+ 4	+ 16		
Lancaster	- 1	+ 4	- 5	+ 5	+ 9	+ 2	+ 7	+ 15				
Philadelphia	0	+ 2	- 1	+ 7	- 1	- 2	+ 3	+ 16				
Reading	- 2	+ 3	- 7	+ 3	+ 10	+ 6	+ 6	+ 5				
Scranton	- 1	0	- 4	+ 3	- 3	0	+ 2	+ 24				
Trenton	0	+ 1	- 1	+ 2	- 3	- 2	+ 6	+ 14				
Wilkes-Barre	0	+ 3	- 4	0	+ 3	+ 8	+ 7	- 2				
Wilmington	0	+ 5	- 1	+ 13	+ 4	+ 17	0	+ 42				
York	- 1	+ 6	- 4	+ 8	+ 5	+ 6	- 4	+ 15				

*Not restricted to corporate limits of cities but covers areas of one or more counties.
 †Adjusted for seasonal variation.