FEDERAL RESERVE BANK BUSINESS REVIEW OF PHILADELPHIA

Housing In The 1970's—What can The Federal Reserve do about it?

Boosters of Black Business In Philadelphia

Bank Competition and Monetary Policy

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ABOUT THIS ISSUE

Now that it is becoming widely known that the Federal Reserve has made a modest move toward less monetary restraint, hope is growing that some of the worst distortions of tight money will soon be behind us. It is especially hoped that funds for housing will begin to flow more easily.

Even should this be the case (and the first article in this issue suggests that such a result is by no means a sure thing), the effects of recent experiences with tight money have made people more aware than ever that monetary policy bears down unevenly on different sectors of the economy. And many are questioning whether these uneven impacts are necessary or desirable. They feel that the interests of the nation might be better served if some scarce funds were diverted from established and often large business borrowers into housing, the ghetto, and other areas of growing social concern.

The first article in this issue, "Housing in the 1970's—What Can the Federal Reserve Do About It?", discusses the outlook for housing in both the short- and the longer-run. It suggests that, contrary to the usual view, the Federal Reserve should be concerned about who has access to limited supplies of funds and recommends that techniques be developed to provide more effective control over where the money goes as well as how much money in all is available.

The second article, "Boosters of Black Business in Philadelphia," describes efforts to aid black entrepreneurs form and build their own businesses. It points out the crucial need for adequate capital and reports on the actions some Philadelphia banks and other institutions have taken to make funds available for this purpose.

The third article, entitled "Bank Competition and Monetary Policy," does not question the need for channeling more funds into housing or any other socially desirable area, but it does question the value of attempts by the Federal Reserve to induce such flows. It suggests that the social and economic costs in terms of reduced bank competition that would be required to achieve such transfers of funds would outweigh the benefits that would be gained.

There are, of course, no easy and pat solutions to difficult problems. In order to gain more of one objective, it is often necessary to give up part of another objective. And reasonable men can differ on how and to what degree this should be done. While the articles in this *Review* discuss only a few of the many issues involved, it is hoped that they will stimulate thinking about the many trade-offs that must be considered in attempts to promote the national welfare.

Housing in the 1970's—What Can The Federal Reserve Do About it?*

by David P. Eastburn, President Federal Reserve Bank of Philadelphia

We enter the 1970's with housing at or near the top of our list of social concerns. The Housing Act of 1949 declared "a decent home . . . for every American family" as a national goal. And the Housing Act of 1968 quantified this objective by saying that every American family could have a decent home if we as a nation could construct or rehabilitate 26 million living units in the coming decade.

This is a goal set by Congress and presumably reflects what the people of this country want. As we move through the 70's, the people will have to decide how badly they want to achieve this goal—as compared with cleaner air and water, better transportation, a fairer shake for the disadvantaged, world peace, and all the other things that our restless and demanding society is grasping for. The 1970's will be a decade in which all these various demands will be pressed more insistently than ever before.

It will be a time, therefore, in which the basic economic fact of life—namely, that there ain't no free lunch—must be before us constantly. Resources are limited and we can't always have everything we want just when we want it. But it will be a time when impatience with this fact will be a constant source of irritation.

Given this general environment, what are the prospects that our society can achieve the goal of substantial growth in available housing; and, more specifically, what can the Federal Reserve do about it? An answer to these questions can't come just by looking at the prospects for long-run growth alone. Housing has not been blessed in the past by steady growth; one of its main problems has been cycles. Therefore, a big problem in meeting any long-run

* An address given at The First Pennsylvania Corporation's Conference on "Real Estate—The Environmental Intersection," February 16, 1970, in Philadelphia.

goal for housing will be the path in getting there—the up-and-down cycle. This, of course, is where the Federal Reserve comes into the picture.

THE CURRENT SCENE

As we focus down on the housing cycle, the obvious problem confronting us as we begin the 70's is the outlook for 1970. The grimmest part of the housing cycle is staring us in the face right now. With starts now around 1.2 million (and averaging only 1.5 million over the past two decades), a yearly average for the 1970's of 2.6 million seems light years away.

But the important question is whether what happens in this first year gets us off to a good start for the rest of the decade. It is always painful to experience a cut of almost 50 percent in housing activity—and this is what we are likely to have before we come out of this current cycle—but the hurt can be more nearly bearable if it is helpful in launching housing on a firm and sound footing for coming years.

Unwinding Inflation. What is the likelihood that the inflation battle now being waged will be won soon so that housing can move forward promptly? Frankly, the outlook is very uncertain.

Progress *is* being made. We have been fighting the worst inflation we have had in 20 years. So an essential step in the fight against inflation has had to be a reversal of inflationary economic policies. This occurred in late 1968 and throughout 1969. High federal deficits were turned into small surpluses through tax increases and a tight rein on expenditures. Monetary policy, too, shifted into a posture of restraint. Whether measured by bank reserves, money supply, or interest rates, money was tight in 1969 and still is tight today.

The results are showing—but slowly. In an economy as large and complex as ours, consumer and business reactions lag behind policy actions. It took about half a year for the braking action of monetary and fiscal policy to start slowing the pace of a speeding economy. But since last summer, the cooling in the economy has been obvious. Retail sales have been sluggish, industrial production has been sliding, and employment gains have been sharply reduced. In the last quarter of 1969, real output actually declined a bit. So the economy has responded to the medicine prescribed for it.

What of prices? They keep rising rapidly. But this is the last place to see the results of the attempt to cool the economy. Every slowdown in memory has brought at least some relief from rising prices—not instantly, of course, but in time. It's too early to tell if we've turned the corner on inflation, but we are on the right road.

The important question is what happens in the next few months. I believe that the Federal Reserve must be careful not to ease the firm grip of monetary policy too abruptly. In 1966-67, the economy was allowed to accelerate too rapidly, and inflation was more serious nine months after the mini-recession than it was nine months before. We in the Federal Reserve are mindful of that episode three years ago as we chart the course for policy in the coming months.

Turning Housing Around. What would this kind of policy—one of caution in relaxing restraint—mean for housing in the immediate future? In a nutshell, it would mean that starts would get worse before they got better. An upturn would not be likely until late 1970 and this upward readjustment would be slow.

Behind this picture in housing, of course, is what would likely happen in financial institutions. Until the interest rate spread between open market instruments and deposits narrows significantly, the flow of deposits into mortgage lenders is not likely to improve very much. Even if it should improve shortly, the availability of mortgage funds may not immediately respond. Savings institutions have dipped pretty far down into their liquidity barrels and have engaged in record borrowing from Federal Home Loan Banks as well as others. Therefore, it seems likely that before improved savings flows would dramatically affect housing starts, some attention would be given to squeezed liquidity positions and debt repayment on the part of savings institutions.

So, considering the lags involved, for housing to get back on a vigorous expansionary path soon, the Federal Reserve would have to ease drastically and rapidly.

I have strong reservations whether this would be good for the economy. Inflationary psychology is still deeply imbedded. Unless public policymakers are extremely careful, all the progress in cooling the economy could be wiped out in only a few months and inflationary pressures could be back with us stronger than before.

Housing has a great deal at stake in the outcome of current policy decisions. In the short run, caution in relaxing restraint will delay the recovery in starts. But in the longer run, the chances of achieving ambitious goals for the 70's will be greatly enhanced. It is easy to say and difficult to practice, of course, but patience now can pay big dividends in the future.

CONFRONTING A NEW DECADE

Let's take the optimistic view that housing will gradually emerge from the current period on a sound footing and be prepared to move vigorously to meet the needs of the 1970's. What are the chances that starts can move steadily upward in the early part of the decade and reach a plateau of 2.5 million units later in the decade? This is the path that is charted so appealingly in the latest report of the Council of Economic Advisers.

The answer depends heavily on two things: (1) whether the overall economy will follow a steady non-inflationary growth path; (2) whether fundamental structural changes can be made in the mortgage and housing industries.

Prospects for Steady Growth? This is not the time to lay out an economic forecast for the 1970's, even if I had one in which I had any faith. What we have to weigh is the possibility that policymakers—including the Federal Reserve—can avoid the kinds of excessive expansion in the economy—and hence the need for severe restraint—that plagued us several times in the 1950's and since 1965. It is hard not to be overly influenced by the immediate situation, but I find it very unlikely the Federal Reserve can get through the 70's without at some time having to exercise considerable restraint. There have been few times in history when the economy has gone along for very long before overdoing it. During the first half of the 60's, it did grow steadily without inflation, and housing benefitted. But this was a time when unemployment was fairly high. In the 70's we are unlikely to have the same kind of slack resources to draw on. Social pressures will tend to keep policymakers striving for low unemployment. Strong and competing demands for scarce resources seem to me likely to make inflation, if not a constant problem, a recurring threat.

In short, if this prospect is realistic, the housing industry would be naive in assuming that a steady growth path in the 70's is very likely. And, in turn, an ambitious goal of housing production stands a good chance of being frustrated by the same old cycle problem that has plagued the industry in the past.

Market Imperfections. This makes the second point vitally important: are we likely to see fundamental structural changes which will enable mortgage lenders to compete more effectively for funds and builders to compete more effectively for resources when both are scarce? Is it possible, in other words, that even if the Fed must impose restraint at times in the 70's that housing can avoid bearing the brunt of it?

The problem, as is increasingly recognized, is that there is not perfect competition among markets. When money is tight and interest rates rise, specialized mortgage lenders have difficulty competing. Now that this has become painfully apparent several times in recent years, serious efforts are underway to make fundamental changes. Fanny Mae, Ginny Mae, Home Loan Bank operations, variable rates on mortgages, a secondary market for conventionals, and many other approaches are being tried or proposed.

These are all to the good. They are the ideal and fundamental solution—make mortgages and housing competitive. But will these reforms do enough, will they come soon enough, to enable housing to follow that smooth growth path in the 70's that is so appealing? I am skeptical. Fundamental reform is always difficult because it conflicts with vested interests and the law of inertia. Although I would like to see the effort pressed vigorously, I would not look for complete success in the 1970's.

The Fed's Role. What does this imply for the Fed? Obviously, the Federal Reserve cannot simply supply enough money and credit to the economy at all times so that housing is never pinched. This would be like supplying enough money and credit at all times so that no one is unemployed. A big part of the unemployment problem is structural; many people are unable to qualify for jobs because they need basic training and education. Inflating the rest of the economy is no way to solve either structural unemployment or, in many cases, depressed housing activity.

If the Federal Reserve is to do anything about the impact of tight money on housing, therefore, it must do it directly and specifically. At the moment I would say that there is not much sympathy for this view in the Fed. No Federal Reserve official I am acquainted with is happy that such a large burden of monetary restraint is borne by housing. It doesn't make our life any easier. In fact, the hot water we are now in with Regulation Q—and all the resulting loophole-plugging operations with Eurodollars, federal funds, and commercial paper—can be traced to a desire to protect housing against tight money. But Regulation Q hasn't been notably successful in directing funds into mortgages, and it is quite understandable that some people in the Fed might react by wishing we had never gotten into this business in the first place.

The traditional view in the Fed—that we should influence only the total volume of funds and let the market decide who is to get them—has been strengthened by our experience with Regulation Q. I believe, however, that we *should* be concerned where the funds go. For one reason, they may flow in a way that complicates our job of stabilizing the economy. And, for another, the public apparently cares very much about the flow of funds. To the extent the public makes its views known through its representatives in Congress—as it has in the case of housing—the Federal Reserve must care equally as much. I believe this view is likely to prevail in the 70's.

But the problem is that we have no effective way of channeling where the funds go. If housing is not to bear the brunt every time tight money rolls around, the Fed will have to develop new techniques for allocating funds. Just what these techniques might be, I'm not sure. I have recently suggested that the Fed might explore possibilities for influencing the flow of funds by concentrating on the asset side of the balance sheet rather than the liability side. Instead of trying to direct funds into housing by interest rate ceilings and deposit flows, the Federal Reserve might impose different reserve requirements on different kinds of assets. If it seems desirable to encourage a flow into mortgages, the reserve requirement could be low. I have not explored the implications of this approach very far, so I'm not sure it would be an effective solution, but we must pursue every possibility if we are to avoid onerous controls each time there is a crisis.

SUMMING UP

So where, in summary, does all this leave housing in the 70's?

First, prospects for substantial growth in housing starts in the 70's will be enhanced if the current fight against inflation is successfully waged—even if this may delay recovery in the immediate period ahead.

Second, because inflation may still be a recurring problem and call for tight money at times in the 70's, it is probably unrealistic to expect housing starts to follow a smooth growth path and no longer be plagued by cyclical ups and downs.

Third, basic reforms to make mortgages and housing more competitive should be pressed forward. But complete success is probably too much to hope for.

Finally, the Federal Reserve has no effective way to channel funds into housing—or anywhere else. I believe the Fed should be concerned about where funds flow and should try to devise new ways to accomplish this.

If I am correct in this analysis, the housing goal for the 1970's is far from a shoo-in. A lot of hard and imaginative work remains to be done.

Boosters of Black Business in Philadelphia

by Kathryn L. Kindl

> To-day . . . the application of large capital to the retail business, the gathering of workmen into factories, the wonderful success of trained talent in catering to the whims and taste of customers almost precludes the effective competition of the small store. Thus the economic condition of the day militates largely against the Negro; it requires more skill and experience to run a small store than formerly and the large store and factory are virtually closed to him on any terms.[1]

This conclusion was reached by a black author in Philadelphia . . . in 1899! Unfortunately, the economic climate for black business today bears a strong resemblance to that of seventy-one years ago. Major barriers to the establishment and maintenance of significant black enterprise persist. Both capital flow into black businesses and capital accumulation by black businessmen are minimal. Moreover, relatively few Negroes possess marketing, production, and management skills essential to successful business operation.

Recent focus on economic progress for Negroes in general and the economy of the black ghetto in particular has been directed at the dearth of black business. National attention has keyed on the development of black entrepreneurship, and public and private resources have been diverted toward this end. As reported in *Business Week,* President Nixon vowed during his campaign that "The new approach . . . ought to be oriented toward more black ownership, for from this can flow the rest: black pride, black jobs . . . ." In March, 1969, the Office of Minority Entrepreneurship was added to the

[1] W. E. Burghardt DuBois, *The Philadelphia Negro: A Social Study* (Benjamin Bloom, Inc.: New York, 1899), p. 123.

list of federal agencies sponsoring minority business programs.

Across the country, local resources have been mobilized as well. For example, the Greater Cleveland Growth Corporation, offering extensive loan aid and advisory services, attempts to find black businessmen and potential entrepreneurs to fill inner-city economic needs. The Greater Detroit Board of Commerce sponsors an "Adopt a Business" program aimed at encouraging established companies to help minority businesses over the myriad stumbling blocks which often spell failure for a new enterprise. The Allegheny Conference in Pittsburgh directly finances black-owned and -operated companies.

In Philadelphia, a growing number of public and private groups seek to incubate black business. We report here on fifteen organizations in the city, listed in the appendix to this article, which figure prominently in the total of Philadelphia's efforts to assist the black businessman. Included are government, business, financial, and community organizations, each offering somewhat different services.

WHICH PHILADELPHIANS HELP?

Government functions as a leader and catalytic agent. Through agencies such as the Small Business Administration and the Model Cities program, it provides financial resources and coordinating mechanisms. Financial institutions furnish risk capital, emphasizing the client's motivation and similar personal qualities. Other organizations—for example, Greater Philadelphia Enterprises Development Corporation (GPEDC) and Businessmen's Development

BLACK BUSINESS: THE ISSUES

Active encouragement of black entrepreneurship is one of several routes that can be taken to improve the economic and social conditions of Negroes. The campaign to promote black business ownership is intended to open the door to self-employment, as well as to stimulate black pride and creative effort. Proponents of this campaign hope to build efficient black firms which will serve varied markets, yield substantial profits, and produce significant increases in black employment and black control of business assets. Moreover, optimistic observers hope that independent community voices—voices backed by green power—will emerge.

While commentators agree on the appropriateness of these objectives, many doubt that black business programs can achieve their goals. Critics note that black enterprises are typically undercapitalized retail and service establishments. Providing little employment and often victims of bad management, these firms cannot compete successfully with larger and more efficient operations. Even when profitable, the amount of income generated by these businesses may be insignificant. Opponents of black entrepreneurship programs suggest that resources devoted to these efforts might better be used to raise levels of education and set up training programs which would enable Negroes to compete in the labor market at large.

The debate on the pros and cons of black entrepreneurship is not likely to be resolved in the near future. Successful businesses grow slowly, and the history of the campaign to promote black business is a short one. We must allow current programs sufficient time to achieve their goals before we complete their tally-cards.

Corporation (BDC)—offer professional advice and consulting services. Franchisers take on black owner-operators, while other businesses tender special considerations in procurement. Many individual executives offer their expertise through volunteer counseling pools, such as the one maintained by GPEDC. The academic community provides educational resources through both student and faculty participation. Finally, community groups, including Mantua Community Planners Inc., Young Great Society, and the Urban Coalition, work to open needed communication lines between the black and white communities and to muster local enthusiasm and support.

FEEDING MONEY INTO BLACK BUSINESS

While capital for a new business is always hard to find, difficulties are compounded for minority businessmen. Traditional credit channels, which require a borrower to have some of his own financial resources, are closed to the black with no equity capital. In addition, inexperience or previous failures may handicap the Negro in need of financial backing.

Groups in Philadelphia are responding to these credit problems. First, some organizations provide pre-loan assistance and direct the potential businessman to a loan source. Second, many of these groups and others have established funds of capital for loan in high-risk situations.

Pre-Loan Assistance. The potential businessman may approach a lending agency, often after having been refused a loan via conventional channels, with the aid of a group such as Greater Philadelphia Enterprises Development Corporation or Businessmen's Development Corporation. These organizations examine the proposed project, developing, in the process, background information useful to the lender. They then refer the client to the most suitable loan source.

Initial screening by the organizations is designed to weed out unrealistic proposals. Applicants who survive this process benefit from comprehensive professional evaluation. The staffs of GPEDC and Job Loan and Urban Venture Corporation (JL&UVC), among others, thoroughly scrutinize each proposition for its technical feasibility. The location under consideration, proposed scale of business operations, and capital requirements are all examined with an expertise the inexperienced rarely possess. In the course of such an inquiry, suggestions may be made to improve the prospectus, and the entrepreneur often will be alerted to previously unforeseen difficulties.

Once the evaluation has been completed, the client will be referred to one of several loan sources—perhaps a commercial bank, Job Loan and Urban Venture Corporation, or the Small Business Administration. The organization responsible for initiating the borrower-lender relationship may help prepare the loan application and other necessary papers. A staff member of GPEDC or SBA often will accompany the applicant to the lending institution. Efforts are also made to have an accountant present in order to avoid later financial difficulties caused by misunderstanding.

The Loan Source. In Philadelphia, commercial-bank money is available directly, with or without a government guarantee, and indirectly, through a special pool of bank funds—Job Loan and Urban Venture Corporation. Many clients go straight to the bank after screening and pre-loan assistance by organizations such as BDC and GPEDC. Other would-be businessmen, often designated as higher risk borrowers, are referred to JL&UVC. Through this nonprofit group, originally established in April 1968 as Job Loan Corporation[2], eight banks pool the higher-than-average risks associated with many loans to minority businessmen. Programs of the Small Business Administration (for example, Operation Business Mainstream, and its predecessor, Project OWN) also help break the ice at the commercial bank by offering the institution a federal guarantee of the loan.

Some federal government funds are available to black enterprises via Operation Business Mainstream, and also through the SBA Local Development Loan Program. The Small Business Investment Act of 1958 defines local development companies as private "enterprises . . . with the authority to promote and assist the growth and development of small-business concerns."[3] The Small Business Administration makes loans to these companies, which in turn lend to small businesses for investment in plant and equipment. Historically important in rural development, this program now gives priority to job creation within the inner city.

In Philadelphia, low-cost financing to promote industrial development is available through the Philadelphia Industrial Development Corporation, a conduit for funds controlled by the Pennsylvania Industrial Development Authority. These state resources have been used by at least two other groups—Greater Philadelphia Community Development Corporation and GPEDC.

One additional source of capital is the black community itself. An example of the way in which minority businessmen may draw upon this economic base is the self-help experience of Zion Investment Associates. In 1962, the Reverend Leon Sullivan, pastor of the Zion Baptist Church, asked 50 members of his congregation to pool ten dollars a month for 36 months in an investment cooperative plan. For the first 16 months this money was to be placed into a nonprofit charitable trust. The contributions of the final 20 months were put into an investment corporation for profit-making purposes. The Reverend Sullivan's pleas drew over 200 responses, and Zion Investment Associates was on its way to launching the Progress Plaza shopping center, Progress Garment Manufacturing Company, and Progress Aerospace Enterprises, Inc.

How Much Money Is Available? The amount of money available to individual businessmen by way of these programs is typically small. Some observers argue that the amounts provided are also inadequate—that a relative lack of capital right from the start impedes a firm's progress and success.

Although the sums of money lent minority businessmen vary within a wide range, and are influenced by the character of the lending institution and the requirements of the entrepreneur, the average black business loan comes to about $15,000. For example, in its two and one-half year history, GPEDC has been instrumental in the approval of approximately 50 small business loans averaging between $15,000 and $20,000. In only two cases, however, was the amount involved later considered inadequate by GPEDC and a cause of serious difficulties to the entrepreneur.

From April, 1968, to the close of 1969, Job Loan and Urban Venture Corporation approved 315 loans totaling $3.4 million. Over two-thirds of these loans were for amounts under $10,000, and only 23 were for sums of $25,000 or more. Loans initiated by BDC have varied between $300 and $120,000.

[2] See Susan R. Robinson, "Moving Money Into Ghetto Businesses," *Business Review,* Federal Reserve Bank of Philadelphia, October, 1968.

[3] Small Business Investment Act of 1958, Title 1, Section 103.

Owners of large businesses require extensive capital commitments—surely larger than $15,000, and often greater than $100,000. Certain facilities in Philadelphia are equipped to service these clients. For example, if a borrower's capital requirements exceed the $100,000 maximum of JL&UVC, arrangements can and have been made with the Southeastern Pennsylvania Development Fund to make supplementary sums available. In addition, loans by the Pennsylvania Industrial Development Authority and the Local Development Loan Program of the Small Business Administration often amount to several hundreds of thousands of dollars.

Nevertheless, financial resources available to black entrepreneurs are limited. The Negro himself can provide little of the necessary equity, and commercial banks and other financial institutions are understandably wary of committing large amounts of capital to high risk ventures. Furthermore, federal and state funds available to individual businessmen are restricted.

BEYOND THE MONEY

Unfortunately, even the black entrepreneur with money in hand often encounters problems—problems just as serious as that of obtaining capital. Poor business management often leads to the demise of an enterprise which, with the right guidance, might have succeeded. Accounting, management, marketing, and production problems are not peculiar to the black entrepreneur. But they are all the more critical for a new firm operated by inexperienced personnel on a shaky capital foundation.

Thus, besides financial aid, the Negro often requires business training and management assistance. Both individual counseling sessions and group education programs are conducted in Philadelphia to alleviate current difficulties and prevent future ones.

The Person-to-Person Approach. The problems faced by a particular businessman many times are solved by the application of professional and technical expertise. Several organizations which provide pre-loan assistance to minority businessmen also offer post-loan counseling services. In fact, clients are often required to submit periodic reports of their progress, including financial statements. Staff members contact some, if not all, of the new businessmen during their first months of operation, offering the services of successful businessmen and professionals on a volunteer or nominal-fee basis when problems do arise.

Business counseling and management assistance are also available to the entrepreneur who lacks such strong organizational ties. One growing source of expertise is Business Practice Service, a university-affiliated organization. Through this group, graduate students in business courses at the Wharton School of Finance and Commerce of the University of Pennsylvania counsel minority businessmen. Based on the premise that training can occur through exposure and cooperative work, the effort aims toward structuring mutually beneficial relationships—the entrepreneur has access to a source of business expertise, and the business student gains the opportunity to apply his knowledge in the small-business context.

Individual counseling has not proven to be problem-free, however. Meetings between counselor and client are sometimes ill-timed, and personality clashes do occur. Clients sometimes consider criticism a personal affront and are distrustful of advice. Conversely, counselors may adopt paternalistic, condescending attitudes, naturally resented by minority businessmen.

Group Education Programs. Although group education is probably not the best approach to individual problems, it does avoid some difficulties of the person-to-person approach. The classroom situation provides opportunity for significant progress in upgrading general levels of education and basic business skills, yet preserves more of the clients' independence. Group education also may be more efficient—large numbers of entrepreneurs with similar problems can be reached at one time. With these advantages in mind, many organizations promoting black business in Philadelphia have initiated programs for group instruction.

Greater Philadelphia Enterprises Development Corporation, for example, conducts seminars and discussion groups concentrating on the practices and problems of minority entrepreneurs operating in each sector of the economy. Job Loan and Urban Venture Corporation, in cooperation with the Pennsylvania Institute of Certified Public Accountants, sponsors group sessions to help clients keep their financial records in good order. The purpose of this program is two-fold: to show the businessmen that they are not, indeed, alone in their problems; and to enable the accountants to discover the nature of these difficulties and suggest workable solutions.

The education of one particular group of businessmen—minority contractors—is one of the goals of a new business management and technical training course conducted by a leading management consulting firm under the auspices of the Urban Coalition. Enrollees in this program also can benefit from a $500,000 revolving loan fund for marginal minority contractors.

The academic community also is involved in group instruction. The Community Wharton Education Program offers courses in business and basic education in an evening school program open to both workers and self-employed businessmen. Begun in January, 1969, by seven community organizations and several members of the Wharton School faculty, the full-scholarship program demands that each of its 85 students enroll in two courses per semester. Volunteer faculty lecture on accounting, finance, marketing, management, business law, and economics. Remedial reading and mathematics are also included in the curriculum.

EVALUATING BLACK BUSINESS

Many organizations are making an all-out effort to provide the Philadelphia Negro with technical information and financial backing. What is the overall effect of these programs? Where does black business currently stand?

Philadelphia's Black Entrepreneurs. Many fledging black businessmen are opening retail and service outlets—barber and beauty shops, grocery marts and restaurants, laundries and dry cleaning establishments, and service stations and repair shops. Traditionally popular with Negro entrepreneurs, these activities require relatively little capital and can be run on a "mom and pop" basis.

In increasing numbers, blacks also are going into lines of business long closed to minorities. Easier access to larger amounts of capital and to training and management assistance has increased black ownership of medium and large firms. For example, Zion Investment Associates has formed two companies, an aerospace firm and a garment manufacturing firm. Two clients of Greater Philadelphia Community Development Corporation, an electronic parts plant and a tire recapping operation, project a combined employment of over 325 people. Although the thrust of Operation Business Mainstream is toward the retail and service sectors, this SBA undertaking also assists firms operating in other industries.

Special arrangements often help the Negro get off to a good start. Franchise operations permit independent ownership, yet assure the minority entrepreneur of a quality product, national advertising, and market evaluation and management assistance. Corporations boost minority businesses by placing orders for their output: both Progress Aerospace Enterprises, Inc. and Progress Garment Manufacturing Company have benefited from such ties. In the public sector, a program administered by SBA enables black entrepreneurs to secure government contracts at higher than competitive bidding prices in the expectation that eventually these minority companies will function independently in competitive markets.

Looking Ahead. The experience of only a few years is not enough to judge the ultimate effect of programs in Philadelphia engaged in promoting black entrepreneurship. Furthermore, the information required to document present accomplishments is at best inadequate and often nonexistent. Few organizations have estimates of job creation or detailed records of the financial positions of their clients.

Nevertheless, reasons for hope and further endeavor flow from many of the efforts which have been made to help the black entrepreneur. Today's Negro businessman can expect to profit from both past and current endeavors to promote black enterprise. Initial accomplishments of blacks who have benefitted from these programs have stimulated black pride and community support. Their businesses have generated income and employment, and they have formed the base for better trained black businessmen. Furthermore, the financial institutions which helped these first black entrepreneurs now may be better equipped to meet the Negro businessman's demands. Bank loan officers have become both more approachable to the urban black and more familiar with his special loan requirements.

More extensive assistance will be needed, however, if black business ownership is to contribute significantly to black economic development. In addition to capital, successful firms require expert management and technical abilities. Many believe that counseling currently available is only a limited substitute for management experience in established firms as a method for transmitting the skills and resources of business executives to black entrepreneurs. In fact, communicating these talents and mobilizing greater capital funds remain among the most pressing problems in the development of black enterprise.

Clearly, a strong commitment to black business ownership already has been made. It appears, however, that if this campaign is to achieve its goals, those who accept the strategy of "black capitalism" must continue to develop and implement more encompassing programs.

APPENDIX: MAJOR BLACK BUSINESS PROGRAMS IN PHILADELPHIA

In the preceding pages, we have made reference to specific groups in Philadelphia which are aiding black businessmen. The following is a brief description of each of these organizations in which we have highlighted any purpose or program unique to a group's endeavors to further black entrepreneurship.

Business Practice Service. Graduate students at the Wharton School of Finance and Commerce of the University of Pennsylvania offer consulting services to minority entrepreneurs through Business Practice Service. Clients are referred to BPS by JL&UVC and SBA, as well as by community organizations and other businessmen. BPS' members, working in teams of two, spend at least six hours a week on each case, assisting potential entrepreneurs as well as new and established businessmen. Last year the organization also sponsored a Minority Business Symposium—a series of panels and information centers on current business problems and opportunities and the economic and social institutions which influence them. Since its start in September, 1968, BPS has more than doubled in size, expanding from 15 to 36 teams of consultants.

Businessmen's Development Corporation. Incorporated in 1965, BDC was one of the first groups organized in Philadelphia to fill the need for adequate financing for small businesses. Three thousand shareholders, all members of minority races, provide a broad base of community support for BDC's efforts. While its services are available to everyone, BDC seeks to show that blacks in particular can successfully own and operate businesses. BDC offers the potential entrepreneur legal and accounting advice before referring him to the Small Business Administration or The First Pennsylvania Banking and Trust Company. A fee for these services is included in the loan application. There is no charge, however, in the event that the loan is not approved. Plans also are underway to establish a nonprofit institute to expand counseling assistance.

Community Wharton Education Program. CWEP is an evening school program designed to offer business education and remedial reading and mathematics courses to both workers and self-employed businessmen. Each of seven community organizations and five inner-city high schools may recommend prospective students to a committee responsible for admissions. Volunteer faculty from the Wharton School of Finance and Commerce of the University of Pennsylvania instruct enrollees, and community counselors help solve vocational, medical, and other problems encountered by program participants. CWEP has experienced a high drop-out rate among its students—30 percent during its first semester (Spring 1969)—because of changes in work-shifts, medical problems, and lack of ability or motivation. Not a degree-granting program, it serves a predominantly black student body numbering about 85. While currently operating at capacity, CWEP will probably expand as more funds become available.

Greater Philadelphia Community Development Corporation. GPCDC focuses on developing job opportunities for the disadvantaged and on promoting opportunities for black managers and entrepreneurs, particularly in medium and large businesses. GPCDC was founded in autumn 1968 by a group of young professionals believing that broadly based, adequately financed enterprises are essential to inner-city development. These established businessmen, now members of GPCDC's board of directors, actively assist staff professionals in investigating loan applicants and their business proposals. Currently, GPCDC relies largely on loans made by the Pennsylvania Industrial Development Authority, although the corporation is itself empowered to be a lending agency. GPCDC also plans to conduct post-loan inquiries to see if the corporation and its clients are accomplishing their goals.

Greater Philadelphia Enterprises Development Corporation. Incorporated in early 1967, although not fully staffed until January, 1969, GPEDC functions in three areas. As a local development company, it participates in SBA's Local Development Loan Program. GPEDC has used this vehicle to finance Poplar Plaza, a shopping area which offers supermarket, gas station, and pharmaceutical facilities. GPEDC also is a conduit for loans by the Pennsylvania Industrial Development Authority. Finally, the organization helps the small businessman. This nonprofit agency provides extensive pre-loan and post-loan counseling services. Emphasizing black business ownership, the group endeavors to promote economic development of the inner city. GPEDC, administratively financed by the Economic Development Agency and several local sources, also assists community groups in need of information and professional services.

Job Loan and Urban Venture Corporation. In April, 1968, eight commercial banks in Philadelphia pledged $2 million for loan to minority businessmen through Job Loan Corporation. Founded as a subsidiary of Southeastern Pennsylvania Development Fund, this private venture capital group acquired its present name and nonprofit status in 1969. The key to JL&UVC is a combination of willingness on the part of commercial banks to pool the higher-than-average risks associated with loans to minority entrepreneurs and availability of continuing management assistance to these businessmen. The organization screens business proposals, provides loans to those applicants whose projects offer a good chance for success, and supplies post-loan counseling. JL&UVC serves a five-county area, although its loans are concentrated in Philadelphia proper. Participating banks have doubled their initial commitment to this program. JL&UVC has also expanded into the area of commercial mortgages, and may become involved in industrial mortgage and lease guarantees.

Mantua Community Planners Inc. MCP was organized in January, 1967, to coordinate the programs of community and religious groups trying to bring a positive social and economic environment to Mantua—an 82-block neighborhood in West Philadelphia whose 22,000 residents are predominantly black. MCP staff members monitor the economic development of the area, offer advice to new entrepreneurs, and maintain a close rapport with established businessmen. In addition, MCP carries on a continuing effort to foster community cooperation, sponsoring a newsletter, a radio program, a community newspaper, and open community meetings.

Model Cities. The Model Cities pilot project is concerned with the economic and social development of a "model block"—from Spring Garden to Cumberland Streets, and between Fairmount Park and Broad Street. MC goals include employment for neighborhood residents, ownership of facilities by community residents, and increased availability of goods and services at competitive prices. The Model Cities program also is an attempt to fill a need for continuing resources, research, and coordination. A local agency, federally financed, Model Cities is developing specific projects to foster development in Philadelphia.

Philadelphia Investors, Inc. Philadelphia Investors, Inc. was formed by a group of black professionals as a medium for capital accumulation, business education of its investor-members, and involvement in enterprises relating to the black experience. Interested in any profitable venture, PI realizes it cannot ignore investment activities in the total economy. Social concern, however, creates interest in jobs for blacks and in being a venture to which blacks can relate. Chartered in January, 1969, PI anticipates owning subsidiaries as well as helping others establish independent businesses. It currently holds 70 per cent interest in "Black Book," a local television program, and is in the process of acquiring real estate.

The Philadelphia Urban Coalition. The Philadelphia Urban Coalition was formed in 1968 as an alliance to alleviate social inequities, and as a structure through which existing government, business, and community organizations could coordinate and expand their efforts. An activator whose role is primarily catalytic and supportive, UC is involved in several areas of community development, including manpower, housing, health and welfare, and education. Thirty-four per cent of its total distribution of funds in 1969 was allotted to economic development. Proposals are under study to stimulate inner-city commercial development and to establish a centralized system of referral for business counseling. Other UC projects include the General and Specialty Contractors Association of Philadelphia and a management training course for minority contractors.

Small Business Administration. SBA attempts to involve the private sector and local government in the campaign to aid minority entrepreneurs. SBA offers federal guarantees on commercial bank loans, helps clients negotiate with lending institutions, provides counseling and management assistance, and sometimes itself becomes the loan source. Minority loans by SBA are closely supervised, and clients are encouraged to attend management workshops. SBA help for minority entrepreneurs is primarily available through Operation Business Mainstream, whose thrust is toward the retail and service sectors, and the Local Development Loan Program, which addresses opportunities in all industries. The latter is geared to providing substantial sums for large projects such as shopping centers.

Strawberry Mansion Cooperative Association, Inc. Dissatisfied with nearby stores, residents of the Strawberry Mansion area organized the SMC in late 1967 to provide quality food products at reasonable prices. A victim of inexperience and extensive flooding damage, this group is still struggling to gain its footing. Employees now include a managerial trainee and three part-time workers. Growing business and a successful raffle have eased financial difficulties at the 30th and Cumberland Street mart, and SMC expects to reach the break-even point before mid-1970.

United Community Development Corporation. An outgrowth of a nonprofit, interdenominational organization designed to provide the consumer with better quality products at more reasonable prices, UCDC is a joint venture of several groups concerned with the physical and economic development and stabilization of West Philadelphia neighborhood areas. Its first project is a shopping center to provide space for established and new businesses and for other social and training facilities. A study group has reported favorably on the prospects of developing such a shopping area in the vicinity of 52nd and Chestnut Streets, and efforts are now being made to secure adequate low-cost financing.

Young Great Society. YGS, in cooperation with Mantua Community Planners Inc., encourages the economic and social development of Mantua.

The group, whose staff includes professional planners and architects, is promoting a community shopping plaza, a job training center, and neighborhood improvement programs. YGS is also planning to establish the Mantua Industrial Development Corporation, which will provide office space and manufacturing facilities for light industry.

Zion Investment Associates. Founded by the Reverend Leon H. Sullivan, Zion Investment Associates is a private organization promoting free enterprise in the interest of the black community. Funds subscribed to the 10-36 Plan, a community savings arrangement in which participants contribute ten dollars a month for 36 months, provide an economic base for this group's activities. The Plan has made possible the construction of a shopping center and two manufacturing firms. Progress Plaza, the commercial center, provides space for 16 stores, ten of which are owned by black entrepreneurs and all of which are black-managed. The manufacturing subsidiaries include an aerospace firm, initiated with the assistance of General Electric Company, and Progress Garment Manufacturing Company, launched with the help of The Villager, Inc. An entrepreneurial training center has also been developed within the present organization.

Bank Competition and Monetary Policy

by Guy E. Noyes*

In 1920 Prof. Chester Arthur Phillips published a book entitled *Bank Credit: A Study of the Principles and Factors Underlying Advances Made by Banks to Borrowers.*[1] Directly or indirectly every student of money and banking since has been reared on Phillips. While Phillips's book itself has been little used as a text since the 1930's, it has literally been rewritten a thousand times in texts on money and banking that have been the basis for courses in our colleges and universities—and his analysis has survived the years very nearly intact.

In many ways this has been a good thing. Certainly the Phillips analysis represented a great advance over that of his predecessors—it is more accurate to think of the loan as the father of the deposit than *vice versa* and it is well to understand that a 10 per cent reserve requirement (O, happy day!) permits the commercial banks taken all together to parlay their loans and deposits tenfold on the basis of an infusion of new reserves, but a single bank, the "Mad River National Bank of Springfield, Ohio," can expand its loans by only $122,000 on the basis of $100,000 borrowed from the Federal Reserve Bank of Cleveland, assuming the 10 per cent reserve requirement and an automatic 20 per cent reciprocal balance (O, still happier day!). These are good things to know and it is well that millions of eager young minds have learned them.

But along with these venerable truths the students who grew up on Phillips, directly or indirectly, have also acquired a wholly unrealistic notion of the almighty market power of

* Senior Vice President and Chief Economist, Morgan Guaranty Trust. This essay was selected from *Men, Money and Policy,* published in limited edition by the Federal Reserve Bank of Philadelphia.

[1] The Macmillan Company, New York, 1920. Page references are to a 1931 reprint.

the commercial banker over his customers. It may or may not have been true in the 1920's, but it certainly isn't true today. Prof. Phillips's banker had no problem in expanding or contracting the loans of his bank—he simply said "yes" or "no" in a positive, if courtly, manner. His style is well-illustrated in a little discussion of "derivative" balances. "You are straining your credit," says the banker to the credit-seeking customer, "and, with tight money staring us in the face, I shall have to ask you to keep a more liberal balance in relation to loans than previously, as a requisite to additional accommodation."[2]

A DRAGON SLAIN

This snug little monopolist who ran Prof. Phillips's Mad River National in Springfield, Ohio, has been taken as a microcosm for the banking industry by several generations of students who have grown up to be Congressmen, Federal Reserve Board members, Federal Reserve Bank presidents, Comptrollers of the Currency, and Chairmen of the FDIC—to say nothing of the thousands who are professors of money and banking, some of whom are intermittent members of the President's Council of Economic Advisers. And, of course, like Keynes and Friedman, Phillips has suffered at the hands of his followers. Phillips never said it, but there is hardly an economist now alive, who, confronted by the uncomprehending faces of the eight o'clock section of Economics A or the friendly, but confused, countenances of the local Rotary, has not blurted out, in the course of an effort to explain deposit creation, "Think of the banking system as one large bank." In fact, there is hardly an economist now alive who hasn't blurted it out so often that he has slipped into the habit of thinking that way himself.[3]

[2] *Op. cit.*, p. 51.

Of course, we all know that the commercial banking system in the United States isn't one large bank and can't be expected to behave like one. But I am not sure we are as acutely aware as we should be of just how misleading this "simplifying" assumption has been and continues to be.

Except in a few rural areas—and they are fast becoming fewer and farther between—competition among banks is intense, in fact, fierce. This is, when one considers it, hardly surprising. From the earliest days of our national existence, competition among banks has been protected and nourished by public policy. As every high school history student knows, the dragon of nationwide banking, in the form of the Second Bank of the United States, was so effectively slain by Andrew Jackson in 1836 that it has been hard to even make much political capital out of the issue since. The threat of a "money monopoly" has been rolled out from time to time as a subject of campaign oratory, as it was by the Populists in the late 19th century, but the old dragon has properly been regarded by the public with about as much awe as the balloon version of a comic strip character in a Thanksgiving Day Parade.

The pervading and overpowering philosophy was well-expressed by the Banking and Currency Committee of the House of Representatives in its report on "The Bank Holding Company Act of 1955" when it said, "The United States early in its history . . . adopted

[3] To those who know that I had the good fortune to take my first course in economics under Karl Bopp in the summer of 1931, let me say that I am not accusing him of using this pedantic crutch. On the contrary, I seem to recall a very vigorous and earnest young man filling a blackboard that covered one whole side of the room with individual bank T accounts before he finally unveiled the magic 10 to 1.

a democratic ideal of banking. Other countries, for the most part, have preferred to rely on a few large banks controlled by a banking elite. There has developed in this country, on the other hand, a conception of the independent unit bank as an institution having its ownership and origin in the local community and deriving its business chiefly from the community's industrial and commercial activities and from the farming population within its vicinity or trade area." If this bucolic ideal is not precisely the reality of today, it is certainly closer to it than the "monied oligarchy" Jackson "exterminated" in the words of Bostonian David Heughon—who may have been slightly prejudiced, as were many New York financiers of the period, because the Second Bank was headquartered in Philadelphia.

THE LAST RESORT

In fact, of course, competition reaches its pinnacle in the efforts of larger banks to attract and hold a share of the business of large national and multinational corporations. Because of the legally enforced fragmentation of the commercial banking system, no single bank is large enough to accommodate alone the financial needs of any of our larger corporations. Most large companies have four or five continuing banking connections, and some have hundreds ranging over banks of all sizes. In terms of market power, this puts the corporate treasurer in an extremely favorable position. He can always play the banks with which he has established relationships off against one another, or, alternatively, play all or any of them off against 100 more or less identical banks that would be delighted to provide him with more or less identical accommodation. Moreover, quite aside from the practical problems that the intensely competitive banks would have in trying to deal jointly with a large customer, they are legally prohibited, except with explicit permission of the customer, from even discussing with one another the terms and conditions on which they will lend to him. At least in the initial stages of negotiation, banks must rely wholly on the integrity of the borrower for any information as to the terms and conditions on which other banks are prepared to accommodate him.

In these circumstances bankers who deal with large corporations are, if not exactly in, very close to the position one New York banker described when he said, "Sure, we would turn down a loan to a good corporate client who had maintained good balances with us over the years, but not until after we had sold our building and all the furniture."

What are the implications of this for monetary policy? It depends, of course, on what monetary policy is trying or should be trying to do. If one feels that the task of monetary policy is to establish some desired rate of increase in the narrowly defined money supply, the consequences are comparatively minor. The problems of measuring the rate of increase in money that has been or is actually taking place or in determining what rate of increase is optimal are magnified only very modestly by the intensity of competition for "business" business. In this case, as in others, the pressure to accommodate business borrowers may produce allocative effects that will cause the monetary authority to falter in its determination to adhere to a given money supply objective when credit demands are generally strong, but in the view of the true monetarist this is only evidence of human frailty—not the product of the competitive process. This problem of the contribution of hypercompetition to the selective impact of general policy will be touched on again in connection with other alternative objectives of policy where it appears to play a more important role.

If one leans to the broader money supply, or the closely related bank credit proxy, as the appropriate objective of policy, the problem is more complicated, especially if one includes in the defined objective all or part of the claims arising from the money market fund raising activities of banks. These problems become overwhelming if one injects the further complication of a sub-market Regulation Q ceiling, but that is another story. Sub-market Q ceilings are a sufficient evil unto themselves and have amply demonstrated their capacity to produce such massive distortions as to make rates of change in any of the conventional broad measures of bank credit and money practically meaningless. In these circumstances the modest contribution to the confusion that stems from the relative market power of banks and their customers seems insignificant.

GENERAL CONTROL INTACT

If we abstract from the Q ceiling distortions (which is difficult to do in the current setting in which their impact is so pervasive), it does appear that the inability of banks to ration credit to large business borrowers, especially in the early stages of a move toward credit restraint, operates to lessen the precision and increase the time lag with which the monetary authorities are able to control the rate of growth of total bank credit, the bank credit proxy or the broadly defined money supply. In the long run the availability of reserves must operate as a limiting factor, but for a considerable period footings on both sides of bank balance sheets can expand at a rather high rate even in the face of an extremely parsimonious policy of new reserve creation by the central bank. The reasons for this do not have to be explained to the typical reader of this sort of paper who is doubtless thoroughly familiar with the factors affecting member bank reserves and their relation to the volume of money and bank credit. Suffice it to say that in the circumstances set forth and in the short-run, banks are prepared to go far beyond the optimal, equilibrium or profit-maximizing point in the intensity with which they utilize total reserve balances and the extent to which they pull reserves normally occupied in other ways into the "member bank balance" component of the uses of the monetary base.

How much this delays the ability of the central bank to achieve control over monetary aggregates, such as the broadly defined money supply, depends importantly, of course, on how ruthless it is prepared to be in the pursuit of its objective. Even the most strong-willed, broad-definition monetarist would doubtless find himself compelled to employ some gradualism in stemming an excessive rate of growth in bank credit or broadly defined money, and there can be little doubt that the willingness of banks to compete for funds, among themselves and with others, to satisfy the borrowing demands of their customers enhances this problem. But even so, the problem is one of timing and the determination of the authorities, and one would conclude that, if control over the broader banking system aggregates is the appropriate objective of policy, then competitive conditions in the banking industry aggravate only modestly the difficulty of achieveing that objective.[4]

[4] There has been very little empirical work in this field. While I would not pretend to have researched the literature thoroughly, I am encouraged to believe that I have not overlooked any highly significant contributions by the fact that a recent article on the subject did not refer to anything that had escaped my attention. This

Substantially the same conclusion emerges if one accepts interest rates or some other broad measure of credit conditions as an objective. In fact, it can be argued that a desired level of market rates can be achieved more rapidly than might otherwise be the case because of the intensity with which banks are prepared to compete in funds markets. But the problem of selective impact, or burden sharing, is more visible, if not more acute, and, therefore, more likely to interfere with policy formulation. If the authorities are focusing on general credit conditions as the objective, it is hard for them not to be aware of conditions in the separate markets and succumb to the temptation to moderate their general objectives in order to relieve what seem to be unduly harsh conditions in specific markets—and again, the intense competition among banks to accommodate business borrowers tends to amplify the problem. The wide swings in bank participation in the market for state and local obligations is an obvious case in point.

But while the highly competitive structure we have chosen to maintain and encourage in the United States banking system may complicate the problems of conducting a general monetary policy directed to any of the above objectives—and increase the temptation to superimpose selective controls to "even out" the burden—it cannot be said to frustrate such policy or even make it significantly less effective.

SELECTIVE EFFECTS OUT OF REACH

However, there is one objective that appears to be literally beyond the reach of general monetary policy under present competitive conditions. This objective is the more or less precise regulation of the rate of increase in business loans at commercial banks. If this is taken to be an appropriate immediate objective of monetary policy, i.e., if effective control of the rate of bank business-loan expansion is assumed to be the essential financial link through which monetary policy makes its contribution to overall economic stability, then monetary policy simply cannot do what it is supposed to do with the tools it has to work with, given the present distribution of market power as between banks and their business customers. If one goes further—as, once started down this path he might logically proceed—and adopts the objective of regulating the *total* flow of credit to business borrowers from all sources, then the attainment of the objective in present circumstances and with the present policy tools is even more remote from reality.

Thus, if one sincerely believes that it is essential to stable economic growth that the monetary authorities be able to influence directly and promptly the availability of credit to business borrowers, he must conclude either that a basic change in banking structure is needed which will reallocate market power in such a way as to permit banks to pass on to business borrowers more effectively restraint imposed on them by the monetary authorities or that the monetary

article, "The Banking Structure and the Transmission of Monetary Policy," by Sam Peltzman in *The Journal of Finance,* Volume XXIV, No. 3, June 1969, pp. 387-411, addresses itself primarily to the question of how the market structure affects the speed with which deposit growth is influenced by changes in reserves or reserve requirements. The results cannot be directly related to the judgmental observations in this paper, since the categories used by Peltzman do not necessarily reflect the differences in market power as between banks and their customers. In a general way, however, the fact that the differences in bank structure which Peltzman explores make only modest differences in the speed with which policy changes are transmitted would seem to support the proposition that if the rate of deposit change is the objective of policy, the intensity of competition among banks plays a comparatively unimportant role in the efficiency with which policy operates.

authorities should have the explicit power to regulate selectively the volume of business borrowing, probably from nonbank as well as bank sources. Meanwhile it makes no sense to belabor either the central bank or the private banking system for not doing something neither of them has within its power.

While the change that would be needed is put above in terms of two alternatives, it could just as well have been expressed in terms of two ways of doing the same thing—reducing the market power of the corporate borrower. If we move toward any form of selective regulation of bank lending, it would be, in effect, an abridgment of the benefits borrowers enjoy as a result of the banking competition we have pursued so vigorously through legislation and regulation. The fact that it would be done under the banner of public policy does not change its character. It is for this reason that jurists have always concluded that efforts to regulate business credit, like the "voluntary" credit restraint program of the Korean War period, can work only under the protective umbrella of an exemption from the Sherman Act. In order for selective regulation of bank lending to work, some sort of collaboration among banks with regard to which loans are appropriate and which are not, would be unavoidable even if broad guidelines were provided by a government agency. Business credit simply cannot be regulated by the type of "down-payment" and maturity regulations that have been used in the case of consumer installment credit and real-estate credit regulation.

TOO HIGH A PRICE?

Doubtless some students of the monetary mechanism will conclude that the national interest requires a de-intensification of the zeal with which banks compete with one another for business customers and accommodate their credit needs even at times when policy is limiting the growth of total money and bank credit. They also will reason that this can be most equitably done by superimposing some form of selective regulation on top of the existing general authority to regulate the growth of broad aggregates or influence general credit conditions. But we should all be very clear just what we would be doing if we follow that path—we would be impairing with one hand the competitiveness that we have so zealously protected with the other. One would want to be very sure that regulating business-loan volume is an essential objective of monetary policy. I, for one, am not.

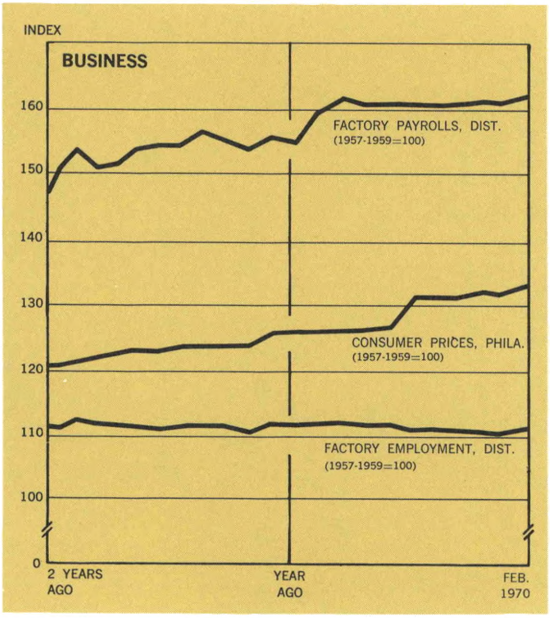
NOW AVAILABLE

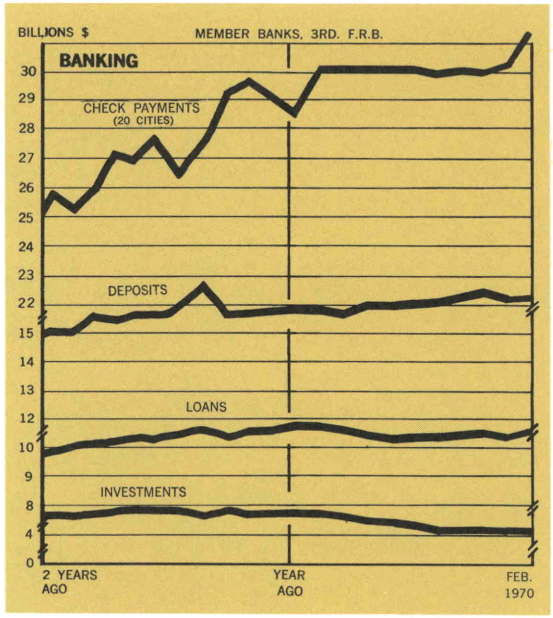
THE MYTH OF FISCAL POLICY: THE MONETARIST VIEW

One of the liveliest debates among economists in recent years is the relative importance of fiscal vs. monetary policy in determining the level of national income. Economist Ira Kaminow outlines both sides of this controversy in the pamphlet, "The Myth of Fiscal Policy: The Monetarist View," which has been reprinted from the December, 1969 *Business Review.*

Copies of the pamphlet are available upon request to the Public Services Department, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District			United States		
	Per cent change			Per cent change		
	Feb. 1970 from		2 mos. 1970 from	Feb. 1970 from		2 mos. 1970 from
	mo. ago	year ago	year ago	mo. ago	year ago	year ago
MANUFACTURING						
Production	....	....	....	+ 2	− 1	− 1
Electric power consumed	− 2	+ 3	+ 4	....	....	....
Man-hours, total*	+ 1	0	− 1	....	....	....
Employment, total	+ 1	0	− 1	....	....	....
Wage income*	+ 1	+ 6	+ 5	....	....	....
CONSTRUCTION**	− 1	+35	+41	+ 7	+ 9	+ 6
COAL PRODUCTION	+24	0	− 5	+12	+ 9	+ 4
BANKING						
(All member banks)						
Deposits	− 1	− 2	− 2	0	− 1	− 2
Loans	− 1	+ 6	+ 7	0	+ 7	+ 8
Investments	− 1	−10	−10	− 1	− 8	− 9
U.S. Govt. securities	− 2	−16	−17	− 3	−14	−16
Other	− 1	− 6	− 5	+ 1	− 3	− 3
Check payments***	+ 2†	+12†	+12†	+ 2	+10	+10
PRICES						
Wholesale	....	....	....	0	+ 5	+ 5
Consumer	+ 1‡	+ 7‡	+ 6‡	+ 1	+ 6	+ 6

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

†15 SMSA's
‡Philadelphia

LOCAL CHANGES	Manufacturing				Banking			
Standard Metropolitan Statistical Areas*	Employment		Payrolls		Check Payments**		Total Deposits***	
	Per cent change Feb. 1970 from		Per cent change Feb. 1970 from		Per cent change Feb. 1970 from		Per cent change Feb. 1970 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Wilmington	− 7	+ 2	− 3	+ 7	+12	+ 9	− 3	− 7
Atlantic City	....	....	....	....	− 4	+10	− 1	+10
Trenton	− 1	− 4	− 6	− 4	+21	+21	− 2	+ 5
Altoona	0	+ 1	− 1	+ 1	− 2	+ 5	0	+ 5
Harrisburg	0	0	+ 1	+ 9	− 2	+14	0	+48
Johnstown	0	+ 4	− 1	+10	− 6	+ 7	0	+ 9
Lancaster	+ 1	+ 1	0	+ 7	− 2	+15	0	− 3
Lehigh Valley	+ 1	+ 2	0	+10	− 8	− 1	0	− 8
Philadelphia	0	− 2	0	+ 3	0	+12	− 1	− 1
Reading	− 1	− 1	− 1	+ 2	− 7	+ 6	0	+ 4
Scranton	− 1	− 2	− 7	− 2	− 2	+ 2	0	+ 2
Wilkes-Barre	+ 2	+ 3	+ 2	+ 8	+ 2	+10	+ 2	−20
York	− 1	+ 4	− 5	+10	+ 2	+11	− 1	− 7

*Not restricted to corporate limits of cities but covers areas of one or more counties.
**All commercial banks. Adjusted for seasonal variation.
***Member banks only. Last Wednesday of the month.