

June



A Crunch in '73?

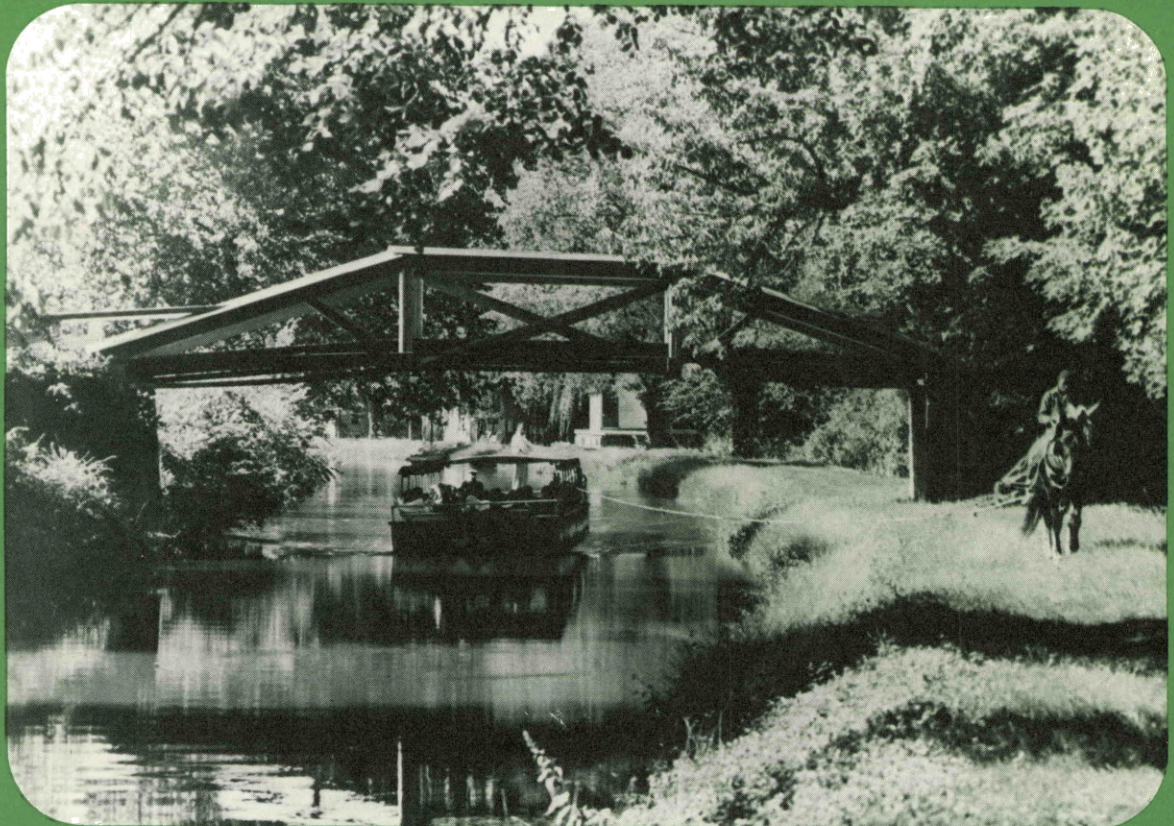
Voluntary Foreign Credit Restraint Program  
Spurs Foreign-Based Activities of U. S.  
Banks

Economic Pressures Reshape  
America's Stock Markets

The Fed in Print

**FEDERAL RESERVE BANK of PHILADELPHIA**

# business review



## IN THIS ISSUE . . .

### **A Crunch in '73?**

. . . Although credit markets are likely to be under pressure this year, the odds are against a rerun of the '66 and '69 crunch episodes.

### **Voluntary Foreign Credit Restraint Program Spurs Foreign-Based Activities of U. S. Banks**

. . . When faced with controls on foreign loans from domestic offices, American banks simply open more overseas branches.

### **Economic Pressures Reshape America's Stock Markets**

. . . Pressures for revamping America's stock markets have been mounting, and significant changes are in the offing, perhaps a centrally administered exchange blanketing the nation.

**On our cover:** Among the many attractions of New Hope, Pennsylvania, is the famous Delaware Canal, the last of its kind in the country, where rides can be had on mule-drawn barges. Opened commercially in 1830, it is now a scenic waterway, paralleling the Delaware River. (Photo courtesy of the Bucks County Historical-Tourist Commission, Fallsington, Pa.)

**BUSINESS REVIEW** is produced in the Department of Research. Ronald B. Williams is Art Director and Manager, Graphic Services. The authors will be glad to receive comments on their articles.

Requests for additional copies should be addressed to Public Information, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.

## A Crunch in '73?\*

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

Picture the following set of conditions:

- A Federal funds rate of, say, 10 percent or above.
- Corporate borrowers reluctant to issue long-term securities at 9½ percent and other unfavorable terms.
- Municipalities finding it impossible to float bonds under existing interest rate ceilings.
- Homebuyers scouring the market to find mortgages, even at six to eight points.
- Savers investing in bonds and other market issues rather than putting their funds into savings and time accounts.
- Large banks pulling large amounts of funds from the Euro-dollar market and investing new techniques of liability management.
- Country banks selling large amounts of Federal funds to city banks at profitable rates.
- All banks facing strong demands for credit but worrying about declining liquidity and a rising volume of classified loans.
- Increasing bankruptcies.

This is not a prediction. It is a description of what could happen if we were to have a credit crunch this year. The question I should like to explore is what is the likelihood of seeing conditions like these in 1973.

---

\* An address given before the 70th Annual Convention of the New Jersey Bankers Association, Atlantic City, New Jersey, May 17, 1973.

## CAUSES OF CRUNCHES

Having gone through two crunches in the latter '60s we now know something about what causes them and therefore how to avoid them. Three elements are basic: strong demands for credit under inflationary conditions, sharp restraint on the supply of money and credit, and interference with the flow of credit.

In both the '66 and '69 crunches, demands for credit were extremely heavy in all sectors of the economy. The upsurge in borrowing reflected the rapid pace of economic activity and inflation. As borrowers expected further increases in prices, they increased their demands for credit in anticipation of repaying their debts with cheaper dollars. This, of course, put further upward pressure on interest rates. Thus, the increase in inflationary expectations made financial markets riper for a credit squeeze.

In response to inflationary pressures, the Federal Reserve brought about a very sharp drop in growth of the money stock.<sup>1</sup> In 1966, the money stock, after growing at a rate of over 6 percent for about twelve months, actually declined in the last nine months of the year. In 1969, following an increase of over 7.5 percent in 1967-68, money grew at a 3 percent annual rate with almost no growth in the second half of the year. Thus, financial markets were caught between one blade of the scissors—heavy credit demands—and the other—a sharp slowdown in the supply of funds.

Add to this mix of ingredients a complex scheme of interest rate ceilings on deposits, mortgages, and municipals, and you have the recipe for a credit crunch. Deposit ceilings brought on disintermediation by preventing thrift institutions from keeping pace with rising interest rates. Unlike large banks, savings intermediaries were unable to substitute

costly nondeposit sources for deposits, and so their loans to particular borrowers, such as homebuyers, dried up. States and municipalities also suffered as rates on municipals rose to legal maximums. Housing activity and state and municipal expenditures were particularly hard hit as a result.

## WILL HISTORY REPEAT?

The question for the future is whether these three conditions for a crunch are likely to recur in 1973. I think not.

**Credit Demand.** Some aspects of the economy look much the same as in '66 and '69. Certainly, inflationary pressures are intense. Prices have been rising faster than at any time in two decades. Surveys indicate that consumers are becoming increasingly concerned about inflation, so the expectational element is strong—and with good reason. As the economy continues to move forward this year, upward pressures on prices will almost certainly intensify as more and more industries approach capacity. Added to demand-pull pressures will be cost-push pressures. So far, wage costs have been contained remarkably well and everyone is hoping that this record can be extended. But as prices rise and productivity gains slow down, there will be upward pressures on wage costs and these, in turn, will lead to still more pressure on prices.

Yet there are good reasons why credit demands are not likely to be as strong, relatively, as they were in '66 and '69.

For one thing, I'm looking for a slowing in the rate of economic expansion as the year unfolds; not a recession, but a more moderate growth rate. As a consequence, overall credit demands are not likely to be so strong as to bring on a credit crunch. A rundown of various factors likely to be at work supports this conclusion:

The recent upsurge in business loans has been stimulated in part

---

<sup>1</sup> Coin, currency, plus demand deposits.

by the fact that the prime rate has been so attractive compared with rates on commercial paper and other instruments. As a dual prime rate becomes operative, this kind of artificial stimulant should disappear. Business loans will tend to rise as the economy expands, but the pace should be slower.

- Demands for longer-term funds should be held down by the fact that corporations are still generating large amounts of internal funds.
- Credit demands on the part of states and municipalities should be restrained as these governmental units enjoy large surpluses and increased revenue sharing.
- Demands for mortgages should tend to slacken as the expected decline in housing materializes.
- Hopefully, the Treasury's needs for the remainder of the year will be tempered by governmental efforts to hold the line on spending and by larger-than-anticipated tax receipts.

In short, except for the fact that inflationary expectations will be inducing some to borrow, forces should be at work moderating the pace of credit demands and avoiding a build-up of crunch dimensions.

**Monetary Policy.** What about the supply of credit? I can't predict that the Fed will not make any mistakes, but I think that any mistakes will not be so great as to bring on a credit crunch. We have learned at least two important lessons from the past.

Lesson #1 is that serious consequences can ensue from permitting sharp changes in the money supply. The Fed does not con-

centrate single-mindedly on the money supply, but we have given increasing emphasis to it in recent years. We still, of course, pay much attention to what happens to other variables, such as interest rates, but in doing so we are, I believe, more aware of the trade-offs involved than we once were. Certainly, the crunches of '66 and '69 suggest what can happen when the Fed pulls very sharply on the money reins.

Lesson #2 is that monetary policy cannot do everything. An important part of the financial history of the past three decades relates to what monetary policy can accomplish and what it cannot. In the late 1940s the Fed learned that it could not effectively control inflation and still support prices of Government securities. The Accord of 1951 ushered in a period which raised hopes that monetary policy could do a great deal in minimizing extreme fluctuations from boom to bust to boom. Then in the 60s we learned that monetary policy cannot contain inflation if fiscal policy is strongly expansionary in an overheated economy and upward cost pressures go unchecked. Or, more precisely, we learned that monetary policy cannot quickly curb inflation under these conditions without running the serious risk of a crunch and recession.

As I look ahead, I see evidence that both of these lessons will stand us in good stead. The Fed already has begun to slow down growth in money and, hopefully, will be able to exert a consistent moderating influence without cutting back sharply. And this time monetary policy has help both from fiscal policy and direct controls on prices and wages.

**Interferences in the Flow of Credit.** A third symptom of a crunch has been especially tight conditions in particular kinds of sources and uses of funds. What is the possibility that these spot stringencies can be avoided in '73? This will depend partly on how much can be done to permit funds to

flow freely from one market to another. It seems to me that some progress has been made in this respect since the late '60s, but much remains to be done.

As a result of experiences in the crunches of the '60s, some constraints have been eased. Interest ceilings in some cases have been raised or removed. This should help to relieve some of the pressures in municipal and housing financing. In housing, the Federal credit agencies, such as the Federal Home Loan Bank Board and the Federal National Mortgage Association, demonstrated in 1969 their ability to reduce the impact of tight credit on mortgages. I suspect that these agencies will continue to serve as a buffer between the deposit flows of financial institutions and their mortgage lending.

The most favorable single development, however, was the Fed's action yesterday to remove ceilings on large CDs and to introduce marginal reserve requirements on various kinds of bank liabilities. This action should do much to avoid a crunch because it will provide that restraint will be exercised through cost rather than availability. A significant aspect of credit crunches is that credit is not available at any price. The Board's action will likely raise the cost of credit but will help assure its availability. I hope that this step can be the forerunner

of greater flexibility with respect to Regulation Q ceilings generally.<sup>2</sup>

## CONCLUSIONS

The odds are against a credit crunch in 1973 because:

- demands for credit should not be all that overwhelming
- the Fed probably can benefit from past experience and avoid a sudden and sharp contraction in money and credit
- some progress has been made toward alleviating causes of especially tight conditions in particular markets.

This conclusion can be interpreted as an optimistic one. But bear in mind that it rests on several assumptions, one of the most important being that the Fed will get help from fiscal policy and wage-price controls. If that help is not forthcoming, the Fed faces the unhappy choice of making up for deficiencies elsewhere and thus risking a credit crunch, or doing what it can and thus tolerating more inflation for longer than it would like. I hope that choice will not be necessary. ■

---

<sup>2</sup> The Fed has the authority to establish ceilings on the rate of interest commercial banks can pay on time and saving deposits. This authority is implemented through Regulation Q.

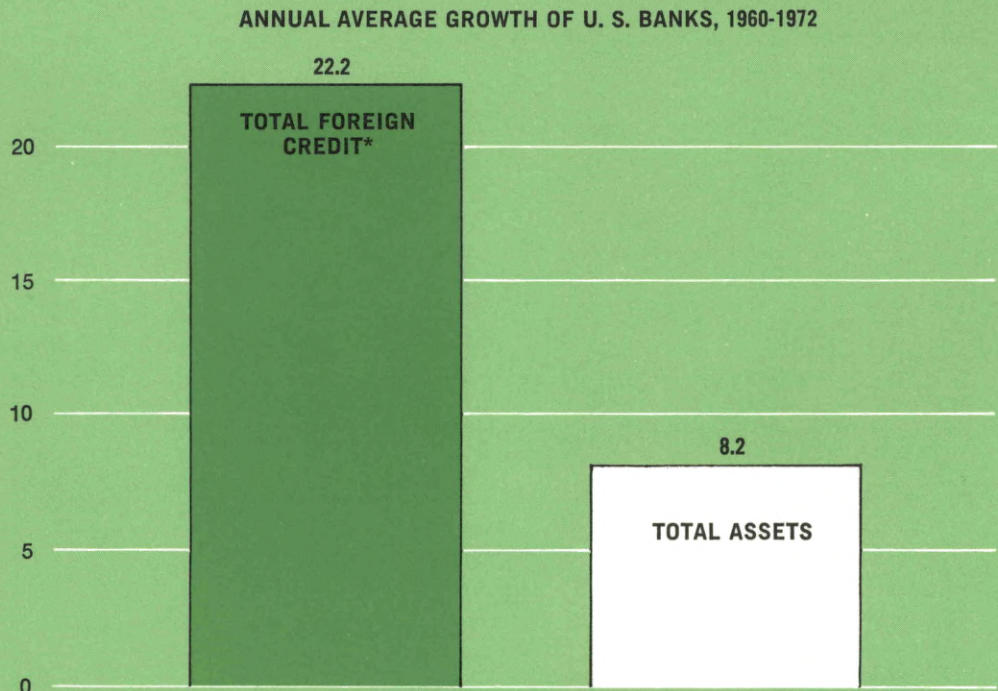
• Voluntary Foreign Credit Restraint Program Spurs Foreign-Based Activities of U.S. Banks •



by Josephine F. Polomski

**CHART 1**  
**DESPITE CONTROLS ON INTERNATIONAL OPERATIONS, FOREIGN ACTIVITIES OF U. S. BANKS GREW MORE RAPIDLY THAN DOMESTIC BUSINESS IN THE 1960s.**

Percent



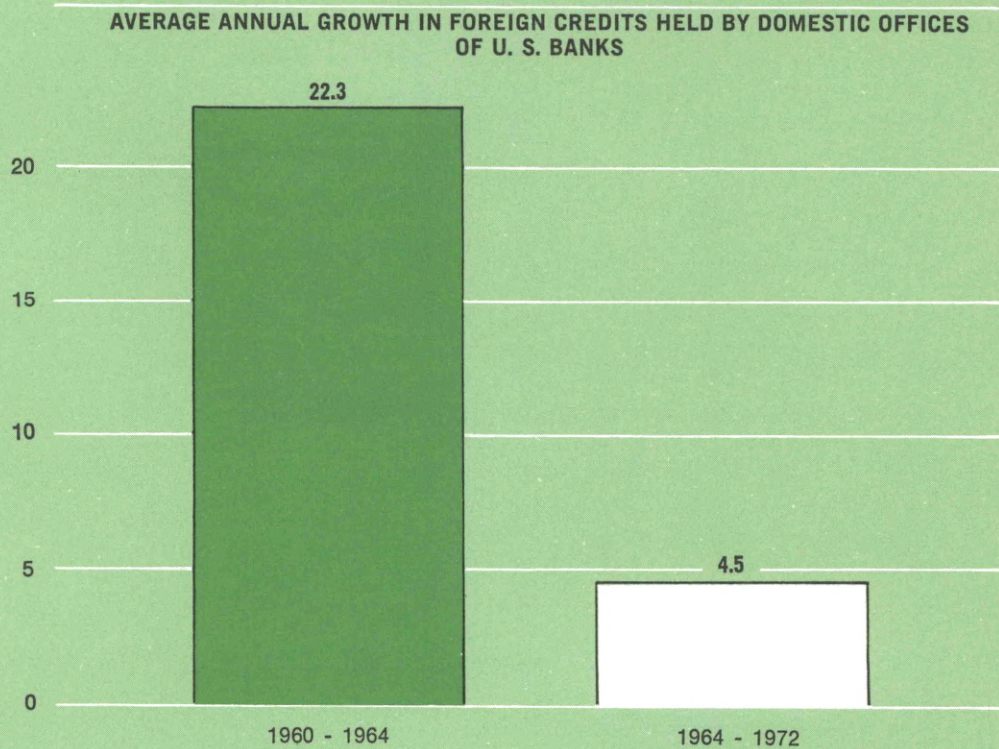
\* Foreign credit covers short- and long-term loans and acceptance credit denominated in dollars. For domestic offices, totals include loans to own foreign branches.

Sources: An address by Andrew F. Brimmer, Member, Board of Governors of the Federal Reserve System, before the 51st Annual Meeting of the Bankers' Association for Foreign Trade, April 2, 1973; Federal Deposit Insurance Corporation, *Assets, Liabilities and Capital Accounts*; Annual Reports of Board of Governors of the Federal Reserve System.



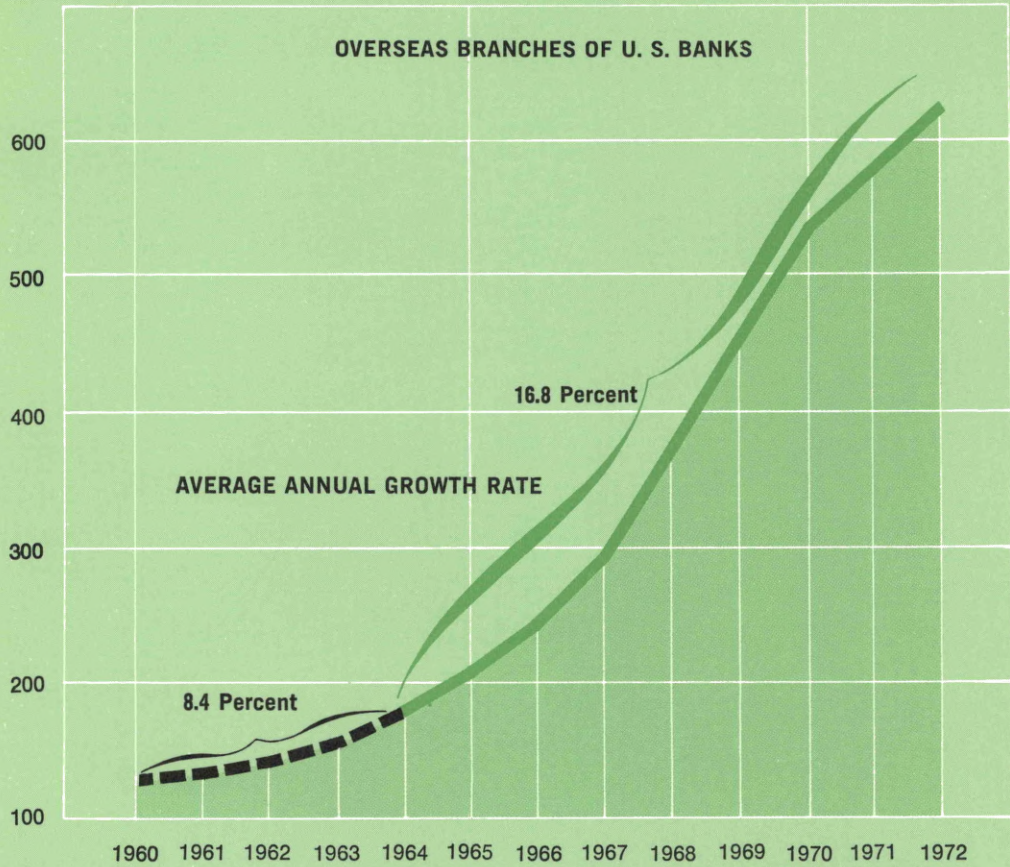
**CHART 2**  
**WHEN LENDING TO FOREIGNERS FROM U. S.-BASED OFFICES WAS CURTAILED BY THE**  
**VOLUNTARY FOREIGN CREDIT RESTRAINT PROGRAM IN 1965 . . .**

Percent



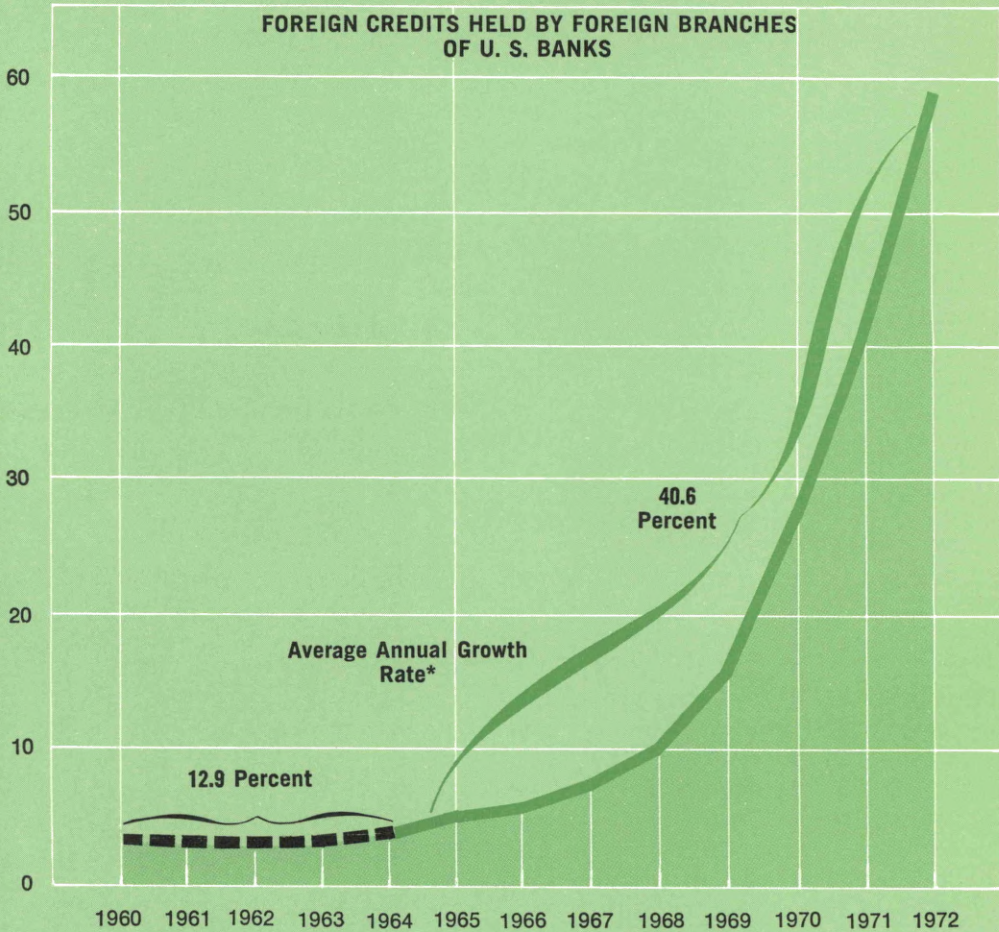
**CHART 3**  
**U. S. BANKS RESPONDED BY OPENING MORE OVERSEAS BRANCHES . . .**

Number of Branches



**CHART 4  
AND STEPPED-UP LENDING FROM THESE FOREIGN OFFICES**

Billions of Dollars



\* Years 1961, 1962, and 1963—estimated

# Economic Pressures Reshape America's Stock Markets

*by Jack Clark Francis*

In a few years the New York Stock Exchange (NYSE) may no longer be the kingpin of Wall Street—it might not even be around at all! Powerful forces are reshaping the structure and importance of the Big Board and other stock exchanges. The handwriting on the wall indicates one of two things may happen: a merging of the NYSE and its cohort, the American Stock Exchange (AMEX); or one new exchange made up of most, or maybe even all, of the major markets in the nation.

The pressures for change are mounting. First, competition for brokerage commissions has driven profit-hungry entrepreneurs to create new markets in which to trade stocks already listed on the top exchanges. As a result, the man in the street can now buy NYSE stocks from a smaller exchange—and sometimes for less money. Second, institutional investors, such as mu-

tual funds, want a piece of the action but are denied memberships on the exchanges. The funds and other types of large investors chafe under the fixed brokerage commissions and try to avoid them. Little wonder then that Uncle Sam has sought to redress these grievances by taking a hand in reorganizing the stock markets. Third, there's the impact of technology. Trading stocks through a computerized communications network is a fast and cheap alternative to Wall Street's busy trading floors.

Although the present stock exchanges have served the nation's needs in the past, the proposed changes are aimed at making the markets more efficient. And one of the beautiful things about whatever reorganization emerges is that it won't cost the taxpayer a cent. Profit-seeking businessmen are the moving force behind current efforts to streamline the stock market.

## PRESSURES FOR CHANGE

Pressures for stock market reorganization have been building for years. However, a multivolume study published in 1971 by the Securities Exchange Commission (SEC)—the Federal agency charged with supervising the nation's securities markets—focused the attention of many businessmen, investors, and government policymakers on the issues.<sup>1</sup> Some pressures for reorganization come from investors seeking cost savings, some from the courts, and some from new stock market competition.

**A NYSE-AMEX Merger Could Cut Costs.** Last year the Securities Industry Association (SIA)—a national association of stockbrokers, bankers, and other securities traders—publicly proposed that the NYSE and AMEX merge. Brokerage firms that are members of the SIA proposed the merger, hoping that the two exchanges' costs could be reduced by operating under one administrative staff. These stockbrokers felt that some of these savings would be passed on to them in the form of reduced charges for transacting their customers' trades on the exchanges. The chairman of the SIA, who is also president of a national brokerage firm, endorsed the merger, saying "we are getting tired of supporting two organizations when one might do."<sup>2</sup> Most large brokerage firms are dues-paying members of both exchanges and would like to pare these expenses.

Some NYSE and AMEX executives publicly oppose the merger. But actually, the two exchanges have already partially acknowl-

edged the value of such a merger by combining some of their administrative functions. For example, both exchanges use the same computer to minimize their operating costs. And, the SIA's merger proposal isn't as revolutionary as it may have seemed at first. For example, it wouldn't be necessary to have one trading floor or to merge the list of stocks traded because the merged exchanges would have the same administrative staff. Cost reduction is the aim of most brokers supporting the merger proposal.

**Court Pressures.** The merger proposal is not the first move against the NYSE to get it to reduce the cost of trading securities there. In the past investors have sued the NYSE to drop the minimum commission schedule it requires all member brokerages to charge their customers. In ruling on such a case in 1963 the U. S. Supreme Court said that the fixed minimum commission violated the spirit of the Sherman Antitrust Act, which outlaws monopolies and price fixing. But, the Court held that such problems were the responsibility of the SEC and therefore didn't order the NYSE to abandon its minimum commissions. The issue is still far from dead. The Justice Department maintains that fixed minimum commissions violate the antitrust laws and is currently fighting them in a U. S. District Court.

The law suit and the NYSE-AMEX merger proposal signaled the need for change. But, some of the other pressures responsible for the current changes in securities markets are more subtle. New securities markets have sprung up and are giving the older exchanges the first real competition they have ever faced.

**Third Market Pressures.** Most Americans are already familiar with organized securities exchanges such as the NYSE and the AMEX. But, probably fewer people know much about the over-the-counter (OTC) market. The OTC market is made up of

<sup>1</sup> To learn more about America's securities markets and suggested changes read the report by the Securities Exchange Commission, *Institutional Investor Study Report* (Washington: Government Printing Office, 1971), Vols. 1-8.

<sup>2</sup> "Merging Stock Exchanges," *Wall Street Journal*, December 1, 1972.

about 4,000 brokers and dealers located in cities and villages from coast to coast.<sup>3</sup> These OTC brokerages have traditionally sold the securities of local firms and governmental units to the local population.

Some OTC brokerages have not been satisfied with their traditional market role. Spotting a profit potential in trading the shares of major corporations, they sell the stocks listed on the NYSE and the AMEX even though they aren't members of either exchange. For over a decade, more aggressive OTC dealers have been making their own markets in NYSE- and AMEX-listed stocks. That is, OTC dealers buy an inventory of some popular NYSE-listed stock to sell to their customers. Recently the total volume of NYSE shares traded in these new markets has grown to nearly a tenth of the Big Board's volume. This OTC market in securities listed on organized exchanges is called the *Third Market*. Gone are the days when the NYSE held a monopoly on making markets for those selected stocks that were traded there.<sup>4</sup> Today securities dealers that make up the Third Market and some of the regional stock exchanges are not only trading

NYSE- and AMEX-listed stocks, they are undercutting the fixed minimum commissions charged by NYSE and AMEX securities dealers.

**Pressure from the Institutions.** Pension funds, mutual funds, life insurance companies, trust departments of banks, and other business groups that routinely buy large blocks of common stock are usually referred to as institutional investors. These investors wield a lot of clout in the securities industry because they are its biggest customers. They give the brokers who buy and sell securities for them millions of dollars in commissions every year. Many of these investors are pushing for changes in the securities industry, because they're tired of paying "high" brokerage commissions and want their own seats on the exchange in order to reduce their trading costs.

Institutional investors are barred from the NYSE, the AMEX, and some other stock exchanges. Denial of institutional membership provides a big source of income for brokerages that specialize in selling to institutions. Because of the minimum commission rate, which the NYSE enforces on all its members, the brokerage gets much more commission income from a 1,000-share trade than it does from a 100-share trade in the same stock although the costs of these two transactions are not much different. For this reason, many institutional investors have turned to the Third Market where they can buy the same stocks but negotiate lower commissions on large

<sup>3</sup> Stockbrokers are different from stockdealers. Essentially, a *stockbroker* is an order taker who earns commission income based on the buy and sell orders he solicits. A *dealer* is a broker who also buys an inventory of securities to sell from. Thus, a dealer has his own money invested and is taking more risks than a broker who only solicits orders.

<sup>4</sup> The First Market is made up of the organized exchanges. The Second Market is the OTC market. The Third Market is the OTC market in securities that are listed in the First Market. There is also a "Fourth Market." This market is a communications network for large security traders who wish to deal discreetly in large blocks of securities and/or avoid set commission fees. The Fourth Market also competes with the NYSE. As a result, the NYSE has started the Block Automated System (BAS) to deal in large blocks of NYSE securities without the usual commissions. Such

competition between market-makers frequently takes the form of reduced commission rates for buying and selling. For a readable discussion of negotiated commissions, see Donald J. Mullineaux, "Stock Market Fees: Competition or Bust, or Be Busted?", *Business Review of the Federal Reserve Bank of Philadelphia*, April 1972, pp. 3-12.

trades. Loss of these profitable customers puts pressure on the organized stock exchanges either to admit the institutions as members or to eliminate fixed minimum commission schedules. The NYSE has responded to this competitive pressure and to suggestions from the SEC by lowering the minimum-sized trade on which member brokerages are allowed to negotiate commissions from \$500,000 down to \$300,000. However, Congressional pressure for elimination of the fixed commission schedule will probably continue until the problem is resolved.

### OUTLINES OF A NEW MARKET

Many experts in the field argue that the public would benefit from having one national securities system that is centrally administered.<sup>5</sup> This big "central stock market" made up of the NYSE, AMEX, the other 11 organized regional exchanges, and the OTC markets might all be channeled through one computer. The most sweeping of these reforms would include the Third Market as a competitor in this centralized exchange. However, the NYSE wants the Third Market abolished before any central market is formed.

In the new market, which is generally assumed to have negotiated commission rates, dealers could vie among themselves to make markets in a given stock as long as the commission income seemed high enough to justify their involvement. And, the commission rates would be negotiated between the investor and his broker because stockbrokers would compete with each other in the new market by offering

reduced commissions. But dealers in a given stock would tend to sell it at about the same price because their prices<sup>6</sup> would be televised via one nationwide computer hookup. Consequently, investors could buy the stock wherever it is offered at the lowest price or wherever they find the lowest brokerage commissions. For example, a Philadelphia investor could easily trade through a market-maker in Denver.

### BENEFITS OF A NEW CENTRAL MARKET

Proponents of a new centralized stock market believe at least five basic improvements would result. Specifically, they contend that a new national system (or a good market of any kind) would: (1) be conveniently located, (2) have minimum sales commissions, (3) offer competitive prices to all, (4) minimize transactions costs, and (5) reduce dishonest practices. The present stock markets perform these services; a reorganized system, its advocates believe, could provide them better.

**Convenient Location.** To assure its success the new market should be convenient for all investors—ideally it should blanket the nation. If the NYSE and AMEX in New York, the other 11 organized regional exchanges located around the U. S., and the thousands of OTC market-makers across the country were connected by one centralized computer and public reporting system, they could all operate as one market. In fact, a communications system which

---

<sup>6</sup>The *bid price* is the price at which the dealer stands ready to buy. The *asked* or the *offer price* is the price at which a dealer stands ready to sell. The difference between the bid and the asked prices is called the *spread*. Competition between dealers making markets in the same stock should force a reduction of this spread to a level which just covers costs.

---

<sup>5</sup>For example, the president of the NYSE has talked publicly about a new centralized securities market for the U. S. "Big Board's Chairman: Good Leader to Some, Too Pushy for Others," *Wall Street Journal*, December 18, 1972, p. 1.

meets most of these specifications has been in operation for about a year—it's called NASDAQ.

The National Association of Security Dealers (NASD) is a voluntary trade association composed of thousands of OTC stockbrokers and dealers who are trying to make better securities markets. NASD's automated quotation system (called NASDAQ) is a big computer connecting thousands of computer terminals<sup>7</sup> located in the offices of most OTC brokers and dealers across the nation. A securities dealer wanting to sell stocks can notify NASDAQ if he has rented a computer terminal for his office. Then, NASDAQ makes these wishes public to any inquirer. For example, if a customer of a Philadelphia NASD broker wants to buy stock in, say, the West Seattle Corporation, the broker need only type his customer's request into the computer terminal. The NASDAQ computer instantly supplies a list of every dealer in the nation that wants to sell West Seattle stock and the price at which it is offered. Some dealers wishing to sell stock may offer it at a slightly lower price than other dealers. The Philadelphia broker then contacts the cheapest seller via NASDAQ and conducts the desired transaction. Thus, thanks to computer terminals, a geographically fragmented market becomes one central market.

**Lower Commissions.** Third Market dealers have been "stealing" customers from the NYSE for almost a decade by merely selling the same securities at a lower cost (stock price plus commission fee) than the

NYSE. If the new securities system, which would report all its prices through one central computer, goes into effect, the general public would have better access to the Third Market. As a result, the NYSE would feel increased competitive pressure to cut its commissions to compete with the lower ones of the Third Market.<sup>8</sup> Such a change would benefit all investors.

**Competitive Prices for All.** Today an investor may buy General Motors stock through the NYSE dealer specializing in it, through one of several regional stock exchanges which trades GM, or through several Third Market dealers vying to make markets in it. These separate market-makers occasionally offer GM at slightly different prices—some higher, some lower—but mostly the same as the NYSE's.

The price at which a dealer is willing to sell depends on what he had to pay to get his inventory of securities. And the price he is willing to pay for a security depends on what he thinks it's worth. But each dealer in a given security may have a different idea about its value. So, each dealer may acquire his inventory at one price and therefore be willing to sell it at another.

At present, many investors don't know how to find the best available price for GM, or any other stock. But, in a market where all securities dealers' prices would be channeled through one computer, these prices would be readily available to all inquirers. As a result, investors could easily find dealers who are prepared to trade in a given stock. Only the dealer with the

---

<sup>7</sup> These terminals, resembling typewriters, are connected to a computer via telephone wires. Brokers and dealers communicate with the computer by typing messages into the terminal and then the computer types back its replies on the terminal.

---

<sup>8</sup> Competition between different market-makers in the same securities might be so tough that some dealers would temporarily sell their services at a loss to gain new customers. As a result, some new reduced form of minimum sales commissions may be necessary to stop unfair commission-cutting competition from bankrupting all but the wealthiest market-maker.



best bid and offer price could expect much business. Others would soon have to adjust their price in order to compete. In this new system, the public would have a better chance of obtaining the best price available—a competitive one.

**Minimum Transaction Costs.** Not only could a central computer bring many geographically separated brokers and dealers under one market reporting system, but once established it should be relatively inexpensive to operate. After a market-making computer is purchased and operating, running a few thousand more transactions through it would cost relatively little. The costs of keeping the computer running must be paid whether or not it is busy. And the computerized market, once it's functioning, should minimize back-office paperwork delays and jam-ups and reduce costly administrative expenses. These cost savings would be passed on to the stock-brokers who supported the central computer system in the form of lower charges for trading their customers' securities. Consequently, brokers who buy and sell securities through a computerized central market should incur lower transactions costs per trade. Competition between the different market-makers who are members of the central computer system should force them to pass on most of these savings. Thus, reduced brokerage fees or improved services would await buyers and sellers of securities in the national market.

**Fewer Dishonest Practices.** In the type of central market which has been suggested, competition between the various market-makers can be expected to discourage dishonest schemes.<sup>9</sup> For example, suppose

that an unethical market-maker acquired shares of some stock and then escalated its price by circulating false rumors that its value would probably be increasing. Unsuspecting investors who responded to the rumors would bid the stock's price up. At that point, the price-manipulating dealer could sell his holdings at the inflated price for a profit. Such a scheme could be carried out on a small scale (in certain stocks which only had one market-maker) with a small chance of detection by the authorities. But, in a centrally reported market composed of various professional dealers who compete in making a market for this hypothetical stock, such price manipulating would probably fail.

Competing market-makers would watch each other's prices minute by minute through their computer terminals. To remain competitive they would investigate any unusual price rise. If no reason for its occurrence surfaced, they would sell their holdings of the stock and recommend that their customers do likewise. These sales would help keep the stock's price from rising above its true value. Thus, increased competition in a national market tied together by a central computer could be expected to result in markets where dishonest traders would find it more difficult to ply their schemes. This additional insurance against dishonesty would be provided *free* to private investors by competition between market-makers.

---

gage in some shady deals if they don't get caught by Government or exchange officials who watch for such activities. But, things may change in the future. In 1973 Congress is expected to hold hearings about the new central market. As a result of these hearings, laws instrumental in organizing a new stock market are likely to be passed. And, some new, more powerful laws prohibiting the manipulation of stock prices and other dishonest practices are expected to be proposed. These laws will most likely accompany any new laws about stock market reorganization and will be a welcome improvement.

---

<sup>9</sup> Since 1933 Congress has passed several laws making deception, price manipulation, and similar schemes illegal. Nevertheless, scoundrels may still en-

A geographically separated but centrally reporting stock exchange could provide a better securities market. But whether the benefits of a new market are realized will depend upon sound planning and skillful implementation.

### UNANSWERED QUESTIONS

Many questions regarding tomorrow's stock market remain unanswered. Conflicts must be resolved, and details must be hammered out before the new organization can become an operational reality.

A major conflict is between the Third Market and the NYSE. The Third Market wants to continue competing with the NYSE in a centralized market. But the NYSE wants to prevent Third Market dealers from making markets in NYSE-listed stocks at lower commission rates by making it illegal to trade listed stocks off its exchange. It's difficult to predict how this dispute will be resolved.

Another unsettled issue concerns the actual operation of the new central market. Will the new exchange still need "specialists" who make markets in one or a few stocks, such as the NYSE and AMEX currently have? Or can the central market

operate more efficiently if prices are continuously determined by the bids and offers of buyers and sellers who conduct business on the floor, just as commodity markets have done for years? The unique services a specialist provides make this a difficult function to eliminate completely.

Uncertainties loom about how the new central market will be governed. Will the SEC; a group of representatives from the NYSE, AMEX, and NASD; or, some other groups supervise the activities of whatever market emerges?

If the fixed commission structure is retained, will institutional investors such as pension funds and mutual funds be granted memberships in the new market? If they are, then they'll siphon considerable commission income from the already ailing brokerage industry. Policymakers for the new market must decide whether stock brokerages should be forced to undergo painful cost-cuttings and layoffs in order to make room for institutional investors.

Differences of opinion over participation and administration will no doubt delay the timetable for implementing the new market. However, one thing is certain: change is in the making. ■

# The Fed in Print

*Business Review Topics,  
First Quarter 1973,  
Selected by Doris Zimmermann*

Articles appearing in the Federal Reserve Bulletin and in the monthly reviews of the Federal Reserve banks during the first quarter of 1973 are included in this compilation. A cumulation of these entries covering the years 1969 to date is available upon request. If you wish to be put on the mailing list for the cumulation, write to the Publications Department, Federal Reserve Bank of Philadelphia.

To receive copies of the Federal Reserve Bulletin, mail sixty cents for each to the Federal Reserve Board at the Washington address on the back cover. You may send for monthly reviews of the Federal Reserve banks, free of charge, by writing directly to the issuing banks whose addresses also appear on the back cover.

## AFFILIATES

Bank affiliates and their regulation:  
Part I—  
Rich Mar 73 p 14

## BANK COMPETITION

Concentration projected to increase  
in Texas—  
Dallas Feb 73 p 7

## BANK EARNINGS

Strong and balanced growth—  
Atlanta Jan 73 p 12

## BANK LOANS

Where the money came from—  
San Fran Jan 73 p 9

## BANK LOANS BUSINESS

Business loans accelerate—  
Atlanta Mar 73 p 44

## BANK PORTFOLIOS

Use of municipals increases—  
Atlanta Feb 73 p 26  
Small bank portfolio behavior—  
Chic Mar 73 p 3

## BANKING—FOREIGN BRANCHES IN U. S.

Foreign banking study undertaken—  
F R Bull Feb 73 p 123

## BUDGET

Patterns already set limit choices  
to be made—  
Dallas Jan 73 p 7  
Budget surpluses for state and  
local governments: Undercutting  
Uncle Sam's fiscal stance?—  
Phila Mar 73 p 19

## BURNS, ARTHUR F.

Statement to Congress, Feb 7, 1973  
(inflation)—  
F R Bull Feb 73 p 81  
Statement to Congress, Feb 20, 1973  
(state of the economy)—  
F R Bull Mar 73 p 164  
Statement to Congress, Feb. 27, 1973  
(Par Value Modification Act of 1972)—  
F R Bull Mar 73 p 168  
Statement to Congress, Mar 6, 1973  
(budget control)—  
F R Bull Mar 73 p 171  
Statement to Congress, Mar 7, 1973  
(Par Value Modification Act of 1972)—  
F R Bull Mar 73 p. 176

## BUSINESS CYCLES

Business recovery continues—St Louis  
Feb 73 p 2

## BUSINESS FORECASTS AND REVIEWS

1972: A year of accelerating recovery—  
F R Bull Jan 73 p 1  
The Southeast in 1972: Matches fast  
U. S. pace—Atlanta Jan 73 p 2  
Review and outlook 1972-73—  
Chic Jan 73 p 3  
Business and financial outlook—

**BUSINESS FORECASTS AND REVIEWS (Cont.)**

a promising 1973—Kansas City  
Jan 73 p 11

PERSPECTIVE 72 *available*—N. Y. Jan 73  
p 6

Financial developments in the  
fourth quarter—F R Bull Feb 73 p 51

Despite damage by Agnes . . . District  
economy forges ahead in '72—  
Phila Feb 73 p 12

PREDICTIONS FOR 1973 *available*—  
Phila Jan 73 p 19

Outlook for '73—Phila Feb 73 p 18  
Few surprises in store . . . Forecasts  
1973—

Rich Feb 73 p 13

Financial highlights of 1972—  
Rich Mar 73 p 3

**CAPITAL MOVEMENT**

Capital flows in a foreign exchange  
crisis—

Kansas City Feb 73 p 14

**CERTIFICATES OF DEPOSIT**

Maturity of negotiable CD's at District  
banks—Atlanta Mar 73 p 34

**CONSTRUCTION**

More of the same—Atlanta Jan 73 p 8

**CONSUMER CREDIT**

Auto statistics revision, 1960-72—  
F R Bull Mar 73 p 240

Buying on time—San Fran Mar 73 p 3

The long-run growth of consumer  
instalment credit—

Kansas City Feb 73 p 3

**CONSUMER EXPENDITURES**

The consumer: Becoming confident—  
Atlanta Jan 73 p 3

Tax refunds and consumer spending—  
Bost Jan 73 p 3

**CORPORATE FINANCE**

Relaxed controls: A bigger year for

**CORPORATE FINANCE (Cont.)**

corporate treasurers in '73?—  
Phila Feb 73 p 3

**CORPORATE PROFITS**

Relative movements in wages and  
profits—St Louis Feb 73 p 8

**DISCOUNT RATES**

Change January 15, 1973—F R Bull  
Jan 73 p 35

Change February 26, 1973—F R Bull  
Mar 73 p 240

**ECONOMIC STABILIZATION**

The 1973 national economic plan:  
Slowing the boom—St Louis  
Mar 73 p 2

**ECONOMICS**

The dismal science revisited—  
Rich Mar 73 p 2

**EDUCATION-FINANCE**

Equity in school financing: The  
courts move in—Phila Mar 73 p 3

**EMPLOYMENT**

Employment and unemployment since  
1969—Rich Jan 73 p 15

**EUROPEAN ECONOMIC COMMUNITY**

The expanded Common Market—  
Chic Mar 73 p 11

**FARM INCOME**

Agriculture: The best year ever—  
Atlanta Jan 73 p 10

Boom year for agriculture—  
Chic Jan 73 p 13

Production and income climb to record  
levels—Dallas Jan 73 p 1

**FARM OUTLOOK**

A look at 1973: Agriculture has a  
tough act to follow—  
Kansas City Jan 73 p 3

**FARM PRODUCTION**

Horn of plenty—San Fran Mar 73 p 12

**FEDERAL RESERVE BANKS—DIRECTORS**

Chairmen, agents, and directors, appointments—F R Bull Jan 73 p 37  
 Directors of Federal Reserve banks and branches—F R Bull Mar 73 p 226

**FEDERAL RESERVE BANKS—EARNINGS**

In 1972 \$3,378 million. Payments to Treasury \$3,231 million—  
 F R Bull Jan 73 p 35

**FEDERAL RESERVE BANKS—OPERATIONS**

Operations of the Federal Reserve Bank of St Louis—1972—St Louis Feb 73 p 17  
 Annual operations and executive changes—Phila Feb 73 p 28

**FEDERAL RESERVE—FOREIGN EXCHANGE**

Treasury and Federal Reserve foreign exchange operations—  
 F R Bull Mar 73 p 142  
 Treasury and Federal Reserve foreign exchange operations—N. Y. Mar 73 p 47

**FEDERAL RESERVE SYSTEM—MEMBERSHIP**

The effect of Federal Reserve membership on earnings of Fourth District banks 1963-1970—Cleve Jan 73 p 3

**FEDERAL RESERVE SYSTEM—PUBLICATIONS**

The Fed in print—Phila Mar 73 p 29

**FISCAL POLICY**

Fiscal and monetary policy: Opportunities and problems—  
 St Louis Jan 73 p 14

**GAS INDUSTRY**

Natural gas—higher prices might help slow the growing shortage—  
 Dallas Mar 73 p 1

**GOVERNMENT EXPENDITURES**

Growth of government spending—  
 Chic Feb 73 p 6  
 A decade of growth for social spending—  
 Phila Mar 73 p 14

**GRANDFATHER PROVISIO**

Grandfather reviews . . . —  
 F R Bull Mar 73 p 224

**HOUSING**

FEDERAL RESERVE STAFF STUDY *available*  
 for four dollars from Board—  
 F R Bull Jan 73 p 36  
 Housing: On the way down?—  
 San Fran Jan 73 p 3

**INCOME, PERSONAL**

In the Fifth District 1971—  
 Rich Jan 73 p 10

**INCOME TAX**

How to adjust your withholding—  
 Bost Jan 73 p 12

**INDUSTRIAL PRODUCTION INDEX**

1971 EDITION *available* from Board for four dollars—Chic Mar 73 p 16

**INFLATION**

Inflation and unemployment: The great debate—Phila Jan 73 p 13

**INTEREST RATES**

Yield curve relationships—Rich Jan 73 p 9  
 Interest rates and monetary growth—  
 St Louis Jan 73 p 2

**INVENTORIES**

Has the inventory cycle lost its oomph?—  
 Phila Feb 73 p 19

**IRON AND STEEL INDUSTRY—IMPORTS**

Steel production and import trends in the Southeast—  
 Atlanta Feb 73 p 18

**LABOR FORCE**

Changes in composition affect unemployment—Dallas Feb 73 p 1

**LABOR MARKET**

Industry: A rising labor demand—  
 Atlanta Jan 73 p 4

**LIQUIDITY**

The nation's liquid assets: A shrinking share for money—Phila Jan 73 p 8

**LOUISIANA**

Shares in economic recovery—  
Atlanta Mar 73 p 40

**MODELS (STATISTICS)**

Econometric models: The monetarist and non-monetarist views compared—  
Rich Feb 73 p 3

**MONETARY POLICY**

A measure of monetary policy—  
Cleve Jan 73 p 19  
Summary of monetary developments and System policy actions in 1972—  
St Louis Jan 73 p 12  
Prospects and problems for monetary policy (Hayes)—N. Y. Feb 73 p 26

**MONETARY STABILIZATION**

International economic reform—  
Bost Jan 73 p 19  
International trade and finance (1972)—  
Chic Jan 73 p 17

**MONEY SUPPLY**

Revision of the money stock measures and member bank reserves and deposits—F R Bull Feb 73 p 61  
Examination of the money stock control approach of Burger, Kalish, and Babb—  
F R Bull Mar 73 p 140  
Trends and cycles in money and bank credit—Kansas City Mar 73 p 3

**MONOPOLIES**

Free enterprise revisited—a look at economic concentration—  
Kansas City Mar 73 p 10

**OPEN MARKET OPERATIONS**

The future role of interest rates in open market policy (Eastburn)—  
Phila Jan 73 p 3  
Record of policy actions,  
Oct 17, 1973—  
F R Bull Jan 73 p 13

**OPEN MARKET OPERATIONS (Cont.)**

Record of policy actions,  
Nov 20-21 and Dec 19, 1972—  
F R Bull Feb 73 p 87  
Amendments to rules of Committee,  
Feb 1, 1973—  
F R Bull Feb 73 p 99  
FOMC policy actions in 1972—  
St Louis Mar 73 p 10

**POLLUTION**

Pollution control: Two industries—  
San Fran Jan 73 p 12

**PRICE CONTROL**

Recent price developments—  
F R Bull Mar 73 p 129

**REGULATION K**

Special purpose leasing corporations—  
F R Bull Feb 73 p 104  
Interpretation of Regulation K—  
F R Bull Mar 73 p 179

**REGULATION T**

Amendment Jan 2, 1973—  
F R Bull Jan 73 p 19

**REGULATION Y**

Amendment Dec 11, 1972—  
F R Bull Jan 73 p 19

**TIME DEPOSITS**

Time and savings deposits—  
Chic Feb 73 p 3

**TRUST DEPARTMENT BANK**

The functions and investment policies of personal trust departments—  
Part II—N. Y. Jan 73 p 12

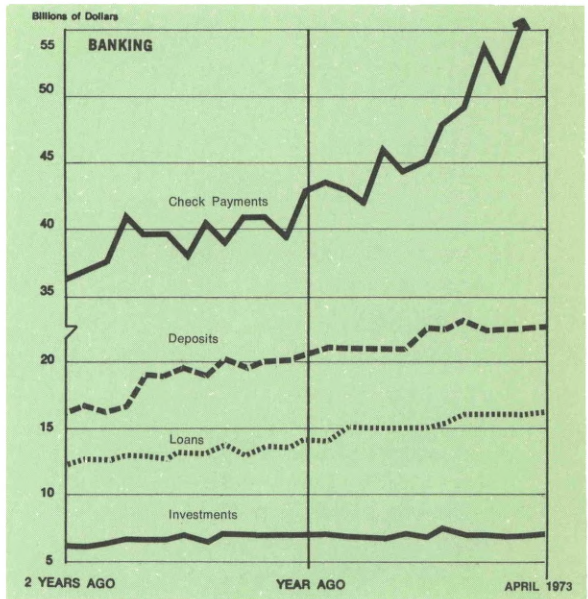
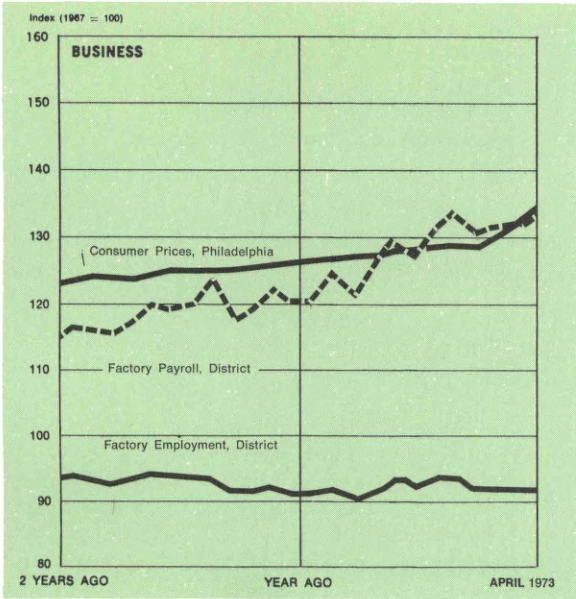
**VOLUNTARY FOREIGN LOAN CREDIT****RESTRAINT 1965**

REVISED GUIDELINES DEC 1, 1972  
*available*—F R Bull Feb 73 p 123  
Interpretations—F R Bull Feb 73 p 123

**WOMEN—EMPLOYMENT**

Maternity leave policy—  
Bost Jan 73 p 13

# FOR THE RECORD...



| SUMMARY                              | Third Federal Reserve District |          |                  | United States   |          |                  |
|--------------------------------------|--------------------------------|----------|------------------|-----------------|----------|------------------|
|                                      | Percent change                 |          |                  | Percent change  |          |                  |
|                                      | April 1973 from                |          | 4 mos. 1973 from | April 1973 from |          | 4 mos. 1973 from |
|                                      | mo. ago                        | year ago | year ago         | mo. ago         | year ago | year ago         |
| <b>MANUFACTURING</b>                 |                                |          |                  |                 |          |                  |
| Production.....                      |                                |          |                  | + 1             | +10      | +11              |
| Electric power consumed ...          | - 2                            | + 6      | + 8              |                 |          |                  |
| Man-hours, total*.....               | 0                              | + 4      | + 4              | 0               | + 7      | + 7              |
| Employment, total.....               | 0                              | + 2      | + 2              | 0               | + 5      | + 5              |
| Wage income*.....                    | + 1                            | +11      | +11              | + 1             | +14      | +14              |
| CONSTRUCTION**.....                  | +17                            | -28      | - 8              | + 2             | + 7      | +15              |
| COAL PRODUCTION.....                 | - 5                            | -21      | - 8              | - 3             | -11      | - 4              |
| <b>BANKING</b><br>(All member banks) |                                |          |                  |                 |          |                  |
| Deposits.....                        | + 1                            | + 9      | + 9              | + 1             | +12      | +12              |
| Loans.....                           | + 1                            | +14      | +16              | + 2             | +23      | +21              |
| Investments.....                     | + 1                            | 0        | + 2              | 0               | + 2      | + 4              |
| U.S. Govt. securities.....           | 0                              | + 2      | - 2              | - 2             | + 5      | - 2              |
| Other.....                           | + 2                            | + 1      | + 3              | 0               | + 5      | + 7              |
| Check payments***.....               | + 6†                           | +36†     | +33†             | 0               | +22      | +23              |
| <b>PRICES</b>                        |                                |          |                  |                 |          |                  |
| Wholesale.....                       |                                |          |                  | + 1             | +11      | + 9              |
| Consumer.....                        | + 1‡                           | + 6‡     | + 5‡             | + 1             | + 5      | + 4              |

| LOCAL CHANGES<br>Standard Metropolitan Statistical Areas* | Manufacturing                  |          |                                |          | Banking                        |          |                                |          |
|---|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|--------------------------------|----------|
|   | Employment                     |          | Payrolls                       |          | Check Payments**               |          | Total Deposits***              |          |
|   | Percent change April 1973 from |          | Percent change April 1973 from |          | Percent change April 1973 from |          | Percent change April 1973 from |          |
|   | month ago                      | year ago | month ago                      | year ago | month ago                      | year ago | month ago                      | year ago |
| Wilmington.....   | 0                              | + 4      | 0                              | +12      | - 4                            | + 19     | + 2                            | -88      |
| Atlantic City.....  | - 1                            | +11      | + 2                            | +19      | + 9                            | + 23     | + 1                            | +13      |
| Bridgeton.....  | - 1                            | + 6      | N/A                            | N/A      | N/A                            | N/A      | - 2                            | +13      |
| Trenton.....  | 0                              | + 4      | + 2                            | +10      | +11                            | +160     | + 2                            | + 9      |
| Altoona.....  | - 1                            | + 1      | - 4                            | - 1      | - 5                            | + 15     | + 1                            | +13      |
| Harrisburg.....   | - 1                            | + 5      | + 1                            | +17      | + 9                            | + 29     | +12                            | +29      |
| Johnstown.....  | + 2                            | 0        | + 4                            | +10      | + 9                            | + 24     | 0                              | +14      |
| Lancaster.....  | 0                              | + 8      | 0                              | +14      | +10                            | +134     | + 2                            | +16      |
| Lehigh Valley.....  | + 1                            | + 4      | 0                              | +14      | +10                            | +28      | + 2                            | +15      |
| Philadelphia.....   | 0                              | + 1      | + 1                            | + 9      | + 8                            | + 34     | + 1                            | +11      |
| Reading.....  | - 1                            | + 2      | - 1                            | +10      | 0                              | + 5      | + 2                            | +20      |
| Scranton.....   | 0                              | - 1      | + 1                            | + 7      | + 7                            | + 20     | 0                              | +11      |
| Wilkes-Barre.....   | 0                              | - 1      | + 1                            | + 7      | -12                            | + 31     | 0                              | +29      |
| Williamsport.....   | - 1                            | + 4      | 0                              | +13      | + 9                            | + 50     | + 1                            | +71      |
| York.....   | 0                              | + 1      | 0                              | +11      | +11                            | - 40     | + 1                            | +14      |

|                                    |               |
|------------------------------------|---------------|
| *Production workers only           | †15 SMSAs     |
| **Value of contracts               | ‡Philadelphia |
| ***Adjusted for seasonal variation |               |

|   |
|---|
| *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.                                      |

# FEDERAL RESERVE BANKS AND BOARD OF GOVERNORS

Publications Services  
Division of Administrative Services  
Board of Governors of the  
Federal Reserve System  
Washington, D. C. 20551

Federal Reserve Bank of Atlanta  
Federal Reserve Station  
Atlanta, Georgia 30303

Federal Reserve Bank of Boston  
30 Pearl Street  
Boston, Massachusetts 02106

Federal Reserve Bank of Chicago  
Box 834  
Chicago, Illinois 60690

Federal Reserve Bank of Cleveland  
P.O. Box 6387  
Cleveland, Ohio 44101

Federal Reserve Bank of Dallas  
Station K  
Dallas, Texas 75222

Federal Reserve Bank of Kansas City  
Federal Reserve Station  
Kansas City, Missouri 64198

Federal Reserve Bank of Minneapolis  
Minneapolis, Minnesota 55440

Federal Reserve Bank of New York  
Federal Reserve P.O. Station  
New York, New York 10045

Federal Reserve Bank of Philadelphia  
925 Chestnut Street  
Philadelphia, Pennsylvania 19101

Federal Reserve Bank of Richmond  
P.O. Box 27622  
Richmond, Virginia 23261

Federal Reserve Bank of St. Louis  
P.O. Box 442  
St. Louis, Missouri 63166

Federal Reserve Bank of San Francisco  
San Francisco, California 94120

## business review

FEDERAL RESERVE BANK  
OF PHILADELPHIA  
PHILADELPHIA, PA. 19101