



## FEDERAL RESERVE BANK OF ATLANTA

Volume XXXI

Atlanta, Georgia, February 28, 1946

Number 2

*The South and the Loan to Britain*

THE cancellation of war contracts for ships, aircraft, munitions, and other war products; the curtailment of Army and Navy installations; and other changes caused by the ending of the war have created serious local difficulties in the re-employment of both men and resources in the Sixth District. Quite naturally attention within the District has been directed to the problems that are close and especially to those requiring immediate solution.

In the months since V-J Day the reaction in the Sixth District economic life has on the whole been good. Though employment has declined, it has not declined as much as might have been expected. Trade has continued at a high level partly because of the demand and purchasing power that accumulated during the war years. Much of the slack resulting from the ending of wartime activities has been taken up, but it is not yet clear how long the problems can continue to be overcome.

The more distant V-J Day becomes, the less the force of demands occasioned by the end of the war and the greater the necessity for directing attention to the larger and long-range problems in the District.

In an assessment of the South's postwar future, one factor is of paramount importance. It is that the Sixth District's ability to maintain permanently a high level of production and income is in the long run linked with the course taken by the national economy.

The South is self-sufficient neither in its markets nor in the products it consumes, and, if it were, the merits of such a condition would be very dubious. It is by capitalizing upon those industries in which the South has the greatest comparative advantage that the area will attain and keep a high level of production and income.

Sixth District farm income depends upon whether or not cotton, tobacco, citrus fruits, and other crops in which the South has a comparative advantage in production will be marketed on favorable terms. Whether they are so marketed, in turn, depends to a great extent upon the national business situation.

Many persons in the South believe that, given equal opportunities, the region can produce not only a variety of agricultural products but also a number of manufactured products more efficiently than other regions produce them and that it can compete on equal terms in the national market. The removal of discriminations against Southern industry, such as discriminatory freight rates, rather than the creation of special privileges has been the goal of those persons who sincerely believe in the South's ability to progress under a system of free competitive enterprise. The South cannot prosper at the expense of the rest of the nation. Though prosperity may be-

gin at home, it cannot last unless it extends beyond the boundaries of the immediate area. Too great a concentration upon local problems may, therefore, lead to Southern economic strangulation.

One of the national problems pressing for solution is the restoration of free world trade on a high level. The benefits to all parts of the nation as a whole, with the inclusive and resulting benefits to Sixth District industry and agriculture, are reason enough for the restoration of world trade. But the South has a larger stake in foreign trade than other sections have, and it will probably continue to have one. Southern products have been to a large extent sold in world markets. In the last prewar year, 1938, for example, 5.6 million bales of cotton, or approximately 48 percent of that year's crop, were exported. Foreign sales are also important to tobacco, citrus fruits, and other Sixth District crops and to Southern industrial products.

Though temporary demands created by war-induced shortages will probably be sufficient to absorb many of the products of Southern agriculture and industry in the immediate future, long-range plans that make no provision for the sale of such products abroad will result eventually in serious dislocations within the South. Restoration and continuation of world trade may, in the long run, help to prevent a collapse after the boom.

There are indications that the expansion of foreign trade is being included in the long-range plans for the District's economic development. Among plans recently announced are those for the development of port facilities in Florida at Tampa, Jacksonville, and Miami. In Georgia, plans for the development of port facilities at Brunswick and Savannah are being made and the Brunswick Port Authority has been created by Brunswick and Glynn Counties. The Alabama docks board has approved tentatively an expenditure of four million dollars to enlarge the Alabama State Docks. Plans for Mobile to exceed its former important position as a shipping and ship-repair center are under way. In New Orleans the International Merchandise Mart, Incorporated, was recently organized for the purpose of displaying and selling goods to foreign and domestic buyers. Other plans for the port of New Orleans include the construction of new wharves and dock facilities as a step toward the achievement of a postwar trade of 800 to 900 million dollars annually. Plans for the development of international air routes from Sixth District cities take into consideration not only passenger traffic but freight traffic. The plans for increased trade with South America are numerous.

The improvement of port facilities and the organization of financial, commercial, and other services will do much toward

securing for the District a larger share in the nation's world trade. If, however, there is no foreign trade, improved facilities will be useless. Attention to local problems should not obscure the main issue.

### **The Restoration of World Trade**

Since 1939, world trade has been almost completely directed by government. The purpose of trade was not to raise the standard of living within the country but to assist in carrying on the war. Even before the war whole areas of the world were outside the sphere of free trade. Through exchange controls, quotas, barter agreements, blocked balances, special clearing agreements, export subsidies, international cartels, protective tariffs, and other devices the direction of trade had been altered. The growth of such control was, partially, the legacy of a failure to correct fundamental conditions after World War I, a result of efforts to capitalize temporarily upon discriminatory advantages, and a result of the growth of totalitarian governments. Whatever the cause, the decline of world trade following World War I probably contributed to the decline of income in the nation and in the South. The avoidance of a repetition of that decline is essential.

The policy of the United States has been to avoid a repetition of conditions leading to the events following World War I and to encourage the early resumption of free world trade. An initial step was the inclusion of Article VII in all lend-lease agreements. Under this article the signatory powers agreed to take steps reducing barriers to free trade after the war. A further step toward solving the complex problem was taken in the Bretton Woods Agreement, which provided for orderly exchange control and the setting up of the International Monetary Fund.

Other foreign-trade problems are to be considered in the proposed conference on trade and employment called for in the *Proposals for Expansion of World Trade and Employment* issued by the Department of State on December 6, 1945. The conference will consider the problems of employment, trade barriers, and discriminations. As a necessary supplement to the organizations established under the Bretton Woods agreements, an international trade organization is proposed. Although the proposals were drawn up in the American State Department, British officials were consulted.

The same date, December 6, was marked by the joint announcement by Great Britain and the United States of a financial agreement proposed as a further step in the solution of international trade problems. The agreement has since been ratified by Great Britain and is at present under consideration by the Congress of the United States.

Without British collaboration, it is believed in many quarters, resumption of trade along the lines desired by the United States is impossible. Not only is this country's trade with Britain involved but its prospects of trade with South America and other areas of the world are also involved.

The influence that British trade and exchange practices will have on the course that world trade takes and the effect that the revival of trade will have in the South's economic future warrant careful attention to the provisions of financial agreement.

Britain's experience illustrates the obstacles standing in the way of the resumption and expansion of world trade. Prior to the outbreak of the war, under conditions approaching free world trade, the United Kingdom was America's best customer. It has been estimated that in 1938, the last year before the

war, purchases of the United Kingdom and Ireland accounted for approximately 17 percent of our total exports. When the American exports to Canada, Australia, New Zealand, India, British Africa, and the more important British possessions are added to exports to the United Kingdom, the total amounts to 40 percent of United States exports. For the South the importance of British trade is emphasized by the fact that about 28 percent of American cotton exports in 1938 were purchased by the United Kingdom. In addition to raw materials great amounts of American manufactured products were exported to Britain.

The United Kingdom typically was an importer of raw materials and an exporter of manufactured products, although, as is the case with all industrial nations, a great many American manufactured products were purchased. Raw materials were converted into goods for local consumption and into goods for re-export in order to pay for imports. Such exports of commodities were not sufficient, however, to pay the total cost of imports. In the 15-year period from 1924 through 1938 the value of commodity imports exceeded the value of commodity exports by an average of 358 million pounds annually. Payment for this excess of imports was made partly by income received from investments and through shipping services. Other financial services, such as insurance, accounted for the greater part of the remainder of the payments.

In addition to carrying on a widespread world trade, the United Kingdom acted as banker for many sections of the world. Many countries customarily held balances with the United Kingdom partly as reserve against their own currencies and partly as a means of settling international payments resulting from trade with other countries. A country purchasing goods from the United States might draw upon its London balance in order to pay for American goods, just as within the United States a Chicago purchaser of Southern goods might draw upon a New York bank to pay his Southern creditor. In general such sterling balances were freely convertible into dollars. This ability to freely convert sterling balances had an important effect in stimulating the flow of American trade not only with Britain but with other countries as well.

### **Great Britain, the Best Prewar Customer**

The outbreak of World War II brought the institution of widespread controls in the British economic life. Britain had to import the right commodities in the maximum amount possible and, at the same time, to divert industries from the manufacture of export goods to the production of war materials. A maximum of imports and a minimum of exports became essential to the prosecution of the war. This program necessitated a complete control of foreign trade.

The problem was met partly by the creation of what has been called the Sterling Area, consisting primarily of countries within the British Empire. Within this area a system of exchange controls was instituted, with London as the financial center. Wherever possible trade within the area was substituted for that with other countries. Although the sterling balances held in London were freely convertible within the area to the currencies of the area, outside transactions were severely limited. Under this system, for example, balances resulting from sales to the United States might not be spent for the purchase of American goods without the consent of the central authority. Consent to withdraw funds from the so-called dollar pool was given only if the purchase would further the prosecution of the war.

In addition, the United Kingdom paid for much of its imports by short-term banking credits obtained through central banks, particularly in the Sterling-Area countries. Between August 1939 and June 1945 the United Kingdom's liabilities to outside countries increased from 3.7 billion dollars to 13.5 billion dollars. Approximately 11 billion dollars is owed to countries within the Sterling Area and at present is not convertible from sterling to other currencies. The present sterling balances are many times the normal balances existing before the war.

The British also sold a large proportion of their overseas investments in order to pay for imports. By British estimates, the total value of foreign investments was reduced approximately 4½ billion dollars from the latter part of 1939 to the middle of 1945. The result was that, by the end of the war, income formerly used to pay for imports was drastically curtailed.

There are thus several difficulties to a resumption of normal trade relations by Great Britain. Normal exporting cannot be resumed until that nation's former export industries are restored by means of reconversion. Increased imports are required to provide raw materials for the manufacture of exports, for the rebuilding of factories, and for feeding the nation. Reconversion of the export industry will take time and overseas investments are gone. Moreover Britain's relative shipping position has been diminished. Until export industry is revived and unless some means is found of providing for imports until normal exports are restored, Great Britain can neither resume its role as America's best customer nor relax the restrictions set up to prevent a drain on its financial resources.

#### Restricted Trade or Free Trade With Britain

The United Kingdom is faced with two alternatives in its attempt to restore its vital world trade. It might keep in effect the wartime controls, set up an increased system of Empire preference, enter into bilateral agreements, restrict former export industries, and perhaps engage in a species of economic warfare in the world's markets. Indeed, such a course is favored in some British quarters. Great Britain, it is contended, could very well do without American cotton, tobacco, food, oil, and films and could confine her trade within the Empire. The second alternative is a return to multilateral free trade as soon as possible.

The former course would undoubtedly have important repercussions in the South and the rest of the United States. There would be, of course, the direct effect of cutting off important British markets. It would also mean that individuals in other countries holding blocked sterling accounts may have little chance of ever using them for the purchase of American goods. It would also mean that Britain would not compete with the United States in the world markets on the basis of efficiency and productivity but, rather, through bilateral trade agreements and discriminatory practices. It would be in direct opposition to the policy of unrestricted, multilateral world trade advocated by the United States as essential to expanded production and world peace.

Great Britain is in no position to adopt the second alternative unless its export trade is restored. The restoration of the export industries requires, for a time, more than the normal amount of imports. Restoration of shipping, banking, and other commercial services requires time. In addition,

Britain must restore the convertibility of the pound sterling and stabilize its currency. To make such steps possible is the purpose of the financial agreement between the United States and Britain.

#### The Financial Agreement

The position of the United States is analogous to that of a private individual, or an official of a financial institution, who finds his chief debtor in financial difficulties. Rather than cut off credit immediately, the creditor would probably investigate the long-range prospects. If the prospects seemed encouraging, he might extend further credit but, at the same time, require the debtor to follow a course that he believed would lead to financial recovery. No altruism is involved. Self-interest is the governing idea.

It is in such a spirit that the provisions of the financial agreement and the loan to Great Britain should be examined. When the loan is examined in that light, whether or not the British *deserve* it becomes irrelevant. The relevant question is, "What will be the advantage to the United States?" Because Britain is the United States' best customer and because Britain is important in world trade, it is to this country's interest that British trade be restored. Does it follow that the financial agreement will aid in that restoration?

The financial agreement was presented in three parts. First was a joint statement regarding the understandings reached on commercial policy. A joint statement regarding settlement for lend-lease, reciprocal aid, surplus war property, and other claims followed. The last part was a financial agreement. This third part, providing for a loan of 3,750 million dollars, has attracted the most widespread attention, although the other provisions get to the core of the program for restoring world trade.

Under the terms of the statement of commercial policy both governments endorse the *Proposals for Consideration by an International Conference on Trade and Employment* issued by the United States Department of State. Thus, each nation pledges, among other things, that it will not "seek to maintain employment through measures which are likely to create unemployment in other countries or which are incompatible with the international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production."

The loan of 3,750 million dollars is to be advanced to the British in the form of a line of credit upon which they may draw at any time, beginning with the effective date of agreement, up to the end of 1951. In addition, a credit of 650 million dollars is to be advanced to cover final settlement of lend-lease and other claims. The total sum involved is 4.4 billion dollars. The purpose of the line of credit, as stated in the agreement, is to facilitate the purchase of goods and services in the United States, to meet transitional prewar deficits in the balance of payments, to assist in maintaining reserves of gold and dollars, and to lead to a restoration of multilateral world trade.

The first of 50 equal instalments repaying the principle with interest at 2 percent is to be made on December 31, 1951. If the entire credit is used, the amount of the annual payment will be approximately 140 million dollars. It has been estimated that the payment in full would be approximately 2¼ percent of the United Kingdom's annual net receipts — not a serious burden. If British trade fails to develop as

rapidly as expected, however, that part of the annual payment consisting of interest may be waived.

Payments of interest may not be waived in any year unless the International Monetary Fund certifies that the average income from exports and from other items, such as investments abroad and shipping and financial services, in Britain's balance of payments during the preceding five years is less than the value of the 1936-38 average imports after correction for price changes. Interest on loans from Empire governments must be similarly waived before this waiver can be requested.

### Removal of Trade Restrictions

American self-interest dictated that the granting of the credit be accompanied by certain commitments on the part of the United Kingdom. These commitments would act as positive steps toward the reduction of restrictions on world trade.

One of the important steps taken in the agreement is set forth in the section on import arrangements. Both Britain and the United States agree not to impose quantitative import restrictions that discriminate against the other country. Although there are certain exceptions to this provision, its general effect should be one of placing import quotas on a nondiscriminatory basis. This provision does not prevent the British from imposing such restrictions in order to liquidate sterling balances that are accumulated up to December 31, 1946. After that date the effect of the provision should be to place American exports on a level more nearly equal to that of countries within the Empire.

In addition to the general statement on commercial policy and the agreement of import arrangements, important provisions anticipating the removal of the restrictions on blocked sterling balances and other exchange restrictions are included.

The sterling balances are held principally by the central banks in more than twenty countries within the Sterling Area and outside it. These balances are at present unavailable, of course, for use in the purchase of goods outside the area. An individual in Australia who wanted to buy an American automobile probably would be told by his banker when he tried to secure the means of paying the American exporter that although the bank had a large account in London, it would be impossible to convert that account into American dollars. He must either purchase a British car or do without. The elimination of such controls would set free a large amount of purchasing power for American products, purchasing power not only from the Sterling Area but from South America and other places over the world. In addition to the sterling-balance arrangements made during the war, similar agreements have been concluded by the British since the end of hostilities.

Great Britain agrees that within one year any sterling receipts from current transactions with Sterling-Area countries shall be freely convertible into the money of any other country for meeting current obligations. The agreement further provides that no future restrictive agreements will be entered into with respect to current transactions. This means, in effect, that proceeds from current sales made to England by individuals in Australia or South America, for example, may be used to purchase goods in the United States or anywhere else.

In order to dispose of the problem of accumulated balances, the blocked sterling balances are divided by the agreement into three categories: (1) balances that are to be released at once and that are convertible into any currency for current transactions; (2) balances that are to be similarly released by instalments over a period of years beginning in

1951; and (3) balances to be adjusted as a contribution to the settlement of war and postwar indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.

It is expected that the countries within the British Commonwealth may be induced to contribute further to the war effort by reducing part of the claims. Especially is this probable since, after the adjustments are made, part of the accumulated balances may be released at once and will be freely convertible to provide payment for goods urgently desired. The creation of dollar resources through the loan will make it possible for the British to release a certain amount of the blocked balances at once. The restoration of British exports, which by 1951 should have approached their prewar level, will, it is believed, make possible the gradual release of the remaining balances.

American interests are protected by the provision that after a period of one year any sterling balances released will be freely available for payment in any currency. In addition, if annual payment to the United States is reduced by a waiver of interest, the annual settlements of released sterling balances will be proportionately reduced. Finally, the United Kingdom in calculating its ability to meet the annual interest payments may not charge more than 43,750,000 pounds against its net income from exports and imports.

Under the terms of the agreement any sterling balances arising out of current transactions with the United States shall be freely convertible for other current transactions into any other currency. Thus if American exporters sell goods to Britain, they will be able to use the proceeds of these sales to purchase goods in any part of the world they desire. After a period of one year, both countries agree, no restrictions will be imposed on payments for current transactions.

Lend-lease goods and services consumed during the war will be written off as having accomplished their purpose in the defeat of the common enemy. Goods not consumed are divided into two categories. The first consists of those goods that might be converted to peacetime use, estimated at a value of 532 million dollars. The second class consists of goods delivered since V-J Day and estimated at a value of 172 million dollars. The deduction of 54 million dollars of miscellaneous financial claims credited to Britain left a net amount of 118 million dollars in this second category. The two sums make up the total of 650 million dollars. No payment is expected for the materials in the hands of the British armed forces, but the United States retains the right to take back any of them. The American Government must give its consent to any transfer of these materials outside the United Kingdom and colonial dependencies. Other clauses are included to prevent re-export of lend-lease articles and to make other minor settlements.

### Misunderstandings

Many of the arguments advanced for and against the ratification of the loan agreement are of an unreasoned nature and are based on prejudice and emotion. The contention that Britain deserves the loan because of the many sacrifices she made during the war is of this nature. The argument that, to the contrary, we should not help Britain get back on her feet because she would not help us in a similar situation is of the same type. These and other arguments may be ignored in favor of the basic issue at stake. But there are reasonable arguments which deserve careful attention.

There is a misconception of the terms of the agreement. It is sometimes stated that Britain should seek aid within the Empire. The terms of the agreement provide for such aid by calling for the scaling down of the sterling balances and specifying that additional aid secured from any source shall be on terms no less favorable than those granted by the United States. If all financial assistance were received within the Empire, however, it would mean a continuance of the restrictions that arose during the war and that are barriers to expanding world trade.

At times it is assumed that the sum involved is a gift, yet the terms of the agreement clearly provide for repayment. Sometimes the contention is that, as in all its dealings with the British, the United States will get the worse part of the bargain. Protests of the British to the commitments required of them argue to the contrary. Great Britain is committed to a policy of expanding international trade that accords with American policy.

### **Long-Range versus Short-Range Views**

Some of the arguments advanced are based on attention to short-range problems rather than long-range problems. The statement that the United States is already overburdened with a huge debt is a part of these arguments. The loan will merely add to that debt, it is argued. Anyway, the money will be used to buy goods from us that are already scarce, and this circumstance will add to our inflationary problem. Moreover, the statement goes on, it is merely lending money to customers to buy our goods, which may mean we'll lose both the money and the goods. Finally, comes the question, "Why should we help the British to compete with us on the world markets?"

Even though the 3,750 million dollars involved is only the equivalent of a two-weeks' expenditure on the war and even though the loan will not be delivered in a lump sum but spread out over a period of six years, it will constitute an important addition to the American public debt. The degree to which this debt will burden the American public, however, depends upon the future level of national production and income. It has been estimated that a United States foreign trade amounting to more than 10 billion dollars and providing about five million jobs for Americans is possible. If, in the long run, the proposed loan assists in building up that trade, it may be considered a good investment.

The long-run prospects for the restoration of Britain's trade will determine the ease with which the loan can be repaid. Only a small annual sum is involved. The ability to expand exports under conditions of unrestricted world trade will be determined by world production and income. Operation of the financial agreement will, by removing some of the barriers, contribute to increased world production. But American prosperity is such an important factor in determining the level of world income that any expansion of world production depends upon how well the United States sustains its own production.

Emphasis upon the inflationary possibility of the loan disregards at least two aspects of the long-range problem. For one thing it overlooks the ability of American industry to convert to peacetime production, and for another it fails to consider the necessity for continuing demand after the initial postwar period is over. Present scarcities together with accumulated demands obscure the fact that only six months have passed since V-J Day. During that period a nation

formerly devoting the greater portion of its energies to war production has had to make an abrupt change to peacetime production. The ability of American industry to convert, as quickly as it did, to war production surprised many people. A like ability to convert to peacetime production may be expected. Conditions within the United States will determine how rapidly conversion progresses and goods become available. Any goods purchased with the proceeds of the loan will constitute a very minor part of the inflationary pressure.

After the initial postwar period is passed, it seems probable, attention will once more be directed toward sustaining the market for goods. Recent advances in production technique promise that if productive facilities are fully employed the volume of production will increase tremendously. Our exports during the immediate years can be financed almost entirely by existing dollar balances that other countries want to spend. Once these balances are exhausted, however, the ability of foreign countries to buy will depend upon the world-trade and world-production picture. The release of sterling balances over the long period should help in sustaining demand. More important, the contemplated return to free trade and the resulting increase in the level of world income will provide an outlet for American products.

It is axiomatic that the quantity Americans are able to sell abroad is determined as much by their customers' ability to buy as it is by their own ability to compete with producers in other nations. Fears expressed that the restoration of British exports will create competition harmful to American foreign trade abroad ignore the necessity for building purchasing power abroad for any continuing program of exports.

At present there are immediate markets for American exports, but the long-run market prospects depend upon the prosperity of the customers. Whether or not South America, for example, can buy from the United States depends in part upon the market for South American products not only in the United States but elsewhere. If the agreement results, as it is expected to, in increased world trade, the act of restoring British exports will increase demand for South American products. Under conditions of free world trade South Americans may spend the proceeds of their exports in buying either American or British goods. If United States exporters offer them the goods that this nation produces most efficiently, they will buy American goods.

The opportunity to compete in the world market on the basis of efficient production is all that the United States can expect under conditions of free competitive enterprise. Great Britain will compete with American producers whether or not the agreement is put into effect. Under the conditions of free world trade it will compete on the basis of efficiency. Under restricted world trade Americans will compete for a portion of a smaller total of world trade and will do so under a handicap of discriminatory practices.

### **South's Interest at Stake**

Certainly the proposed loan to Great Britain will not alone lead to complete restoration of world trade. It is merely a step toward restoring that trade. As a step toward directing the future course of trade away from controls and restrictions into free competitive enterprise, it merits careful consideration. Rejection of the agreement may be a cause of limiting American markets and denying to Americans some of the benefits of an expansion of world trade. The South has a vital interest at stake.

CHARLES T. TAYLOR

## Sixth District Statistics

DEBITS TO INDIVIDUAL BANK ACCOUNTS (In Thousands of Dollars)						
Place	No. of Banks Report- ing	Jan. 1946	Dec. 1945	Jan. 1945	Percent Change Jan. 1946 from	
					Dec. 1945	Jan. 1945
ALABAMA						
Anniston.....	3	18,705	17,609	20,004	+ 6	- 7
Birmingham....	6	234,066	241,427	225,296	- 3	+ 4
Dothan.....	2	10,627	11,966	9,143	- 11	+ 16
Gadsden.....	3	11,747	13,047	11,556	- 10	+ 2
Mobile.....	4	98,162	103,592	122,658	- 5	- 20
Montgomery...	3	51,463	52,575	41,599	- 2	+ 24
FLORIDA						
Jacksonville...	3	210,817	223,238	192,973	- 6	+ 9
Miami.....	7	214,807	191,871	145,152	+ 12	+ 48
Greater Miami*	11	306,039	236,312	201,068	+ 29	+ 52
Orlando.....	2	50,814	47,109	37,232	+ 8	+ 36
Pensacola.....	3	29,797	30,739	28,176	- 3	+ 6
St. Petersburg..	3	45,749	39,127	32,177	+ 17	+ 42
Tampa.....	3	95,419	95,629	94,531	- 0	+ 1
GEORGIA						
Albany.....	2	14,286	15,947	11,861	- 10	+ 20
Atlanta.....	4	581,977	649,981	514,760	- 10	+ 13
Augusta.....	3	42,559	41,482	36,127	+ 3	+ 18
Brunswick.....	2	7,685	8,248	16,312	- 7	- 53
Columbus.....	4	41,347	42,458	39,728	- 3	+ 4
Elberton.....	2	2,797	2,794	2,010	+ 0	+ 39
Gainesville*	3	8,699	9,243	*	- 6	.....
Griffin.....	2	7,565	8,138	*	- 7	.....
Macon.....	3	51,448	50,965	42,056	+ 1	+ 22
Newnan.....	2	6,670	7,381	5,495	- 10	+ 21
Rome.....	3	15,849	15,066	*	+ 5	.....
Savannah.....	4	87,918	87,876	83,670	+ 0	+ 5
Valdosta.....	2	8,802	9,497	6,858	- 7	+ 28
LOUISIANA						
Baton Rouge...	3	55,638	53,332	48,266	+ 4	+ 15
Lake Charles...	3	22,888	21,405	19,567	+ 7	+ 17
New Orleans...	7	492,278	528,028	476,205	- 7	+ 3
MISSISSIPPI						
Hattiesburg...	2	14,703	13,999	14,132	+ 5	+ 4
Jackson.....	4	95,268	75,763	71,435	+ 26	+ 33
Meridian.....	3	21,874	20,553	17,566	+ 6	+ 25
Vicksburg.....	2	26,363	20,975	20,445	+ 26	+ 29
TENNESSEE						
Chattanooga...	4	116,174	111,908	105,408	+ 4	+ 10
Knoxville.....	4	122,502	120,341	133,443	+ 2	- 8
Nashville.....	6	222,731	253,529	185,247	- 12	+ 20
SIXTH DISTRICT						
32 Cities.....	108	3,108,081	3,204,391	2,811,088	- 3	+ 11
UNITED STATES						
334 Cities.....		89,131,000	101,563,000	82,756,000	- 12	+ 8
** Not included in Sixth District total						
** Not available						

\*Not included in Sixth District total

\*\*Not available

## Reconnaissance

Sixth District Statistics for January 1946 compared with January 1945

PER CENT DECREASE ◀ PER CENT INCREASE

Department Store Sales

Department Store Stocks

Furniture Sales

Gasoline Tax Collections

Cotton Consumption

Bank Deposits

Member Bank Loans

Member Bank Investments

Demand Deposits Adjusted

40 30 20 10 0 10 20 30 40

## Bank Announcements

**T**wo banks in the District made changes of especial interest during the month. One of them, a Florida bank, became a member of the Federal Reserve System. The other, in Tennessee, became a new addition to the Par List.

## First Savings and Trust Company of Tampa

The First Savings and Trust Company of Tampa, at Tampa, was admitted on February 11, 1946, to membership in the Federal Reserve System. This bank, which was organized on April 29, 1914, opened for business July 1, 1914. Originally it was organized as a savings bank, and for some time no effort was made to build up deposit balances. With its expansion in recent years, however, the bank has offered to its customers the benefits of a commercial banking institution. At present it has common stock in the amount of \$500,000, surplus of \$300,000, and total resources of \$7,484,000.

The president of the bank is George B. Howell, who assumed this office on March 22, 1944. Previously, in November 1940, and as the result of an agreement with the United States Maritime Commission, the United States Navy, and the Reconstruction Finance Corporation, Mr. Howell had been made president of the Tampa Shipbuilding Company. During the war this company employed as many as sixteen thousand men and completed almost 300 million dollars worth of work for the Navy. Ships of various kinds, ranging from 17,000-ton destroyer tenders down to 190-foot mine sweepers, were constructed by the Tampa Shipbuilding Company. After V-J Day, Mr. Howell, a banker for a number of years and an ex-president of the Florida Bankers Association, returned to the banking business.

Other officers of the bank include L. D. Smith, vice president and treasurer; M. D. Hall, secretary and trust officer; A. C. Clewis, Jr., assistant secretary; and W. R. Mulliniks, assistant treasurer. The directors are Carl D. Brorein; A. C. Clewis, Jr.; R. M. Clewis; J. W. Gray; J. L. Hearin; George B. Howell; Paul A. Hoxie; P. O. Knight, Sr.; Ernest Kreher; L. D. Smith; O. P. Stallings; and Karl E. Whitaker.

Tampa is a city with a population of 108,391, although Greater Tampa has a population estimated at 190,000 and the trade area served by the city has one of approximately 785,000. The leading seaport of the state, Tampa is also the world's largest cigar-manufacturing center. In addition to being the site of many other industries, Tampa is the winter headquarters for the Royal American Shows, one of the nation's largest carnivals, as well as a popular resort city.

## Bank of Orlinda

The Bank of Orlinda, Orlinda, Tennessee, began remitting on February 11, 1946, at par for checks drawn on it and routed for collection through the Federal Reserve Bank. It was organized and was opened for business in 1904.

On February 12 the bank had capital stock amounting to \$20,000, surplus amounting to \$7,000, undivided profits amounting to \$1,612, and deposits amounting to \$537,861. Its officers are H. W. McNeeley, president; J. E. Byrum, vice president; H. M. Johnson, cashier; and Charles D. Clayton and Elizabeth King, assistant cashiers. J. E. Byrum, Charles Cummings, F. W. Fisher, W. C. Fulton, J. A. Hendley, W. Lon Henry, H. M. Johnson, H. W. McNeeley, D. A. Payne, John H. Price, and Boyd H. Stark are directors of the bank.



## Sixth District Statistics

INSTALMENT CASH LOANS			
Lender	Number of Lenders Reporting	Percent Change Dec. 1945 to Jan. 1946	
		Volume	Outstandings
Federal credit unions.....	41	- 23	+ 2
State credit unions.....	23	+ 1	+ 0
Industrial banking companies.....	10	+ 4	+ 4
Industrial loan companies.....	20	- 22	+ 0
Small loan companies.....	40	- 12	+ 4
Commercial banks.....	34	+ 17	+ 8

DEPARTMENT STORE SALES*						
	Adjusted**			Unadjusted		
	Jan. 1946	Dec. 1945	Jan. 1945	Jan. 1946	Dec. 1945	Jan. 1945
DISTRICT.....	307	288	268	246	466	214
Atlanta.....	365	295	300	268	476	220
Baton Rouge.....	346	300	258	230	489	171
Birmingham.....	315	275	285	223	447	201
Chattanooga.....	322	291	265	254	470	210
Jackson.....	313	268	286	215	435	196
Jacksonville.....	426	340r	387	307	571r	279
Knoxville.....	345	287	363	255	488	269
Macon.....	284	286	246	196	501	170
Miami.....	271	259	201	304	479	226
Montgomery.....	295	279	293	220	497	219
Nashville.....	378	311	317	270	524	227
New Orleans.....	274	243	247	210	399	190
Tampa.....	380	347	309	313	588	255

DEPARTMENT STORE STOCKS						
	Adjusted**			Unadjusted		
	Jan. 1946	Dec. 1945	Jan. 1945	Jan. 1946	Dec. 1945	Jan. 1945
DISTRICT.....	184	184	172	166	155	155
Atlanta.....	268	272	263	235	221	231
Birmingham.....	167	120	140	144	105	121
Montgomery.....	184	165	191	164	140	169
Nashville.....	329	304	317	268	258	259
New Orleans.....	119	124	130	103	108	113

	COTTON CONSUMPTION*			COAL PRODUCTION*		
	Jan. 1946	Dec. 1945	Jan. 1945	Jan. 1946	Dec. 1945	Jan. 1945
TOTAL.....	159	136	166	160	150	171
Alabama.....	165	141	176	162	158	177
Georgia.....	158	136	164	154	133	158
Tennessee.....	135	114	139			

	MANUFACTURING EMPLOYMENT***			GASOLINE TAX COLLECTIONS		
	Dec. 1945	Nov. 1945	Dec. 1944	Jan. 1946	Dec. 1945	Jan. 1945
SIX STATES.....	113	112r	155	132	136	102
Alabama.....	129	128r	183	133	140	111
Florida.....	86	87r	162	140	127	102
Georgia.....	105	105r	146	122	125	105
Louisiana.....	125	124r	168	126	125	107
Mississippi.....	119	117r	144	116	145	76
Tennessee.....	108	107r	133	145	159	107

CONSUMERS' PRICE INDEX				ELECTRIC POWER PRODUCTION*			
	Dec. 1945	Nov. 1945	Dec. 1944		Dec. 1945	Nov. 1945	Dec. 1944
ALL ITEMS..	134	134	132	SIX STATES..	241	231r	276
Food.....	148	147	145	Hydro-generated	260	216	242
Clothing....	145	144	140	Fuel-generated	216	252r	321
Rent.....	114	114	114	ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS			
Fuel, electricity, and ice..	110	111	109		Jan. 1946	Dec. 1945	Jan. 1945
Home furnishings.	145	145	141	Unadjusted..	17.2	19.0	17.8
Miscellaneous..	131	131	127	Adjusted**..	15.5	16.5	16.0
CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*				Index**.....	60.0	63.8	61.9
	Jan. 1946	Dec. 1945	Jan. 1945	*Daily average basis			
Unadjusted..	205	208	198	**Adjusted for seasonal variation			
Adjusted*..	201	216	194	***1939 monthly average=100; other indexes, 1935-39=100			
				r=Revised			

## The District's Business

IN three fields, retail trade, agriculture, and industry, important trends that had their beginnings in the recent past have continued in the Sixth District. Retail sales were greater during the first two months of 1946 than they ever were in the corresponding months of previous years. In industry, the number of unemployed has increased. In agriculture there is a continuing increase in land prices.

## Retail Sales and Inventories

The January decline in department store sales was less than usual in the Sixth District this year, and the February increase was greater than usual. Sales attained new high levels for both these months. Since 1932 the annual index has risen each year except in 1938, when there was a small drop of only two points. The rate of sales declined in January 1946 only 47 percent from the holiday level recorded in December, and as a result the seasonally adjusted index rose 7 percent. In the first half of February weekly reports from a smaller number of firms indicated a further rise of 23 percent, about three times the gain that might have been expected. A preliminary index for February is 14 percent above the index for January and 28 percent above that for February 1945. Inventories in January increased 7 percent over those a month earlier and were 6 percent greater than they were in January 1945.

## Employment and Industry

During the month of January unemployment in the Sixth District was apparently still increasing. Seventeen labor-market areas for which estimates of unemployment in January are available reported a total of approximately 109,000 people unemployed at the end of the month. This figure represents an increase of about 14,000 over the total for December. Some important labor-market areas, such as Atlanta, Augusta, and Savannah, are omitted from the figures because no comparable estimates of unemployment have been reported.

Of the seventeen areas from which estimates are available, New Orleans ranks highest in the number of unemployed with 20,000, Birmingham second with 17,000, Miami third with 12,000, Mobile fourth with 10,000, Knoxville fifth with a little more than eight thousand, and Macon sixth with just about eight thousand.

New Orleans also had a greater increase in unemployment for the month than any of the other areas—2,500. Miami had the next largest increase—2,000. In Macon the number of unemployed increased 1,100, and both in Birmingham and in Mobile it increased 1,000. These figures, of course, do not yet reflect the impact of the steel strike that began in the last week of January and continued into the third week of February.

The increase in the number of unemployed persons cannot be interpreted as being always or wholly a result of declining employment. In the New Orleans area, for example, from which are reported the largest number of unemployed and largest increase in unemployment for the month, there has been a moderate gain in employment for the past two months. The principal gains were in shipbuilding and ship repairs and in stevedoring. The growing volume of unemployment is therefore not a result of declining employment; it is, rather, a result of the addition, to the labor force, of numerous returning veterans. In New Orleans the civilian labor force in-

creased from 281,000 to 283,500 during January — an increase exactly equal to the unemployment increase.

The situation in Miami is somewhat similar. There, in spite of a pressing demand for workers in trade and service industries, the volume of unemployment has been increasing. In a large measure this situation is the result of a great immigration of people from other places and a noticeable increase in the number of veterans entering the area. This influx of workers into the area's labor force is expected to continue through March. Other factors, of course, play a part in maintaining unemployment at its present level. Shortages of materials have compelled some retrenchment in construction activity. There is some difficulty in filling existing job openings with the persons who are seeking work because many of the jobs are unsuitable to the capacities and inclinations of the job seekers and also because of wage scales that are low in comparison with the present cost of living.

By far the most spectacular labor development of the month was the steel strike, which closed down the industry's basic-steel plants, ramified throughout fabricating establishments, and affected mines and other establishments. In Alabama, the largest steel-producing state of the District, more than thirty thousand men were made idle by the strike. Of these, 21,000 were steel-plant employees, 4,500 were coal miners, and 5,000 were red-ore miners. The ending of the strike in mid-February did not mean, however, that operations could be resumed immediately. It takes time to relight the furnaces. According to estimates, it would require seven days for open-hearth furnaces that had been operating at 95 percent of capacity when the strike was called to achieve 20 percent of capacity operations and two weeks to reach the 80 percent level.

#### Farm Land Prices

The latest figures for trends in farm-land prices indicate a continuation of the upward movement that characterized the war period. Based on the 1912-14 average as 100, the index of farm real-estate prices for the nation as a whole stood at 133 in November 1945. This was somewhat under the 140 level at the end of World War I and considerably under the 170 level of the 1920 peak.

In the Sixth District, however, the land boom appears to be growing to proportions more serious than those in the nation as a whole. Each of the Sixth District states except Georgia found its index higher last November than it had been at the end of World War I. In Alabama and Florida it was higher even than the 1920 peak.

The index for Alabama stood at 184 in November, compared with 143 in March 1919 and 177 at the 1920 peak; the Florida figure for November was 195, compared with 143 in 1919 and 178 in 1920; and in Georgia the figure was 141 — considerably under the 172 figure for 1919 and the 217 figure for 1920. The November index stood at 166 in Louisiana, compared with 157 in 1919 and 198 in 1920; in Mississippi it was 172, compared with 155 in 1919 and 218 in 1920; and in Tennessee it was 192, compared with 168 in 1919 and 200 in 1920.

Although the situation may not yet have reached a dangerous stage, it will bear watching by both farmers and bankers, who should remember the bitter experience of the period following World War I. Farmers would be well-advised if they were warned to refrain from buying land at greatly inflated prices. For them to build up reserves for the protection of

their farms and their standard of living would be wiser than for them to enlarge their holdings beyond the size required for efficient operations. Veterans — especially those with little or no previous farming experience — should weigh carefully the hazards they face before embarking upon agriculture as a career in a period of inflated land values.

Because of the extent to which banks had been involved in financing the land boom after World War I, the ensuing collapse of farm prices and land values left many of them unable to extend adequate short-term credit to farmers for production purposes. In order to meet the needs of agriculture for credit of this kind, the Government had to provide it.

Today the banks are much less involved in the land boom and will therefore be in a better position to finance the legitimate needs of farmers than they were in the other postwar period. A survey of more than six thousand banks by the American Bankers Association in 1945 brought affirmative replies from 98 percent of the banks to the question "If and when a depression comes again, would your bank be willing and able to finance all worthy farmers?" The 502 banks in Sixth District states that responded to the questionnaire gave various reasons for their belief that they would be able to provide dependable credit to farmers even in an economic emergency. From 75 to 91 percent of the banks cited their increased liquid assets as one of these reasons; from 70 to 85 percent of them cited their holdings of United States securities, which can readily be converted into cash; from 60 to 77 percent cited the confidence inspired by the insuring of deposits with the Federal Deposit Insurance Corporation; from 31 to 51 percent cited the increased interest of correspondent banks. More than 25 percent of the banks in Alabama, Florida, Georgia, and Tennessee mentioned the increased ability of the Federal Reserve System to rediscount their sound assets as a further reason for confidence in their ability to carry the farmers through an emergency. Whether the banks will be able to do so, however, will depend in part upon their keeping clear of the mounting land boom. In part also it will depend upon their farmer-borrowers' maintaining a sound financial position so that they will be creditworthy when they approach their banks for loans.

#### Sixth District Statistics

RETAIL JEWELRY STORE OPERATIONS		
Item	Number of Stores Reporting	Percent Change Dec. 1945 to Jan. 1946
Total sales.....	26	— 70
Cash sales.....	24	— 68
Credit sales.....	24	— 70
Accounts receivable, end of month.....	26	— 25
Collections during month.....	26	+ 2

RETAIL FURNITURE STORE OPERATIONS			
Item	Number of Stores Reporting	Percent Change January 1946 from	
		December 1945	January 1945
Total sales.....	97	— 19	+ 56
Cash sales.....	89	— 21	+ 89
Installment and other credit sales.....	89	— 19	+ 49
Accounts receivable, end of month.....	96	— 4	+ 10
Collections during month.....	96	+ 11	+ 25
Inventories, end of month.....	78	— 1	+ 16