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Address by Allan Sproul, President, Federal Reserve Bank of New York, before the Seventy-Fifth Annual Convention of the American Bankers Association, San Francisco, California, November 2, 1949

As a native Californian—and a native San Franciscan—I have tried to think of something I might discuss which would be of special interest to our generous hosts at this convention. The fact that this is 1949, and that the whole state of California has been engaged in a two-year round of celebrations of the 100th anniversary of the discovery of gold in California, and of its immediate consequences, gave me an obvious lead. Gold is something in which we are all interested. Nor is this an untimely topic on other grounds. The recent wave of currency devaluations which swept around the world, following upon the devaluation of the British pound sterling six weeks ago, has fanned into modest flame the always smouldering fires of the gold controversy. In addition, I was eager to review the gold question because it is a good starting point for an understanding of the place of the Federal Reserve System in the monetary and economic life of the country. When I finish with gold, I shall want to say something more specific about the System, and about your relations with it.

The Gold Controversy

As central bankers, of course, charged with responsibility for our monetary and credit policies, we have the question of gold under more or less constant surveillance. Most of the time, in recent years, we have been under attack from two sides because of our attitude toward gold. Those interested primarily or initially in the price of gold, and in what they call a free gold market, have fired from one side. Those interested primarily and eternally in gold coin convertibility—in a full and automatic gold standard domestically and internationally—have fired from the other. More recently, we have had a brief respite from attack while these two groups fired at each other, each group arrogating to itself responsibility for the only true gospel according to St. Midas. What I have to say will probably bring that brief respite to an end. The fire will again be concentrated on the monetary authorities, for whom I cannot presume to speak except as one individual engaged in the practice of central banking, but who will, no doubt, be blamed for my views.

Let me take account of each of these two groups separately; those who concentrate, at least initially, on a free gold market, and those who will have none of this heresy, but who want a fixed and immutable gold price and convertibility of currency—and therefore of bank deposits—into gold coin.

The first group, which includes the gold miners, makes its argument on several grounds, trying to combine economics and psychology with self-interest. Let me paraphrase their principal arguments as presented at hearings on bills to permit free trading in gold in the United States and its territories. In this way I may avoid the fact as well as the appearance of building straw opponents. The arguments most frequently presented in favor of these bills were:

1. In the face of rising production costs and fixed selling prices, the gold mining industry has been forced to curtail its operations, and to the extent that it has operated, its profits have been reduced. The higher gold prices which would presumably prevail in a free market would correct this situation. This is the *do something for the gold miners* argument at its baldest.

When this argument is embroidered a little, it is claimed that since the prices of all goods and services have increased so substantially during the past ten or fifteen years, it is necessary to open the way for an increase in the price of gold so as to be sure there will be enough gold to carry on the country's business; to bring the price of gold into adjustment with the prices of everything else.

2. A second group of arguments expresses concern over the unsettling effects of the *premium* prices which are paid for gold abroad, and claims that a free gold market in the United States, with no gold export restrictions, would cause these premium markets abroad to disappear, with beneficial effects upon world trade and international relations.

3. Third, there is an argument in equity—that gold miners should be allowed to sell their product at the best price they can obtain, as do producers of other products; and that American citizens, like the citizens of most other countries, should be free to hold or to buy and sell gold.

4. Finally, there were those who viewed and favored a free gold market as a first step in the direction of a full gold coin standard, and who held that even a free market would act as a *fever chart* of the economy and lead to reform of extravagant Government fiscal policies, remove inflationary tendencies fostered by a managed currency, and lead to sounder conditions, generally.

To take these arguments up in order, it should be pointed out right away that it is quite possible that a free market for gold in the United States would not result in a rise in the

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price of gold, if for no other reason than that the Secretary of the Treasury is required, by law, to maintain all forms of United States money at parity with the gold dollar which contains 1/35th of an ounce of fine gold. This means that the Treasury should maintain the price of gold at $35 a fine ounce in legal gold markets in the United States. To do this, if there were a legal free market for fine gold, the Treasury should sell gold to the extent necessary to maintain the market price at $35 a fine ounce. We might, therefore, get what would be in effect gold convertibility by way of a free market, but not a rise in the price of gold. Aside from this possible outcome of the establishment of a free market for gold, what is it we are being asked to do? In effect we are being asked to do something to benefit the gold mining industry, to encourage a shift of productive resources, in this and other countries, into gold production, in order to provide gold for hoarding. This, I submit, would be a witless proceeding, in terms of the welfare of the whole economy, matched only by our bonanza provisions for the special benefit of the miners of silver.

As for the economic embroidery of this request for aid to the gold mining industry, there is no lack of monetary means of carrying on the business of the country, nor is there likely to be. It is the economics of perpetual inflation to argue that a rise in the commodity price level should be followed by an arbitrary increase in the price of gold and hence in the reserve base, thus permitting and, perhaps, promoting additional deposit expansion and a further upward movement of prices. Even on the basis of statistics, which are not always reliable or comparable, it is interesting to note that the increase in the price of gold in the United States, in 1934, raised the price of gold by 69 percent, whereas wholesale prices in the United States are now only 60 percent above the 1927-29 level. We have been plagued, if anything, with an oversupply of money in recent years, and the United States gold stock, at the present price, is large enough to support whatever further growth in the money supply may be needed for years ahead.

The second group of arguments has to do with the desirability of knocking out of business the premium markets in gold which have existed and still exist in various foreign countries. I share the general dislike of these markets because they are parasites on the world's monetary system and help to siphon into gold hoards the resources of people who need food and clothing and equipment—and who wouldn't need so much help from us if they didn't use scarce foreign exchange to buy gold for private hoards. But I don't think the soundness nor the stability of the United States dollar is actually brought into question by these premium markets. At our official purchase price for gold—$35 a fine ounce—the United States has been offered and has acquired more gold than the total world production (excepting the U.S.S.R., for which reliable data on gold production, as on everything else, are not available) since 1934, the year of our devaluation. During those years—1934 to 1948 inclusive—estimated world gold production, valued at United States prices, was about $13.5 billion and United States gold stocks increased $16 billion. Most of the producers and holders of gold have been quite willing to sell us gold for $35 a fine ounce despite the quotations of $45 and $55 and so on up in the premium markets. The fact is that these premium markets represent insignificant speculative adventures around the fringe of the world supply and demand for gold. They reflect mainly the urgent and often illegal demands of a small group of hoarders, together with some private demand for gold to be used in relatively backward areas, or areas where the forms of civilized government have broken down, and where the metal serves the needs of exchange—or hoarding—better than a paper note. I do not think there would be any appreciable stimulus to United States gold production, if we opened the doors of this largely clandestine trade to our domestic gold miners. But, by legalizing it, we might well create what we are trying to destroy—uncertainty about the stability of the dollar and our own intentions with respect to its gold content.

The third argument—that the miners of gold should be free to sell their product at the best price they can get—is probably the give away. It is the argument that gold should be treated as a commodity when you think you can get a higher price for it, and as a monetary metal and an international medium of exchange when you want a floor placed under its price. I would say that you can't have it both ways. If you want the protection of an assured market at a fixed price, because gold is the monetary metal of the country, you should not ask permission to endanger the stability of the monetary standard by selling gold at fluctuating prices (the gold producers hope higher prices) in a fringe free market. Under present conditions, the only real price for gold is the price the United States Treasury is prepared to pay for it. So long as that is the case, there is no sense in a *make-believe* free gold market, in which possible temporary or short-run deviations from the fixed price of the Treasury might have disturbing consequences.

Nor is the argument that citizens of the United States should have the same privileges as the citizens of other countries, when it comes to holding or trading in gold, at all convincing to me. It is true that in a number of foreign countries the holding of gold by private citizens is legal, and in some foreign countries strictly internal free trading in gold is permitted. In many cases, however, this merely represents the shifting around of a certain amount of gold which is already being hoarded in the country, since in practically all of these countries the export and import of gold on private account is either prohibited or subject to license. And, in many countries where gold is produced, some percentage, if not all, of the newly mined gold must be sold to the monetary authorities, a requirement which further limits the amounts available for trading and hoarding. These restricted and circumscribed privileges in other countries are no reflection of a loss of inalienable rights by our people. They are attempts by these foreign countries to adjust their rules with respect to gold to their own self-interest and, so far as possible, to the habits of their people, all under the sheltering umbrella of a world gold market and a world gold price maintained by the Treasury of the United States.

We have deemed it wise to maintain such a fixed point of reference, in a disordered world. We have decided by democratic processes and by congressional action, that this policy requires, among other things, that gold should not be available for private use in this country, other than for legitimate industrial, professional, or artistic purposes. We have decided that the place for gold is in the monetary reserves of the country, as a backing for our money supply (currency and demand deposits of banks), and as a means of adjusting international balances, not in the pockets or the hoards of the people. If we want to reverse that decision, the means of reversal are at hand, but it should be a clear cut and a clean cut reversal, restoring convertibility. Providing a dependent free gold market, in which gold miners and a little group of specula-

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tive traders or frightened gold hoarders (such as those who now take advantage of a provision in the regulations to buy and sell *gold in the natural state)* could carry on their business is not the way to meet the problem.

I do not propose to get in the cross fire of those who claim that a free gold market would be a step toward convertibility, and those who claim that a free gold market, without free coinage at a fixed price, would cause us to lose whatever modicum of a gold standard we now have and lead to monetary chaos. That is one of those doctrinal arguments in which the subject abounds. I will merely say here that I think authorization of a free gold market in this country, with no change in the present responsibility of the Secretary of the Treasury to maintain all forms of money coined or issued by the United States at parity with the *gold dollar*, would probably lead indirectly to convertibility. The desirability of doing this is another matter, which I shall now try to discuss briefly and dispassionately. This is a hazardous attempt because there is no subject in the field of money and banking which so arouses the passions, and which so readily defies brief analysis.

Two groups of arguments for the reestablishment of a gold coin standard may, perhaps, be distinguished in the writings and speeches of those who propose it, one group relating primarily to the domestic economy and one to the probable effects on international trade and finance. In the first group the arguments run about as follows:

1. Replacement of our *dishonest*, inconvertible currency with an *honest* money having intrinsic value would promote confidence in the currency and encourage savings, investment, long-time commitments, and production.

2. Irredeemable paper money leads to inflation, whereas the upper limits imposed upon currency and credit expansion by a thoroughgoing gold standard serve as a restraining influence on irresponsible politicians and over-optimistic businessmen.

3. Present governmental taxing and spending policies are wrong, and dangerous. The gold standard would put a brake on public spending.

4. As a corollary of the preceding argument, since the gold standard would hinder further extension of Government control and planning, it is a necessary implement of human liberty.

The second group of arguments, relating to the international advantages of a gold coin standard, generally make no distinction between the effects of a unilateral adoption of such a standard by the United States, and the multilateral establishment of an unrestricted gold standard by many countries, and of exchange rates fixed by such a standard. The arguments run somewhat as follows:

1. The existence of premium markets in gold abroad and the lack of gold convertibility at home creates—and is representative of—lack of confidence in the gold value of the dollar. In the absence of a thoroughgoing gold coin standard we cannot convince anyone that we may not devalue the dollar.

2. Restoration of *normal* patterns of international trade is being retarded by the inconvertibility of currencies in terms of gold and, therefore, one with another. This inconvertibility has led to tariffs, quotas, exchange controls, and to general bilateralism.

3. Under a managed paper currency system there is always the temptation to solve national problems by devices which lead to international disequilibrium. This, in turn, has led to domestic devices restrictive of foreign trade. The international gold standard, by eliminating the need for restrictive commercial policy, would increase the physical volume of international trade, resulting in an improved division of labor and higher standards of living for everyone.

First, let me say that I perceive no moral problem involved in this question of gold convertibility. Money is a convenience devised by man to facilitate his economic life. It is a standard of value and a medium of exchange. Almost anything will serve as money so long as it is generally acceptable. Many things have served as money over the centuries, gold perhaps longest of all because of its relative scarcity and its intrinsic beauty. In this country we still retain some attachment to gold domestically, and more internationally, but to carry on our internal business we use a paper money (and bank deposit accounts) which has the supreme attribute of general acceptability. There is no widespread fear of the soundness of the dollar in this country, no widespread flight from money into things. The constant cry of wolf by a few has aroused no great public response. Savings, investment, long-term commitments, and the production and exchange of goods have gone forward at record levels.

Much of the nostalgia for gold convertibility is based, I believe, on fragrant memories of a state of affairs which was a special historical case; a state of affairs which no longer exists. The great period of gold convertibility in the world was from 1819 to 1914. It drew its support from the position which Great Britain occupied, during most of the nineteenth century and the early part of the twentieth century, in the field of international production, trade, and finance. The gold coin standard flourished because the organization of world trade under British leadership provided the conditions in which it could, with a few notable aberrations, work reasonably well.

The ability of the British to sustain, to provide a focal point for this system has been declining for many years, however, and the decline was hastened by two world wars which sapped the resources of the British people. The heir apparent of Great Britain, of course, was the United States, but up to now we have not been able to assume the throne and play the role. And until some way has been found to eliminate the lack of balance between our economy and that of the rest of the world, other than by gifts and grants in aid, we won't be able to do so. This is a problem of unraveling and correcting the influences, in international trade and finance, which have compelled worldwide suspension of gold convertibility, not vice versa. The job before us now is to attack the problems of trade and finance directly. We should not deceive ourselves by thinking that gold convertibility, in some indefinable but inexorable way, could solve these underlying problems for us.

Nor is it true, of course, that gold convertibility prevented wide swings in the purchasing power of the dollar, even when we had convertibility. Within my own experience and yours, while we still had a gold coin standard, we had tremendous movements in commodity prices, up and down, which were the other side of changes in the purchasing power of the dollar. What happened to us in 1920-21 and 1931-33 under a gold coin standard should prevent a too easy acceptance of that standard as the answer to the problem of a money with stable purchasing power.

When you boil it all down, however, and try to eliminate mythology from the discussion, the principal argument for

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restoring the circulation of gold coin in this country seems to be distrust of the money managers and of the fiscal policies of Government. The impelling desire is for something automatic and impersonal which will curb Government spending and throw the money managers out of the temple, as were the money changers before them. To overcome the inherent weakness of human beings confronted with the necessity of making hard decisions, the gold coin standard is offered as an impersonal and automatic solution. Through this mechanism the public is to regain control over Government spending and bank credit expansion. It is claimed that whenever the public sensed dangerous developments, the reaction of many individuals would be to demand gold in exchange for their currency or their bank deposits. With the monetary reserve being depleted in this way, the Government would be restrained from deficit financing through drawing upon new bank credit; banks would become reluctant to expand credit to their customers because of the drain on their reserves; and the Federal Reserve System would be given a signal to exert a restraining influence upon the money supply. In this way, Congress, the Treasury, and the Federal Reserve System would be forced by indirection to accept policies which they would not otherwise adopt.

In effect, under a gold coin standard, therefore, the initiative for over-all monetary control would, through the device of free public withdrawal of gold from the monetary reserve, be lodged in the instinctive or speculative reactions of the people. No doubt some people would take advantage of their ability to get gold. There would be many reasons for their doing so. Conscientious resistance to large Government spending, or fear of inflation, might well be among these reasons. But speculative motives, a desire for hoards (however motivated), and such panic reactions as are generated by unsettled international conditions or temporary fright concerning the business outlook or one's individual security—all of these, and more—would be among the reasons for gold withdrawals. The gold coin mechanism does not distinguish among motives. Whenever, for any reason, there was a demand for gold, the reserve base of the monetary system would be reduced. Moreover, if only the United States dollar were convertible into gold while practically all other currencies were not, hoarding demands from all over the world would tend to converge upon this country's monetary reserves. Circumvention of the exchange controls of other countries would be stimulated, and dollar supplies which those countries badly need for essential supplies or for development purposes would be diverted to the selfish interests of hoarders.

Even if a particular reduction in the reserve base did occur for useful *disciplinary* reasons, the impact of such gold withdrawals upon the credit mechanism is likely to be crude and harsh. Since the present ratio between gold reserves and the money supply is about one to five, and since some such ratio will be in effect so long as this country retains a fractional reserve banking system, a withdrawal of gold coins (once any free gold is exhausted) will tend to be multiplied many times in its contractive effect on bank credit and the money supply. In a business recession, the Reserve System might undertake to offset this effect as it does now in the case of gold exports but, if the gold withdrawals attained sufficient volume, the shrinking reserve position of the Federal Reserve Banks would eventually prevent them from coming to the rescue.

It was, in part, to offset such arbitrary and extreme influences upon the volume of credit, and to make up for the inflexibility of a money supply based on gold coins (in responding to the fluctuating seasonal, regional, and growth requirements of the economy) that the Federal Reserve System was initially established. During the first two decades of its existence, the System devoted much of its attention to offsetting the capricious or exaggerated effects of the gold movements associated with continuance of a gold coin standard. We had an embarrassing practical experience with gold coin convertibility as recently as 1933, when lines of people finally stormed the Federal Reserve Banks seeking gold, and our whole banking mechanism came to a dead stop.

The gold coin standard was abandoned, and an international gold bullion standard adopted, because repeated experience had shown that internal convertibility of the currency, at best, was no longer exerting a stabilizing influence on the economy and, at worst, was perverse in its effects. Discipline is necessary in these matters but it should be the discipline of competent and responsible men; not the automatic discipline of a harsh and perverse mechanism. If you are not willing to trust men with the management of money, history has proved that you will not get protection from a mechanical control. Ignorant, weak, or irresponsible men will pervert that which is already perverse.

Here, I would emphasize my view that the integrity of our money does not depend on domestic gold convertibility. It depends upon the great productive power of the American economy and the competence with which we manage our fiscal and monetary affairs. I suggest that anyone who is worried about the dollar concentrate on the correction of those tendencies in our economic and political life which have brought us a deficit of several billion dollars in our Federal budget, at a time when taxes are high and production, employment, and income are near record levels. I suggest that, going beyond the immediate situation, they address themselves to the difficult problem of the size of the budget, whether in deficit or surplus or balance. At some point the mere size of the budget, in relation to national product, can destroy incentives throughout the whole community, a dilemma which is even now forcing curtailment of Government expenditures by the Labor Government in Great Britain. These are problems gold coin convertibility cannot solve under present economic and social conditions. Gold has a useful purpose to serve, chiefly as a medium for balancing international accounts among nations and as a guide to necessary disciplines in international trade and finance. It has no useful purpose to serve in the pockets or hoards of the people. To expose our gold reserves to the drains of speculative and hoarding demands at home and abroad strikes me as both unwise and improvident.

Perhaps before I let go of this subject, which has held me and you overlong, I should say a word about merely raising the price of gold, without doing anything about a free gold market or gold coin convertibility of the currency. This is something which has intrigued Europeans and others who are *short of dollars,* has interested some of our own people, and has become a South African war cry. An increase in the price the United States pays for gold would have two major results. It would provide the gold producing countries (and domestic producers) and the countries which have sizable gold reserves or private hoards with additional windfall dollars with which to purchase American goods. And it would provide the basis for a manifold expansion of credit in this country which might be highly inflationary.

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We have been engaged in an unprecedented program of foreign aid for the past four years. The Congress has authorized this aid at such times and in such amounts as were deemed to be in the interest of the United States. This is much to be preferred, I suggest, to the haphazard aid which would be granted by an increase in the price of gold, which must be on the basis of a more or less accidental distribution of existing gold stocks and gold producing capacity. If we raised the price of gold, every country which holds gold would automatically receive an increase in the number of dollars available to it. The largest increases would go to the largest holders which are the Soviet Union, Switzerland, and the United Kingdom. Every country which produces gold would automatically receive an annual increase in its dollar supply, and its gold mining industry would be stimulated to greater productive effort. The largest increases would go to the largest producers which are South Africa, Canada, and probably the Soviet Union. That would be an indiscriminate way to extend our aid to foreign countries, both as to direction and as to timing.

The domestic results of an increase in the price of gold would be no less haphazard. This country, as I have said, is not now suffering from a shortage of money and it has large gold reserves, which could form the basis of an additional money supply if we needed it. An increase in the dollar price of gold would increase the dollar value of our existing gold reserves in direct proportion to the change in price. There would be an immediate *profit* to the Treasury. The *profit* could be spent by congressional direction or Treasury discretion. This would provide the basis for a multiple expansion of bank credit which, unless offset by appropriate Federal Reserve action, would expose our economy to the threat of an excessive expansion of the domestic money supply. The arbitrary creation of more dollars in this way would certainly be inappropriate under inflationary conditions, and would be an ineffective method of combating a deflationary situation.

At the moment, also, we should have in mind that there has just been an almost worldwide devaluation of currencies. Using the fixed dollar as a fulcrum, individual foreign countries have taken action designed to improve their competitive position *vis-a-vis* the United States, and to maintain their competitive positions *vis-a-vis* one another. An increase in the dollar price of gold, which is devaluation of the dollar by another name, would undo the possible benefits of a venture in improved currency relationships which already has its doubtful aspects.

For all of these reasons it is encouraging to know that the Secretary of the Treasury has recently reiterated that the gold policy of the United States is directed primarily toward maintaining a stable relationship between gold and the dollar, and that for all practical purposes only the Congress can change that relationship. We have maintained an international gold bullion standard by buying and selling gold freely at a fixed price of $35 a fine ounce in transactions with foreign governments and central banks for all legitimate monetary purposes. This has been one fixed point in a world of shifting gold and currency relationships. We should keep it that way as another contribution to international recovery and domestic stability.

The Federal Reserve System and Its Critics

This whole discussion of gold has been a long wind-up for what may now seem to you like a small pitch. I want to end my remarks with a few words about the Federal Reserve System and the relations of your organization and you, as bankers and citizens, with that System.

In my gold discussion I tried to emphasize what seems to me to be a fundamental proposition in the case of a country with the domestic and international strength of the United States. We can't have, or we don't want, both an automatic gold coin standard and discretionary control of the reserve base by a monetary authority. The existence of two independent and frequently incompatible types of control over the reserves of our banking system is undesirable. In the light of that finding we abandoned the gold coin standard as a control over the domestic money supply, and placed our reliance in monetary management by the Federal Reserve System. I think it has become established American policy that a principal means of Government intervention in the economic processes of the country is the administration of broad credit powers by the System. In this way a pervasive influence may be brought to bear on our economy, without intrusion upon specific transactions between individuals, which is likely to be the consequence of more detailed physical controls, and which would spell the end of democratic capitalism as we have known it.

I have thought it reasonable to assume that the public in general, and bankers in particular, clearly recognized the special place of the System in our economy. The fact that the development of a national monetary and credit policy is the responsibility of the Federal Reserve System should fix its place beyond question. This is not a function which can be split up and passed around. Many of the activities of other Government agencies engaged in making or guaranteeing loans, or conducting bank examinations, or insuring bank deposits have a bearing on the way monetary policy works, but monetary policy, as such, is one and indivisible. It is only the supervisory and service functions performed by the Federal Reserve System which are comparable to the operations of these other Government agencies. The distribution of these incidental duties among such agencies can be largely determined by administrative convenience, historical precedent, and economy of operation, so long as there are arrangements for consultation to avoid unnecessary differences in policy and practice. But over-all responsibility for holding the reserves of the banking system, and influencing the creation of credit by varying the cost and availability of those reserves, can only reside in the one agency designated by Congress as the national monetary authority. The Federal Reserve System is not just one of a number of Federal agencies having to do with banking. Its duties and responsibilities are unique; they range over the whole of our economy and touch the lives of all our people.

I was somewhat dismayed, therefore, by recent reports that the American Bankers Association seemed to hold a different or opposite view. It is reported to have recommended to the Congress the maintenance of parity of compensation of the three Federal bank supervisory agencies (Board of Governors

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of the Federal Reserve System, Board of Directors of the Federal Deposit Insurance Corporation, and the Comptroller of the Currency) on the theory of equal pay for equal work; equal pay for sharing equally heavy responsibilities. I mean no disrespect of the Office of the Comptroller of the Currency, nor of the Federal Deposit Insurance Corporation, when I say there is and can be no such equality of responsibility. The bank supervisory duties of the Federal Reserve System are a distinctly minor part of its work. There is no desire to increase or add to those duties against the wishes of the banks or the best interests of the public. To represent the Federal Reserve System as just another bank supervisory agency, in the name of maintaining proper checks and balances in Federal bank supervision, seems to me to miss, and to misrepresent, the main reason for our being.

I mention this small but significant item first, because it cuts across the whole concept of the Federal Reserve System and, therefore, cuts across the whole range of our relationships with you. There are other points of apparent difference where we seem to be at odds, or not pulling together effectively, because of mistrust, or lack of proper consultation, or inadequate study of the broad aspects of the questions with which we are mutually concerned. I shall touch on a few of them.

CONCENTRATION OF POWER. The picture of a Federal Reserve System trying to arrogate power to itself, which at times you have painted, obscures the real picture. The real picture would show a Federal Reserve System trying hard to keep its powers in working order so that it can discharge its responsibilities as a monetary authority, with a measure of independence from the pressures of partisan political aims and the exigencies of managing a Federal debt which totals about $255 billion and, unfortunately, is growing. To lump the Federal Reserve System with the other bank supervisory agencies at Washington, and to play one against the other, is not an attack on the real concentration of power; it is giving aid and comfort to those who would seize upon the failure of monetary and credit controls as a pretext for fastening more direct controls upon our economy.

ORGANIZATION OF THE FEDERAL RESERVE SYSTEM. I have been at one with many of you in my opposition to undue centralization of control of the Federal Reserve System by the Board of Governors at Washington. In testimony before congressional committees and in public statements, I have affirmed my belief that we can have in the Federal Reserve System a wise blend of national authority and regional responsibility, of Government control and private participation. I think we shall do well to retain and to improve the regional characteristics of the System, both in matters of decentralized operation and, more important, in matters of national credit policy. I should like to see the bankers of the country, and this organization of bankers, give some more thought to this problem, and I should like them to offer some constructive suggestions concerning it. The climate may be right for its calm consideration.

RESERVE REQUIREMENTS. The Federal Reserve System is charged with the responsibility of formulating and administering national credit policy. It does this chiefly through its influence upon the cost and availability of bank reserves. This is a proper exercise of Federal power, and its point of incidence is upon the commercial banks of the country because only they, among all of our financial institutions, have the ability to add or subtract from the money supply of the nation. I question whether there is good and sufficient reason for exempting any commercial banks from a minimum participation in this national undertaking. It only requires a moderately sharp pencil and a grammar school knowledge of arithmetic to figure out how you can save money by not being a member of the Federal Reserve System, as things now stand. But I don't think this country really likes *free riders*, and nonmember banks, in that sense, are *free riders*. I know the objections to compulsory membership in the Federal Reserve System, I recognize some of its dangers, and I think it is probably politically impossible. But it should not be beyond our ingenuity to devise appropriate powers of fixing reserve requirements, to be exercised within statutory limits by an appropriate body within the Federal Reserve System; reserve requirements which would be adequate for our national purpose, and which would apply to member and nonmember banks alike.

Here is another instance, I believe, where your theory of checks and balances runs the danger of being all check and no balance. And let it be clear that this is no attack on the dual banking system. State member banks have lived within the Federal Reserve System for years, and submitted to its reserve requirements, without loss of identity. We welcome this continued relationship. Nor am I frightened by the existence of a fringe of nonmembers, and the ability of state banks to move from one group to the other. A mass exodus of state member banks from the Federal Reserve System seems to me to be so unlikely as to be outside the range of practical consideration. But I do think that all commercial banks have a common obligation and a common responsibility in this matter of reserve requirements, and that they should assume the obligation and share the responsibility.

CORRESPONDENT BANK RELATIONSHIPS. Somehow there has grown up a feeling in some places that we in the Federal Reserve System are out to undermine the network of correspondent bank relationships which you have built up over the years. Every time we suggest some change in the method of assessing reserve requirements, or make some minor improvement in our check collection system, or in our methods of providing coin and currency, or in some other detail of our operations, the question seems to be raised. I can assure you that these things are suggested or done in an effort to improve the efficiency and economy of our operations in terms of the whole banking system, the business community, and the general public. There is no hidden purpose. We recognize that there are some things which correspondent banks can do better than we can, and we are glad to have them perform these services. At the same time we would caution them against competition in providing services which really do not pay their way, and remind them that there are some things which, perhaps, the Federal Reserve System can do better than they. Surely here is an area, if our motives be reasonably

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pure on both sides, where there is no need for friction between us.

SELECTIVE CREDIT CONTROLS. We have differed on the matter of selective credit controls or, more specifically, on the matter of control of consumer instalment credit. I have advocated the continuance of the control which the Federal Reserve System exercised, briefly, over consumer instalment credit. I would be concerned over the dangers of any further significant extension of selective controls, whether over the credit used in commodity markets, in real estate transactions, in inventory financing, or in other forms of business lending. Requests for further powers should meet two tests—is the power really needed and will its use still leave an effectively functioning private economy? I have argued and still believe that control of consumer instalment credit meets these tests. Your official position has been opposed to this view. I would ask you, however, whether you are happy about the way things are now going in this field of finance. I am not. I suggest that we might sit down together and re-examine the problem to our mutual advantage and to the advantage of the public which we both serve.

These are some of the matters which I think deserve your constructive attention. A negative approach has been and will continue to be effective in stopping the passage of individual pieces of legislation, which you happen to dislike, but it won't check the progress of the idea of Government controls and intervention, if you have little constructive to offer in the face of difficult economic problems. Over the years you will win a lot of battles but you will lose the war.

I recognize and share your dislike for Government controls and your distrust of too much centralized power. But I recognize, as I think you must, that a certain amount of Government intervention is necessary to the preservation of our political and economic system. The central problem in our country, and in all countries but Russia and its satellites, is how far such Government guidance and control can go without destroying the effective functioning of a private economy. In this country, with our traditions of individual enterprise, we have preferred to keep such guidance to a practicable minimum, and to have it exercised largely through broad and impersonal controls—controls which affect the general environment. One cornerstone of such a philosophy is a competent and adequately powered monetary authority which can administer an effective monetary policy. In making monetary policy work to the limit of its capacity, we have one of the best defenses against control by Government intrusion in our personal and private affairs.

That is why I should like to see the American Bankers Association adopt an affirmative, constructive attitude toward the Federal Reserve System. If you don't like it, as it stands, put some real time and effort into the study of ways to improve it—its personnel, its powers, its organization, its functioning. In such an undertaking you will have the cooperation of all of us who are devoting our lives and our energies to what we believe to be a worthwhile public service. In the struggle of ideas and ideals which now divides the world this is a minor front. But it is a fighting front. It is no place for a neutral.

Sixth District Statistics

INSTALMENT CASH LOANS

Lender	No. of Lenders Reporting	Volume: Percent Change Oct. 1949, from Sept. 1949	Volume: Oct. 1948	Outstandings: Percent Change Oct. 1949, from Sept. 1949	Outstandings: Oct. 1948
Federal credit unions	41	— 12	+ 34	+ 2	+ 38
State credit unions	19	— 2	+ 63	+ 3	+ 32
Industrial banking companies	9	+ 3	+ 11	+ 0	+ 2
Industrial loan companies	15	— 8	— 12	— 1	+ 6
Small loan companies	39	+ 4	— 4	— 2	+ 4
Commercial banks	33	+ 5	+ 44	+ 2	+ 36

RETAIL JEWELRY STORE OPERATIONS

Item	Number of Stores Reporting	Percent Change October 1949, from Sept. 1949	Oct. 1948
Total sales	35	+ 13	— 4
Cash sales	35	— 4	— 21
Credit sales	35	+ 21	+ 3
Accounts receivable, end of month	35	+ 2	+ 15
Collections during month	35	+ 4	— 1

WHOLESALE SALES AND INVENTORIES*

Item	SALES: No. of Firms Reporting	SALES: Percent Change Oct. 1949, from Sept. 1949	SALES: Oct. 1948	INVENTORIES: No. of Firms Reporting	INVENTORIES: Percent Change Oct. 31, 1949, from Sept. 30 1949	INVENTORIES: Oct. 31 1948
Automotive supplies	3	— 22	— 24	..	..	..
Electrical group						
Wiring supplies	3	— 4	— 44	3	+ 5	— 6
Appliances	6	+ 5	— 11	5	— 1	— 15
General hardware	10	— 2	— 19	7	— 2	— 5
Industrial supplies	3	— 6	— 45	..	..	..
Jewelry	3	+ 4	— 30	..	..	..
Plumbing and heating supplies	4	— 6	— 14	3	— 6	— 10
Confectionery	3	+ 2	+ 12	..	..	..
Drugs and sundries	10	— 2	+ 3	..	..	..
Dry goods	18	— 19	— 24	12	— 1	— 16
Groceries						
Full lines	26	— 3	— 12	16	+ 8	— 7
Specialty lines	12	+ 5	+ 11	7	+ 27	+ 17
Shoes and other footwear	3	— 42	— 23	..	..	..
Tobacco products	8	0	+ 6	5	— 1	— 8
Miscellaneous	12	— 10	— 15	15	— 2	— 3
Total	124	— 8	— 16	73	+ 1	— 7

*Based on U. S. Department of Commerce figures.

DEPARTMENT STORE SALES AND INVENTORIES

Place	SALES: No. of Stores Reporting	SALES: Percent Change Oct. 1949, from Sept. 1949	SALES: Oct. 1948	INVENTORIES: No. of Stores Reporting	INVENTORIES: Percent Change Oct. 31, 1949, from Sept. 30 1949	INVENTORIES: Oct. 31 1948
ALABAMA						
Birmingham	4	— 9	— 20	3	+ 9	— 13
Mobile	5	— 3	— 10	..	..	..
Montgomery	3	+ 9	— 21	3	+ 11	— 6
FLORIDA						
Jacksonville	4	+ 48	+ 11	3	+ 6	+ 10
Miami	4	+ 36	+ 9	3	+ 6	— 21
Orlando	3	+ 24	+ 14	..	..	..
Tampa	5	+ 37	+ 24	3	+ 10	— 13
GEORGIA						
Atlanta	6	— 5	— 19	5	+ 12	— 4
Augusta	4	+ 2	— 16	3	+ 12	+ 16
Columbus	3	— 2	— 11	..	..	..
Macon	6	— 3	— 17	4	+ 15	+ 3
Rome	4	+ 19	— 11	..	..	..
Savannah	6	— 4	— 5	4	+ 15	— 11
LOUISIANA						
Baton Rouge	4	— 6	— 11	4	+ 11	— 9
New Orleans	6	+ 5	— 3	4	+ 10	— 4
MISSISSIPPI						
Jackson	4	— 2	— 8	4	+ 8	+ 6
Meridian	3	— 5	— 8	..	..	..
TENNESSEE						
Bristol	3	— 1	— 16	3	— 8	— 6
Chattanooga	4	— 1	— 12	3	+ 9	+ 4
Knoxville	4	— 4	— 15	..	..	..
Nashville	6	+ 2	— 13	5	+ 12	— 6
OTHER CITIES*	22	+ 28	+ 4	22	+ 4	— 15
DISTRICT	113	+ 8	— 7	76	+ 9	— 7

*When fewer than three stores report in a given city, the sales or stocks are grouped together under "other cities."

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Peanuts in Transition

DISTRICT farmers received over 120 million dollars from the 1948 peanut crop in addition to the indirect income derived from peanuts and peanut hay used for livestock feed. Nearly one-third of the farm income in South Georgia and Southeast Alabama came from this important cash crop. Income from peanuts this year, however, will be about one-fifth less than it was last year, mainly because of the reduction in acreage under the Government control program. If further large-scale price-support operations are to be avoided, the acreage harvested and threshed will have to be reduced even more next year. This will result in a marked decrease in farm income in the main producing areas and will create serious problems of enterprise adjustments on many farms. Since farming is the principal activity in sections where peanut production is concentrated, a sharp decline in income from peanuts will vitally affect bankers and other businessmen in those areas.

During the war the Government encouraged farmers to increase peanut production to help relieve the critical shortage of fats and oils. Acreage restrictions were removed and support prices were increased and 90 percent of parity was guaranteed for two full calendar years after the official termination of hostilities. In the 1942-45 period, peanut acreage in the United States doubled and production increased 75 percent over the 1935-39 average. In spite of this large increase in production, output of peanut oil in the early years of the war was so low that the Commodity Credit Corporation was designated as sole purchaser of farmers' stock peanuts in order that diversion to oil could be increased.

This step was necessary because of the unprecedented consumer demand for cleaned and shelled peanuts which resulted from increased consumer incomes and from the substitution of peanuts and peanut products for scarce or rationed commodities. Peanut butter was used instead of creamery butter and other spreads and the use of roasted or salted peanuts increased because of reductions in imports of cashew and Brazil nuts. The shortage of sugar and chocolate caused an unusually strong demand for peanuts in candy manufacture. Military takings of peanuts and peanut products also increased.

At the end of the war a reversal of nearly all the forces responsible for the unusually large demand for peanuts began. Butter, competing nuts, chocolate, and sugar are now in ample supply. The postwar shortage of vegetable oils has been completely overcome, with the result that oil prices are now down to the ceiling set under the OPA. At the current prices of oil and oilseed meal, peanuts are worth about one-half of the Government support price. Domestic consumption has declined 37 percent from the peak reached in the 1944-45 marketing season.

A large export market, supported by dollar grants and loans from this Government, has cushioned the transition from a war-crop status. Last year, exports accounted for 45 percent of the total disappearance of peanuts. Most of these exports were financed by ECA dollars. Peanut acreage was reduced 22 percent this year under the acreage allotment program and would probably have been reduced more if ECA funds for peanuts had not been available to European countries. Exports under the foreign-aid programs are almost certain to be much smaller during the 1950-51 marketing season with the result that the acreage alloted in 1950 will probably be reduced another 20 percent, to the 2.1 million acres provided for in the existing legislation.

During the next few years the peanut industry must adjust itself to a domestic demand similar to that before the war. A surplus now exists in the sense that not all the current production will move into commercial channels at the Government support price. This surplus could be eliminated either by lowering the price enough to move the peanuts or by reducing total production enough that the crop will be absorbed by the market at the support price. Peanut growers have chosen the latter course. In a referendum held in 1947 a large majority of the growers approved marketing quotas and acreage allotments for 1948, 1949, and 1950.

The present peanut program is a continuation of the programs that began in 1933. These programs attempted to restrict production enough to move the peanut crop into consumption for edible purposes at the support price. They not only failed to keep production at the levels existing before their inception, but they also failed to keep production balanced with consumption. The excess peanuts were diverted to oil and the cost of this diversion was borne by the Government. From 1934 through 1946 it cost the Government about 10 million dollars to conduct the peanut programs. For the year ending June 1949, the net cost to the Government was a little more than 25 million dollars or about 8 dollars an acre for each acre of peanuts picked and threshed.

Under present legislation the Secretary of Agriculture must proclaim marketing quotas and acreage allotments whenever the supply of peanuts exceeds the normal supply as defined in the law. In view of the cost of disposing of large surplus quantities, efforts to control production in the next few years may be more vigorous than in the prewar period. They may also be more effective because of changes in the law. The penalties for exceeding marketing quotas under the present law are probably strict enough to provide an effective tool for production control.

Trends in Consumption and Production

The willingness of people to eat peanuts and peanut products and their ability to buy them will largely determine the consequences of the line of action that peanut growers seem to have committed themselves to. With peanuts supported at 90 percent of parity and without Government subsidy, only insignificant portions of the picked and threshed crop will be used for oil. Most of the crop, therefore, must be used for food.

A recent study by the Bureau of Agricultural Economics indicates what consumption for food purposes may be with various prices of peanuts and with changes in consumer income. From 1920 to 1940 the most important factor affecting consumption of peanuts was the steady increase in per capita consumption. The quantity used per person rose in this period from four to seven and a half pounds. Wartime consumption rose to ten pounds per person, but the recent declines indicate a return to the prewar trend. Accordingly, total peanut consumption will increase about 20 million pounds annually for the next few years. About half of consumption for edible purposes is in the form of peanut butter and the remainder is about evenly distributed between candy and salted nuts.

Consumption has also been influenced by changes in the

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price of peanuts and in consumer purchasing power. From 1920 to 1940 the average annual consumption of peanuts was 536 million pounds on a farmer's stock basis. A decrease of 10 percent from the average price was accompanied by a 3-percent increase from the average consumption. An increase of 10 percent from the average level of consumer purchasing power, on the other hand, was accompanied by a 3-percent increase from the average consumption. According to these relationships, a domestic commercial consumption of peanuts of about one billion pounds would have been expected in the 1948-49 marketing year. And actually, consumption was about 970 million pounds.

Peanut Production and Consumption
(In Millions of Pounds)

Crop Year	Production	Used on Farms	Domestic Commercial Consumption as Nuts	Crushed for Oil	Exported as Nuts
1937-41	1,395	227	879	305	5
1942	2,143	361	1,294	448	5
1943	2,176	296	1,280	475	36
1944	2,081	298	1,397	364	30
1945	2,042	287	1,287	355	67
1946	2,038	302	1,031	496	260
1947	2,183	285	968	433	507
1948	2,338	295	969	395	800
1949	1,804	—	—	—	—

The relationships between consumption, price, and purchasing power indicate that a drastic decline in production is inevitable if prices are held at support levels. A 50-percent increase in disposable personal income, for example, would increase commercial consumption by only 15 percent. Lowering the support price could solve the surplus problem only if prices were reduced enough to permit a large portion of the crop to enter the oil market.

For most seasons since 1935, the quantity of peanuts lost or used for seed, feed, or in farm households has ranged from 200 to 300 million pounds a year. If allowance is made for the upward trend in per capita consumption and for the amount used at the farm, the total commercial consumption during the next five years may range from 1.2 to 1.4 billion pounds. Production of this quantity would require fewer acres than have been planted to peanuts in any year since 1941. Yields for the past ten years have averaged about 700 pounds per acre. With this average, only 1.9 million acres would be required to supply the domestic market. There is no assurance, of course, that the yield per acre will not rise above the ten-year average. As acreage is reduced, farmers will concentrate production on that portion of cropland best adapted to peanuts. Under the stimulus of a support price that will encourage the maximum production on each acre, they probably will adopt improved production practices at a rapid rate. How much and how fast yields will increase under an acreage restriction program, of course, can only be estimated.

The authors of a recent study of the economic problems of the Cotton Belt estimate that average peanut yields of 970 pounds per acre are possible in the near future. Another study made by the Department of Agriculture indicates that the average yield per acre would be increased 20 percent over the prewar yield if farmers adopted profitable improved practices. Even if many farmers do not adopt improved practices, a 10-percent increase in yields may be expected. With this increase, or a yield of 770 pounds per acre, only 1.5 to 1.8 million acres would be needed to produce the domestic requirements at the support price. These figures give some idea of the probable reduction in District farmers' income from peanuts and of the adjustments in farming systems that must be made by individual farmers. The cut in acreage this year is apparently only the first of a series that will eventually reduce the acreage picked and threshed by 40 to 50 percent from the 3.3 million acres grown in 1948.

Farm Adjustments

One characteristic of most farmers in the commercial peanut area of the District stands out above all others. They have always depended upon cash crops with a high value per acre for most of their income. Until World War I they relied almost completely upon cotton as the major source of cash income. The last thirty years have shifted the emphasis to peanuts with the result that they now occupy 35 percent of the cropland in the old peanut area of Southwest Georgia and Southeast Alabama. Cotton acreage has been cut in half and now occupies only 11 percent of the cropland. Since labor requirements and returns per acre for cotton are similar to those for peanuts in this area, the shift was easily made. As peanut acreage is reduced, however, there will be little opportunity to shift back to cotton.

Acreage allotments and marketing quotas for cotton are almost a certainty in 1950 and will probably be in effect for several years thereafter. There are no other widely adaptable cash crops that can be used on a large enough scale to replace the income that will be lost by reductions in the peanut acreage. If farmers who have depended upon peanuts for a major part of their income are to avoid a large reduction in total income, therefore, they must expand their other enterprises or adopt new ones.

Possible adjustments on individual farms will depend upon such factors as the production history for restricted crops, the size of farm, the farmer's financial resources, and his aptitude in handling other enterprises and developing new farming systems. His success in making the necessary changes may depend, in large part, upon an early recognition of the probable consequences of the present peanut program. The expansion of a livestock enterprise, for example, may be much easier if it is undertaken *before* the income from peanuts has declined 40 or 50 percent.

How the production history for peanuts may affect particular farms is illustrated by the results of the 1949 acreage restriction on a sample of farms in one of the leading counties of the old peanut belt of Georgia. About a hundred farms had allotments that ranged in size from 10 to 20 acres. The 1949 allotments were based upon the average acreage in the years 1946, 1947, and 1948. About 45 percent of these farms had a smaller acreage in 1948 than the average acreage for the three-year period, about 40 percent had a larger acreage, and the remainder had a 1948 acreage equal to the three-year average. On most of the farms with an average larger than that of 1948, peanut acreage has been declining. In other words, these farmers began the adjustment toward less reliance upon peanuts even before allotments were imposed. They received a relatively small acreage cut in 1949 and on some farms the 1949 allotment was actually larger than the 1948 acreage. Since they have a relatively small proportion of their total cropland in peanuts, any further acreage reductions may have little effect upon their incomes.

Most of the burden of readjustment will fall upon the 40 percent of farms that had a larger peanut acreage in 1948 than the average acreage for the three-year period. These farmers, rather than expanding other enterprises, have been relying more and more upon peanuts for their income. They

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have a relatively large proportion of their total cropland in peanuts and each cut in acreage allotments will cause a relatively large reduction in income from cash crops. The acreage history for one of these farms shows the relative magnitude of these changes. This farm has 40 acres of cropland, 20 of which were in peanuts in 1948. The allotment for 1949 was 11 acres of peanuts.

Peanut Acreages, Yields, and Prices

Crop Year	Acreage Picked and Threshed (In thousands)	Average Yield Per Acre (Pounds)	Season Average Prices Received by Farmers (cents per pound)
1937-41	1,818	767	3.61
1942	3,355	654	6.08
1943	3,528	617	7.12
1944	3,068	678	8.04
1945	3,160	646	8.27
1946	3,142	649	9.10
1947	3,389	646	10.10
1948	3,311	706	10.50
1949	2,546*	698*	——

*Preliminary estimates.

Farmers who have relatively large acreages can usually change their farming systems more easily than those with small acreages. Some enterprises, such as beef cattle, are not suited to the small farm. One-fifth of a sample of 2,300 peanut farms in four typical counties of the Georgia peanut area had 1949 allotments of less than 20 acres. These farms had a total of about 120 acres each, about 50 of which were in cropland. Few of them have what could be termed a commercial livestock enterprise. In some areas the small size of the farm may be the most serious obstacle to the development of other enterprises. Out of 1,200 farms in one of the major peanut producing counties, for example, over 800 had allotments this year of less than 20 acres.

The changes in farm organization required to offset the loss of cash crop acreages usually call for additional capital outlays. Some idea of the nature of these investments has been gained from recent studies that deal with changes in farm organization necessary to achieve an efficient combination of resources in the coastal plains of Georgia and Alabama. These changes will call for an increase in livestock breeding herds, improvement of pastures, and more equipment and machinery.

Hog production apparently will be the best enterprise to combine with the reduced acreage of cash crops in order to create an efficient farm unit in this area. In 1944 there were, on the average, only one or two sows on each farm. If the hog enterprise is to be effective as an offset to the decline in cash crops, there would have to be an average of from seven to nine sows per farm. This expansion in peanuts hogged-off would require some other changes in the farm business. The acreage of supplemental grazing crops would have to be expanded. The supply of concentrate feeds such as corn would have to be increased.

Low corn yields in this area have been one of the limiting factors in expanding the hog enterprise. That corn yields can be raised markedly, however, has already been demonstrated by leading farmers and by the experiment stations. But high yields can be obtained only by better rotation, improved cultural practices, and larger outlays for fertilizer. The risks involved in obtaining high yields make it almost imperative that the farmer have larger cash reserves.

The costs of establishing improved pastures and temporary grazing crops vary widely, but the general range of costs, from 15 to 50 dollars an acre, indicate that the capital investment would need to be relatively large on most farms. Such costs may tend to be highest for those farmers with relatively small farms. An intensive livestock enterprise, such as hog production, may utilize all the land released from cash crops for feed crops. Small farmers may find it necessary to clear woodlands or drain lowlands in order to increase their pasture acreage.

How seriously the lack of financial resources will hamper the progress toward needed adjustments on peanut farms will be revealed in the next few years. Such fragmentary data as are available, however, suggest that the problem is a real one for many farmers. The situation in one of the leading peanut counties in the District provides an example. Most farmers in the county have relied heavily upon peanuts for their income and have been increasing their peanut acreage rapidly. The 1949 allotments averaged 21 acres, and two-thirds of the individual farm allotments in 1949 were smaller than 20 acres. The total allotment for 1949 was about one-third smaller than the 1948 acreage.

The large proportion of allotments of less than 20 acres suggests that many of the peanut farmers have small farms, relatively low incomes, and relatively limited financial resources. The characteristics of the farm borrowers at one of the commercial banks in this county seem to confirm this impression. In June 1947 this bank had about 700 farm loans unsecured by farm real estate. Four-fifths of these loans were to farmers who obtained at least half of their total income from peanuts. Farmers with a net worth of less than two thousand dollars had 58 percent of the number of loans to peanut farmers. Farmers with a net worth ranging from two to ten thousand dollars had 41 percent of the total loans to peanut farmers. Only one percent of the peanut farmers borrowing from the bank had a net worth of more than ten thousand dollars.

Practically all of the credit obtained by peanut farmers at this bank was to pay production and living costs. The farmers with a net worth of less than two thousand dollars were apparently using all of their cash resources and most, if not all, of their borrowing ability simply to produce their peanut crop. In view of the capital investments required to develop other enterprises, these farmers face a very uncertain future.

Even on farms where the shift from peanuts will be moderate and where the size of the farm or the farmer's financial resources pose no problems in making adjustments, the level of managerial skill may be a limiting factor. The new farming systems will be more complex than the systems that have depended mainly upon cash crops with a high value per acre. In the past, commercial livestock production has been common on farms with larger acreages. But even the larger farms have not yet attained the efficiency in handling livestock that may be necessary in order to meet competition from other livestock areas. Managerial skills, therefore, must be raised a great deal on the smaller farms.

The Role of Credit

One obvious solution, then, is simply to add more capital, but where is the capital coming from? The rate of capital accumulation on these farms even when peanut prices were favorable and when acreage was not restricted offers little hope that additional capital can come from farm earnings. Additional capital, if it comes, must come from the extension of more credit or by direct grants from the Government. For a particular farm, it is fairly easy to show on paper how more

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credit could result in an increase in farm earnings large enough to amortize the loan and leave a profit for the farm operator. To try to solve the transition problem for the small farmer by simply extending more credit, however, is an entirely different matter.

In the first place, few substitutes will yield as large a return per acre as peanuts. Unless the total acreage were increased, the total farm income would probably be lower. A larger proportion of the total income, furthermore, would be absorbed in returns to capital which the farmer does not own. It should be recalled that it was the cash crop economy with its high returns per acre and its ability to absorb large amounts of labor in relation to capital and land that has helped make the small-size farm possible.

The drastic reductions in acreage allotments only mean that farmers depending almost entirely upon peanuts for their income will be at a decided disadvantage. They do not mean that other enterprises, such as hogs and beef cattle, will be more attractive, in an absolute sense, than they were before acreage restrictions were imposed. Merely shifting from one undertaking to another, whether it is accomplished by the use of credit or otherwise, would not prevent a decline in income unless the shift were made on a farm unit large enough to use all the resources effectively.

According to some estimates, an efficient combination of resources in the commercial peanut area of Georgia and Alabama would require 225 acres of land, 125 acres of which would be in cropland. Peanuts would still be the main cash crop, but the livestock enterprise would be about three times as large as it is now. There are possibilities of using credit, of course, to increase the size of the farm and thereby make the transition from a cash crop system easier. A survey of bank loans to farmers in 1947 indicated, however, that only a very small proportion of the loans secured by farm real estate in the peanut area was for the purpose of buying additional land. Such loans would have to be rather large in relation to the net worth of many farmers. In 1944 the one-family farms in this area had a total value, including machinery and livestock, of about 5,000 dollars. These farmers would need enough credit to enable them to approximately double their present acreage. They would also need enough to make the necessary improvements, such as fencing, and to buy additional livestock. Many of them would probably not be willing to incur such a debt burden with the attendant risk of losing part of their present equity in land.

As farm income declines in the peanut area, more attention will certainly be directed to the so-called "credit problem." This tendency to seize upon the use of more credit or of credit upon more liberal terms as an easy solution to the problems of declining farm income is not new in American agriculture. It has appeared in various forms in nearly all farm depressions. It seeks to treat the effect of declining income rather than the cause.

Banks, however, must think of credit almost entirely in economic terms. Even though more credit is not a substitute for an increase in the size of farms nor for a recombining of resources in farming systems not heavily dependent upon cash crops, total credit needs may expand. If some of the small farms are absorbed by larger farms or if some of the small farmers can buy out other small farmers, the result may be a greater volume of sound farm loans. Banks can contribute greatly in the transition toward the creation of an efficient and profitable farm economy. But it seems clear that they need not necessarily grant more or less credit nor extend credit upon more or less favorable terms.

The most urgent need is for a more discriminating use of credit. Banks can make their greatest contribution, therefore, by properly appraising each loan application on its merits in maintaining or increasing the farmer's income. The cuts in peanut acreage may, in some instances, make it virtually impossible to devise a farming system that will avoid a drastic reduction in income. In which case, some farmers will undoubtedly ask for credit. For many of them, however, the granting of credit would merely prolong an undesirable situation. For others, the use of additional capital obtained by borrowing can make the transition successful. If banks are to encourage a more discriminating use of credit, they must, of course, be prepared to analyze the farmer and his business accurately.

Future Government Programs

Most of the suggested changes in the Government farm programs that have been seriously discussed provide for the continued support of prices on the important cash crops higher than prices that would prevail in a free market. They also provide for the control of production to avoid the accumulation of surpluses. These programs will, their proponents hope, be effective in maintaining farmers' income from cash crops. This type of Government-sponsored monopoly in agriculture will apparently be continued for crops such as peanuts, even though there is considerable evidence that farm income cannot be maintained in this way.

The peanut program, however, is not the only part of the farm program that helps determine what kind of a change peanut producers can and should make in their farming operations. Peanut farmers are concerned not only with the profitable production of peanuts, but also with how a farming system that includes peanuts can be made profitable. A clearly defined farm policy and a frank explanation of its implications by the Government would be of great benefit to growers in making adjustments in their farming systems.

The probable consequences of the present peanut program, for example, could be set forth more clearly. Under the present law the Secretary of Agriculture must determine acreage allotments and marketing quotas by December 2 of the calendar year immediately preceding the crop year to which the determination applies. This practice of announcing acreage cuts for only one year in advance does not give the peanut farmer any information about how much acreage will eventually be cut in order for annual production to move the peanut crop through commercial channels at the support price. At the time the 22-percent cut was announced for the 1949 crop, it was fairly evident that additional cuts would have to be made in succeeding years. Even if the 1950 acreage is reduced by the maximum amount permissable under the present law, another cut will probably have to be made on the 1951 crop.

If the peanut farmer could contract or expand his substitute enterprises on a year-to-year basis, this uncertainty about the peanut program would pose no serious problem. A livestock program, however, usually has to be built up over a four- or five-year period with some definite goal in mind. If the farmer could know now, for example, that his peanut

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acreage would be reduced within the next four years to one-half of the 1948 acreage, he would be in a much better position to plan an expansion of his livestock enterprise intelligently.

A clearly defined policy with respect to support prices on livestock and livestock products would also remove some of the uncertainty now facing the farmer who must reduce his peanut acreage. Most of the proposed farm programs seek to encourage livestock production. If it were possible to know what form this encouragement will take and how extensive it will be, the transition from peanuts to livestock would be much easier. The Agricultural Act of 1948 contained provisions intended to encourage livestock production. Before these provisions could take effect, it was replaced by the Agricultural Act of 1949, which contains similar provisions. There are strong indications that the Act of 1949 may be as short-lived as its immediate predecessor.

A farm price and production control program, regardless of its advantages or disadvantages, should remove at least some of the uncertainty regarding prices and production that prevails in a free market. During the current search for a long-range farm policy, the uncertainties have been so great that this advantage has been lost to a large extent.

Changes in Technology

By most standards of comparison, the peanut industry is relatively young. Improvements are occurring almost constantly in the methods of production, processing, and marketing. Although present indications are that many growers face a rather difficult transition period, changes in technology at any stage of the industry might alter the prospects considerably. Peanut production, like cotton production, has not yet been completely mechanized. The technical problems of mechanizing peanut production, however, apparently have been solved by the perfection of a mechanical picker. If the picker fulfills present expectations, many larger farms will become fully mechanized very rapidly. Since harvesting accounts for a high proportion of the total production costs, complete mechanization should permit a marked decline in the cost of production. With lower costs many farmers might prefer to grow more peanuts even though it meant lower prices. Lower prices would result in a larger consumption for edible purposes and would encourage the development of new commercial uses.

It is doubtful, however, that technological changes will occur rapidly enough to prevent a difficult adjustment for many farmers or to prevent a decline in farm income in the commercial peanut area. Of the positive steps that might be taken to assist peanut growers in solving the problems now facing them, three lines of action appear especially promising. Farmers should be made aware of the probable results of the Government peanut program and should be assisted in developing alternative enterprises. Programs to this end are already being conducted by the state extension services and other agencies. Bankers who serve peanut farmers need to encourage a more discriminating use of credit. Farmers and other persons who help make farm policy need to agree upon some kind of a long-range farm program. How well these needs are met may have an important bearing upon the prosperity of the peanut area during the next few years.

BROWN R. RAWLINGS

Sixth District Statistics

CONDITION OF 28 MEMBER BANKS IN LEADING CITIES
(In Thousands of Dollars)

Item	Nov. 16 1949	Oct. 19 1949	Nov. 17 1948	Percent Change Nov. 16, 1949, from	
				Oct. 19 1949	Nov. 17 1948
Loans and investments—Total	2,420,201	2,390,164	2,312,251	+ 1	+ 5
Loans—Net	866,970	830,767	870,852	+ 4	— 0
Loans—Gross	878,020	841,919	878,419	+ 4	— 0
Commercial, industrial, and agricultural loans	526,447	496,920	555,244	+ 6	— 5
Loans to brokers and dealers in securities	8,556	7,737	7,166	+ 11	+ 19
Other loans for purchasing and carrying securities	33,364	35,394	53,808	— 6	— 38
Real estate loans	72,912	72,427	65,320	+ 1	+ 12
Loans to banks	4,345	3,331	5,517	+ 30	— 21
Other loans	232,396	226,110	191,364	+ 3	+ 21
Investments—Total	1,553,231	1,559,397	1,441,399	— 0	+ 8
Bills, certificates, and notes	466,269	482,873	402,362	— 3	+ 16
U. S. bonds	877,025	874,583	849,729	+ 0	+ 3
Other securities	209,937	201,941	189,308	+ 4	+ 11
Reserve with F. R. Bank	388,011	365,604	500,474	+ 6	— 22
Cash in vault	39,734	40,402	44,160	— 2	— 10
Balances with domestic banks	182,800	185,097	189,766	— 1	— 4
Demand deposits adjusted	1,725,267	1,721,227	1,767,084	+ 0	— 2
Time deposits	538,325	538,763	530,606	— 0	+ 1
U. S. Gov't. deposits	49,745	57,598	39,315	— 14	+ 27
Deposits of domestic banks	524,244	471,329	523,319	+ 11	+ 0
Borrowings	1,000	....	6,500	.....	— 85

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Place	No. of Banks Reporting	October 1949	Sept. 1949	October 1948	Percent Change Oct. 1949, from	
					Sept. 1949	Oct. 1948
ALABAMA						
Anniston	3	23,030	21,573	22,625	+ 7	+ 2
Birmingham	6	320,264	310,900	352,680	+ 3	— 9
Dothan	2	16,216	13,691	15,535	+ 18	+ 4
Gadsden	3	20,340	17,441	20,852	+ 17	— 2
Mobile	5	113,607	121,769	138,265	— 7	— 18
Montgomery	3	85,277	75,514	86,513	+ 13	— 1
FLORIDA						
Jacksonville	4	258,711	251,981	267,476	+ 3	— 3
Miami	7	226,540	205,126	217,083	+ 10	+ 4
Greater Miami*	13	309,987	285,029	308,431	+ 9	+ 1
Orlando	3	47,820	50,718	44,751	— 6	+ 7
Pensacola	3	34,774	33,025	35,265	+ 5	— 1
St. Petersburg	3	54,087	48,258	49,197	+ 12	+ 10
Tampa	6	114,861	107,699	111,551	+ 7	+ 3
GEORGIA						
Albany	3	25,738	21,441	23,995	+ 20	+ 7
Atlanta	4	856,436	804,717	881,944	+ 6	— 3
Augusta	3	61,584	56,007	63,270	+ 10	— 3
Brunswick	2	8,559	8,588	8,785	— 0	— 3
Columbus	4	57,087	53,283	55,819	+ 7	+ 2
Elberton	2	4,433	3,952	5,120	+ 12	— 13
Gainesville*	3	14,804	13,655	16,173	+ 8	— 8
Griffin*	2	11,963	11,139	12,054	+ 7	— 1
Macon	3	58,468	62,069	58,968	— 6	— 1
Newnan	2	9,003	9,930	7,809	— 9	+ 15
Rome*	3	23,849	20,821	25,380	+ 15	— 6
Savannah	4	84,508	83,832	89,062	+ 1	— 5
Valdosta	2	11,317	11,513	12,950	— 2	— 13
LOUISIANA						
Alexandria*	3	32,264	31,967	30,236	+ 1	+ 7
Baton Rouge	3	103,609	103,427	105,229	+ 0	— 2
Lake Charles	3	35,656	36,291	35,735	— 2	— 0
New Orleans	8	685,510	684,108	686,950	+ 0	— 0
MISSISSIPPI						
Hattiesburg	2	18,114	17,579	17,342	+ 3	+ 4
Jackson	3	138,163	134,622	135,959	+ 3	+ 2
Meridian	3	28,950	27,599	31,622	+ 5	— 8
Vicksburg	2	33,073	23,442	32,640	+ 41	+ 1
TENNESSEE						
Chattanooga	3	134,343	132,022	143,384	+ 2	— 6
Knoxville	4	105,189	104,545	115,342	+ 1	— 9
Nashville	6	299,778	292,597	311,353	+ 2	— 4
SIXTH DISTRICT 32 Cities	114	4,075,045	3,929,259	4,185,071	+ 4	— 3
UNITED STATES 333 Cities		101,848,000	101,082,000	107,141,000	+ 1	— 5

*Not included in Sixth District total.

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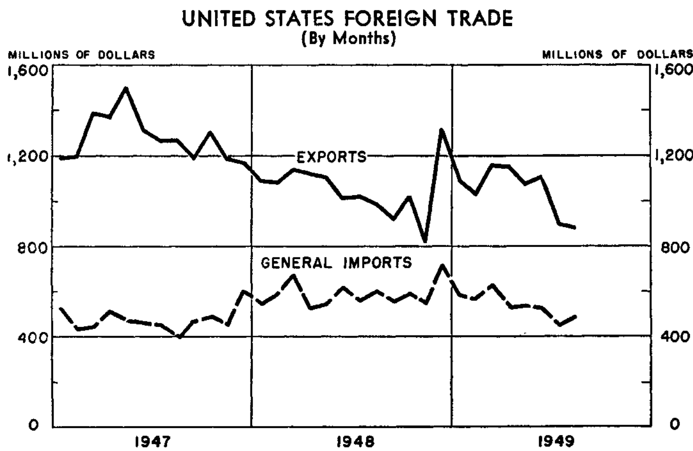
District Business Conditions

The District's Foreign Trade

Sixth Federal Reserve District ports are maintaining a strong position in the nation's foreign trade picture this year, according to data for the first six months. Both water-borne imports and exports through the customs districts of Florida, Georgia, New Orleans, and Mobile were greater during the first half of 1949 than in the corresponding period last year. Moreover, District ports handled a greater proportion of the nation's foreign trade than they did a year ago.

UNITED STATES FOREIGN TRADE
(By Months)



Source: U. S. Department of Commerce

During the first half of this year there was a substantial growth in the value of the nation's exports, but the value of imports declined. Exports were up 8 percent in value from the last half of 1948 and one percent greater than they were in the first half. By way of contrast, the value of exports through District ports for the first six months of this year was 16 percent greater than that for the first half of 1948. Despite the growth, the rate of exports from the District, like the rate for the country as a whole, fell below the 1947 record.

The import side of the picture is less encouraging. After having advanced to a peak in the latter half of 1948, the country's imports slipped off during the first half of this year to fall 6 percent below the total for the preceding six months and 4 percent below the figure for the first half of last year. Imports by vessel through District ports, however, expanded 6 percent in the first six months of this year, compared with the first half of last year.

As a result of these developments, it is estimated that 11 percent of total American exports and 8.4 percent of total imports went through District states. Comparable percentages for the first half of last year were 9.5 for exports and 7.9 for imports.

These value data, of course, reflect price changes and tell little of the changes in commodities handled or in the direction of trade. After price declines are taken into account, total American export trade increased 13 percent in volume from the immediately preceding half year. Imports, instead of showing a decline, increased 5 percent.

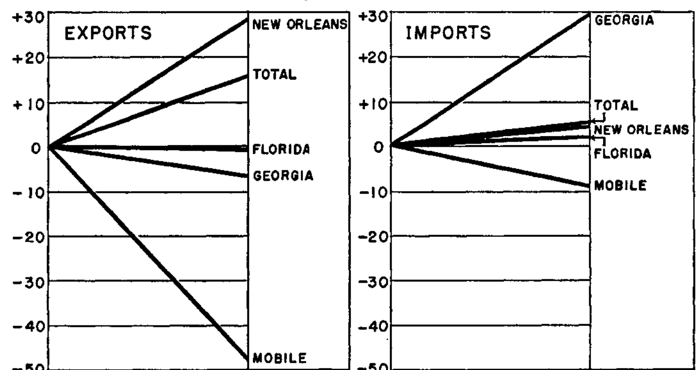
COTTON EXPORTS IMPORTANT. Neither do the total value figures show that the growth in total exports over last year was largely because of a growth in agricultural exports and that non-agricultural exports declined. Moreover, one of the chief reasons for the greater export value of agricultural commodities was the shipment of over two and a half times as many bales of cotton during the first half of this year as in the corresponding period last year. The quantity of textile fibers and manufactures exported through the Port of New Orleans alone was over three and a half times as great during the first quarter of this year as during the first three months last year. This growth is one reason why the District's position improved because a large part of the cotton exported passes through District ports.

EUROPE AND SOUTH AMERICA. The greater part of this cotton went to Europe, where it accounted for part of the 4-percent increase in American exports. American trade with Latin American countries, on the other hand, declined with exports to southern North America down 9 percent from the first half of last year and those to South America down 15 percent. Imports from Europe were up 2 percent, but those from South America were down 10 percent.

The drop in South American trade was reflected in the report of the quantity of exports handled through the Port of New Orleans during the first quarter of this year. Chile, Ecuador, Peru, and Brazil were practically the only South American countries to which a greater quantity of goods was exported. Greater exports of cotton and flour were chiefly responsible, by and large, for keeping up exports to those countries.

THIRD QUARTER DECLINES. Both total American exports and imports declined during the third quarter of this year. According to the July and August figures, exports fell 20 percent from the average for the preceding quarter and 11 percent from the corresponding period last year. Imports were down 11 percent from the second quarter and 16 percent from last year.

PERCENT CHANGE IN VALUE OF WATER-BORNE IMPORTS AND EXPORTS THROUGH EACH CUSTOMS DISTRICT, 1949 FROM 1948, FIRST SIX MONTHS



Obviously, foreigners are buying lesser amounts of American goods—not because they do not want them, but rather because they cannot pay for them. Declining exports to the United States and loss of dollar reserves for other reasons have led several countries to impose additional restrictions on their imports. Whether they lift these restrictions and open their markets wider to American goods will depend upon how much American buying from them increases.

The future of the District's foreign trade is closely linked with that of the whole country. Those in this area who are interested in developing its foreign trade, consequently, are very much concerned with the declining trend of imports.

C. T. T.

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Industry and Employment

COAL MINING in Alabama, Tennessee, and in other parts of the country had been resumed at mid-November on a temporary basis. Steel mills were also resuming operations after having been inactive since October 1.

THE VALUE OF CONSTRUCTION CONTRACTS awarded in the District increased sharply in October to the largest total for any peace-time month except September 1941. According to F. W. Dodge Corporation statistics, the District total of 134 million dollars was 53 percent greater than that for September and was 73 percent greater than that for October last year. In Tennessee there was a gain for the month of 20 million dollars, in Florida the total was up 12 million dollars, and in Louisiana the value of contracts increased 9 million dollars. In the other three states there were increases in smaller amounts. In Tennessee, October contracts were nearly three times the total for October last year, and in Alabama the total was more than twice as large.

Residential contracts in the District increased in October to a new monthly record. They were 11 percent larger than in September and 56 percent larger than in October 1948. For the first ten months of 1949, residential awards were 7 percent greater than in that part of 1948, with state increases shown for Alabama, Georgia, and Mississippi. The larger part of the October gain, however, was in non-residential awards, which more than doubled from September to October and were 88 percent greater than a year ago.

COTTON TEXTILE MILL ACTIVITY, based on the daily average consumption of cotton, increased only slightly in October after a two-month rise of 54 percent for August and September from the midsummer low in July. October consumption at District mills was 4.6 percent greater than it was in October last year, and was the largest since September 1948.

ELECTRIC POWER PRODUCTION in the Sixth District states increased 1.6 percent further in September and was 8.5 percent greater than a year earlier. September production was up 6.5 percent above the year's low, reached in May. Hydro-generated current increased 2.7 percent in September, and fuel-generated power was up only slightly. Hydro-generated power accounted for 53.4 percent of the total—a year ago it accounted for only 37.5 percent of the total. The September increase in hydro-generated power was principally in Tennessee.

EMPLOYMENT in District manufacturing industries increased nearly 2 percent in September following a similar gain in August. There had been a decline each month from November 1948 through July. The September index for the District was still 7.1 percent below that for last November. There were September increases in each state except Louisiana.

Of the six states, Mississippi and Florida had the largest gains from August to September and Florida had the only increase over September 1948. In Florida there was also an increase of about one-third in employment at boat- and shipbuilding and repair plants because of an increase in repair work. Employment increased 13 percent in fabricated metal products in anticipation of the citrus canning season, and employment in canning and preserving was up 8.3 percent. Shipbuilding employment declined in Alabama, Louisiana, and Mississippi; but textile employment increased generally in the District; and there were gains in chemicals and allied products, in apparel, and in paper and paper products.

D. E. M.

Sixth District Indexes

DEPARTMENT STORE SALES*

Place	Adjusted**			Unadjusted		
	Oct. 1949	Sept. 1949	Oct. 1948	Oct. 1949	Sept. 1949	Oct. 1948
DISTRICT	376	367	404r	395	381	424
Atlanta	376	407	462r	414	452	509
Baton Rouge	414	425	463r	427	472	477
Birmingham	319	356	401r	335	381	421
Chattanooga	320	329	365r	336	352	383
Jackson	364	371	398r	415	438	453
Jacksonville	511	387	459r	547	383	492
Knoxville	349	386	413r	363	394	429
Macon	307	313	372r	332	356	401
Miami	467	406	428r	429	329	393
Montgomery	307	304	390r	338	322	428
Nashville	394	413	453r	418	425	480
New Orleans	350	339	359r	364	360	374
Tampa	606	490	488r	618	471	498

DEPARTMENT STORE STOCKS

Place	Adjusted**			Unadjusted		
	Oct. 1949	Sept. 1949	Oct. 1948	Oct. 1949	Sept. 1949	Oct. 1948
DISTRICT	347	337	372r	379	347	406
Atlanta	462	437	480r	536	477	556
Birmingham	262	252	303r	288	264	333
Montgomery	375	421	398r	449	404	478
Nashville	519	477	551r	571	511	608
New Orleans	328	306	343r	338	309	353

GASOLINE TAX COLLECTIONS***

Place	Adjusted**			Unadjusted		
	Oct. 1949	Sept. 1949	Oct. 1948	Oct. 1949	Sept. 1949	Oct. 1948
SIX STATES	217	214	197	213	218	193
Alabama	220	215	203	218	225	201
Florida	194	188	177	176	184	161
Georgia	226	211	179	223	221	177
Louisiana	242	242	229	248	254	235
Mississppi	209	207	191	213	213	194
Tennessee	212	219	208	211	223	207

COTTON CONSUMPTION*

Place	Oct. 1949	Sept. 1949	Oct. 1948
TOTAL	137	137	131
Alabama	149	154	136
Georgia	135	133	132
Mississippi	85	80	93
Tennessee	115	107	115

ELECTRIC POWER PRODUCTION*

	Sept. 1949	Aug. 1949	Sept. 1948
SIX STATES	370	364	341
Hydro-generated	349	340	226
Fuel-generated	398	396	493

MANUFACTURING EMPLOYMENT***

Place	Sept. 1949	Aug. 1949	Sept. 1948
SIX STATES	141	139	151
Alabama	143	140r	155
Florida	132	129	132
Georgia	136	134	147
Louisiana	149	150	153
Mississippi	141	133r	149
Tennessee	144	143r	159

CONSTRUCTION CONTRACTS

Place	Sept. 1949	Aug. 1949	Sept. 1948
DISTRICT	418	413	395
Residential	746	672	411
Other	260	287	387
Alabama	486	373	415
Florida	478	446	398
Georgia	485	511	519
Louisiana	423	407	375
Mississippi	170	353	280
Tennessee	461	405	272

CONSUMERS PRICE INDEX

Item	Oct. 1949	Sept. 1949	Oct. 1948
ALL ITEMS	172	174	177
Food	203	208	215
Clothing	192	193	206
Fuel, elec., and refrig	136	135	138
Home furnishings	182	182	195
Misc.	155	155	152
Purchasing power of dollar	.58	.57	.56

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	Oct. 1949	Sept. 1949	Oct. 1948
Unadjusted	20.4	19.6	21.1
Adjusted**	19.4	20.4	20.1
Index**	78.6	82.7	81.6

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	Oct. 1949	Sept. 1949	Oct. 1948
Unadjusted	313	281	295
Adjusted**	314	284	296

* Daily average basis
** Adjusted for seasonal variation
*** 1939 monthly average = 100; Other indexes, 1935-39 = 100
r Revised

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Growth in Bank Loans

Member banks in the District loaned enough during October to more than offset repayment of loans already outstanding. Total loans outstanding rose 44 million dollars during the month to reach an all-time high of 1,550 million dollars at the end of October. Loans expanded more than seasonally during October in every state of the District except Louisiana. Weekly reports from the banks in leading cities indicate that there was a further expansion in November and that greater business and agricultural loans are responsible for most of the increase. Before September, total loans outstanding declined each month.

Both the recent increase and the preceding decline were partly in response to seasonal influences which have operated each year since the end of the war. Loans have declined seasonally during the first seven months of each postwar year to reach their lowest level at the end of August. During the remaining months they have expanded rapidly and reached a peak in December. This year, economic conditions in the District apparently have made the decline during the first part of the year greater than usual. Moreover, the recent increase is greater than was expected on a purely seasonal basis.

Retailers are the most important group of borrowers from Sixth District banks. When a survey was made three years ago, their loans made up about 40 percent of all District business loans. Retailers need more credit during the last quarter of the year because they are building up inventories in anticipation of heavy holiday sales. They also need more credit to finance some of the sales they make to consumers. Retail inventory and credit policies, therefore, exert considerable influence on the level of bank lending.

During the first part of 1948, retailers followed a cautious inventory policy. By the end of July, department stores in the District reported that on a seasonally adjusted basis their inventories were 13 percent less than at the end of 1948 and their sales were about 4 percent below the level of the corresponding period in 1948. Beginning in September, the stores increased their inventories until by the end of October, they were 9 percent greater than they were at the end of August.

Besides needing funds to finance inventories, some retailers need help in financing their expanding instalment sales. Instalment sales at Sixth District department stores during October, for example, were 57 percent greater than during October last year, although open credit sales were down 13 percent and total sales declined 7 percent. Retailers selling durable consumer goods who turned to banks for help in financing their sales during October raised the volume of non-automotive instalment paper purchased 37 percent from October last year. The amount outstanding rose 51 percent.

Financing of Commodity Credit Corporation cotton and peanut loans has increased loans outstanding during the last quarter of each postwar year. However, judging from the experience of banks in the leading cities in Georgia and Tennessee, not more than 10 percent of the increase in commercial and industrial loans at these banks so far can be explained by increased holdings of certificates of interest on cotton and peanut loans.

If lending follows the seasonal pattern established since the war, member bank loans will advance further in December and will decline again after the first of next year. How great the decline will be will depend partly on the inventory and credit policies which will be based upon the sales experience of retailers during November and December. C. T. T.

Farm Income

District farmers received about 4 percent more from farm marketings in the first nine months of this year than in the comparable period of 1948. Income from the sale of crops during the nine-month period was nearly 13 percent larger than it was last year, but livestock income was nearly 8 percent smaller. The decrease in the income from livestock resulted primarily from lower prices and was of about the same magnitude as the decrease for the whole nation.

Crop income was larger in Alabama, Mississippi, and Louisiana largely because of the carryover of 1948 crop cotton into this calendar year. Higher citrus prices account for most of the 30-percent increase from the sale of crops in Florida.

Percent Change in Farm Income 1949 from 1948, First Nine Months

Area	Livestock	Crops	Total
Alabama	— 1.4	+ 3.1	+ 1.0
Georgia	+ 1.6	— 6.9	— 3.4
Florida	—10.2	+30.2	+17.6
Louisiana	—10.2	+13.1	+ 3.9
Mississippi	—14.8	+38.9	+17.2
Tennessee	—10.7	— 7.0	— 9.3
Six States	— 7.6	+12.8	+ 3.8
United States	—11.2	— 3.9	— 8.3

Although the gains in farm income for the first nine months of this year provide some information on District farmers' economic position, they do not indicate that farm income will be larger in 1949 than in 1948. In Georgia, Alabama, Mississippi, and Louisiana nearly half of the annual income is received during the last quarter of the year when most of the cotton and peanut crops are sold. Declines in the value of these crops will probably be great enough to reduce the 1949 farm income 10 to 20 percent from 1948 in these states. The decline in Tennessee farm income will be relatively small since the cotton crop this year will be nearly as large as it was last year and since the agriculture there is more diversified. Only in Florida will the 1949 farm income be larger than in 1948. B.R.R.

Bank Announcements

During November two banks, located in territory served by the Jacksonville Branch, were added to the Par List. One was the Citizens Bank of Clermont, Clermont, Florida, a nonmember bank, which began remitting at par on November 1. This bank has a capital of $50,000, surplus of $50,000, undivided profits of nearly $15,000, and deposits of about $2,000,000. Its officers are Charles R. Short, President; A. A. Futch, Executive Vice President; E. K. Brockway, Vice President; H. K. Stokes, Vice President and Cashier; and Francis W. Brown, Assistant Cashier.

The other addition to the Par List in November was the Bank of Zephyrhills, Zephyrhills, Florida. This is a newly organized nonmember bank which was opened for business on November 11 and began remitting at par on that date. This bank has a capital of $50,000, surplus of $15,000, and undivided profits of $10,000. The officers of the bank are C. H. McNulty, President; N. Ray Carroll, Vice President; Vincent Peel, Vice President and Cashier; and Elizabeth Peel, Assistant Cashier.

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National Business Conditions

OUTPUT and employment at factories and mines decreased in October but increased in the latter part of November. New construction activity was maintained at a high rate in October and the first half of November. Department store sales showed a less than seasonal increase. Commodity price changes continued to be relatively small. Prices of common stocks and bonds generally advanced.

Industrial Production

The Board's seasonally adjusted index of industrial production was 166 percent of the 1935-39 average in October, compared with 174 percent in September and 170 percent in August. Following settlement of the steel labor dispute and resumption of operations at bituminous coal mines, total industrial production has increased in November.

Activity in durable goods industries declined about 12 percent in October. The decrease reflected mainly sharp curtailment in output at blast furnaces, steel works, and rolling mills. Steel ingot production was reduced from a rate of 84 percent of capacity in September to 11 percent in October. Since early November, however, ingot production has increased again and during the fourth week was scheduled at 78 percent of capacity. Activity in iron and steel fabricating industries declined only slightly in October, but in early November apparently was reduced considerably mainly as a result of temporary steel shortages. Owing in part to model change-overs the number of passenger cars and trucks assembled was reduced from the record September rate by about one-tenth in October and by one-fifth in the first three weeks of November. Deliveries of copper to fabricators increased sharply in October and output of furniture, electrical appliances, and most building materials continued to advance.

Output of nondurable goods showed a further rise in October as a result mainly of substantial increases in the textile, paper, and printing industries. Activity in these lines in October was generally at about the high levels prevailing last autumn. Output of petroleum products also increased in October but in early November was curtailed because of large stocks. Activity in most other nondurable goods industries in October showed little change.

As a result of work stoppages at bituminous coal and iron mines, minerals output declined considerably further in October. Anthracite production, however, increased substantially and crude petroleum output continued to expand. In November, bituminous coal production has advanced sharply.

Construction

Value of construction contracts awarded in October, according to the F. W. Dodge Corporation, was maintained at the exceptionally high September level. Increases in public awards, following declines in August and September, offset small declines in awards for most types of private construction. The number of residential units started in October, as estimated by the Bureau of Labor Statistics, was 100,000, the same number as in September and 27,000 more units than in October 1948.

Employment

Employment in nonagricultural establishments declined 2 percent in October owing mainly to reductions in durable goods manufacturing, mining, and transportation industries as a result of the steel and coal labor disputes. Unemployment rose one-quarter million in early October.

Distribution

Department store sales were 275 percent of the 1935-39 average in October, according to the Board's seasonally adjusted index, compared with 289 in September and an average of 286 for the first nine months. In the first three weeks of November, sales were 6 percent below year-ago levels when the sales index for the month was 290.

Shipments of railroad revenue freight declined considerably in October reflecting chiefly sharply curtailed shipments of coal, iron ore, and steel products. Loadings increased in the middle of November, reflecting mainly sharp gains in coal shipments; loadings of miscellaneous freight showed a moderate expansion.

Commodity Prices

The average level of wholesale commodity prices declined somewhat further from mid-October to the third week of November, reflecting chiefly seasonal decreases in prices of livestock and meats. Spot prices of apparel wool, lead, and tin also declined owing in part to earlier reductions in foreign markets, while coffee prices showed a sharp increase. Steel scrap prices rose above pre-strike levels and prices of some additional domestic industrial products were advanced in November.

Bank Credit

Business loans at banks in leading cities continued to expand seasonally during October and the first half of November. Loans on real estate and loans to consumers also increased. Holdings of United States Government securities rose during October but subsequently declined early in November.

A small reduction in gold stock and a seasonal outflow of currency into circulation tended to reduce member bank reserves in the first three weeks of November. Federal Reserve Bank credit expanded, however, reflecting primarily purchases of Government securities by the System.

Security Markets

A steady rise in prices of most long-term Government bonds during the first three weeks of November has been accompanied by a moderate increase in prices of high-grade corporate bonds. Common stock prices have fluctuated around the new high level for the year reached in early November. New corporate security issues have continued in small volume.

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