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Incomes Policies: A Quick Critique

A high and growing level of employment, low unemployment, a stable price level, a high rate of economic growth, and a reasonable balance of international payments are five economic objectives that have top priority in almost all countries. There are numerous economic policies or tools available to any government for use in achieving these goals. Indeed, they comprise a broad spectrum of policy measures, ranging from direct intervention in the economy to very broad and general measures that affect the economy in a primarily indirect manner. Some relatively new measures that have recently received increasing attention in this country are the incomes policies.

This article focuses on incomes policies. To provide background, however, it begins with a brief discussion of more conventional policies and notes some of their alleged deficiencies. These problems have led to development of incomes policies in some nations and, more recently, to calls for such a policy in the United States. The article points out in general terms what actions might comprise an incomes policy and asks how well incomes policies have worked in actual experience, especially with regard to their generally accepted purposes.

More Conventional Policies

On one end of the spectrum of economic policies are two general or aggregate tools—monetary and fiscal policies. Essentially, both monetary and fiscal policy actions indirectly affect the economy. They are designed to *influence* the economic decisions of individuals, rather than actually dictate the decisions. These policies do not determine directly the incomes most of us earn or the prices we pay for our purchases. There are exceptions, of course. Certainly, the income of a person who entirely depends upon Social Security would vary directly with government action. Nevertheless, these policies usually operate indirectly, rather than directly, on our economic decision-making.

Monetary policy in the United States is determined and carried out by the Federal Reserve

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System. By adjusting the supply of reserves available to banks, the Federal Reserve can affect the supply of money and available credit in the economy. This, in turn, affects the price of credit, the investment decisions of investors, and the purchasing power of consumers. Thus, total spending in the economy can be spurred either to absorb unused capacity or can be restrained to relieve the pressure on an inflationary economy.

Fiscal policy operates primarily through the budgetary activities of the Federal Government. By increasing or decreasing its own expenditures, the Government directly adds to or detracts from total spending. By lowering or raising taxes, the spending power of the private sector of the economy is increased or decreased.

Calls for Controls

Until recently, general monetary and fiscal policies have carried the burden of the fight against inflation in the United States. They have not been without opposition, however. Some critics contend that, because of the complex and indirect channels through which monetary policy operates, it is effective in cooling an overheated economy only after a long delay. Many observe that, for various reasons, monetary policy discriminates between various sectors of the economy. For example, in a period of scarce credit, housing and state and local governments are usually placed under greater strain than are other sectors.

Fiscal policy is assailed because of the time required to make policy adjustments. Even if changes in expenditures and taxation are effective policy instruments, they usually require Congressional action, which is not always rapid and may be influenced by political considerations.

Worse still, many critics argue that *even if* restrictive monetary and fiscal policies were effective in curtailing excess demand, they would still not be sufficient to stop the spiral of price increases. Thus, we are told that the nation will end up with the worst of all possible worlds—inflation and high unemployment. The current pressures on prices, according to critics, come from the cost or supply side of markets, and monetary and fiscal policies are not effective in fighting this "cost push" aspect of inflation. How can this be?

There are several reasons why prices may not respond immediately to reduced demand. First, much of the economy is not characterized by numerous, highly competitive small firms, a necessary condition for what economists call "perfect competition." Instead, the economy contains many firms which may have considerable influence over the prices they charge. Once these firms have set a price, they are reluctant to reduce it. Cuts in production are preferred to price cuts when output cannot be sold at existing prices. Also, demand slowdowns are often accompanied by rising costs. Despite production cuts, some companies may be initially reluctant to lay off trained personnel for fear of losing them to other companies. As output falls, output per man-hour, or productivity, tends to fall. At the same time, workers attempt to catch up with past inflation by demanding wage increases. With productivity declining and wage rates rising, unit labor costs of output rise. Thus, even in the face of declining demand, there remain pressures to keep prices from falling.

Eventually the decline in output and rising costs lead to layoffs. Unemployment rises. Unit labor costs begin to fall or rise more slowly. Productivity increases. Companies undertake other cost-cutting procedures. But with continued pressure on wages, the results of these efforts come slowly. Prices may continue to rise for a time. Also, unemployment may continue to rise until workers locate existing job vacancies or until growth in the economy is sufficient to provide new jobs for the unemployed.

Critics of restrictive policies found support for their views in the economic development of the past six or nine months. For a painfully long time, prices seemed to have continued a relentless rise; unemployment has increased; and the economy has behaved sluggishly. Despite recent indications of better price performance, cries are still heard for different policies, either to obtain or to speed the necessary economic adjustments. But what other policies are available?

Recall that monetary and fiscal policies lie at one end of the spectrum of economic policies. At the other end lie direct or compulsory controls. These policies *directly* affect many of the economic decisions of individuals. In general, they are designed to fix specific prices, wages,

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profits, credit, or perhaps even types of production, especially during periods of inflation. The individual businessman would be prohibited from charging more than a certain ceiling price for his product. The individual worker could not receive more than a ceiling wage for his labor services. The individual consumer also might be prohibited from purchasing an item for which he does not have sufficient rationing points.

Clearly, such policies greatly interfere with freedom of choice. In addition, they substantially distort the workings of a free enterprise economy. Usually, these policies require a large bureaucracy merely to implement the controls. Because they are fixed, prices cannot perform their vital role as signals to producers and consumers, and cannot direct productive resources into areas of greatest demand. Consequently, compulsory controls not only hinder individual freedom but also undermine efficient production processes. As a substitute for well-conceived, responsible monetary and fiscal policies, direct controls are not particularly attractive. Even worse, historical experience has shown that they do not eliminate, but only temporarily suppress, the basic causes of inflation. For example, direct controls could not offset ill-conceived, irresponsible monetary or fiscal policies.

Incomes Policies

The undesirability of compulsory controls has led most critics to seek milder measures. Most often, they have urged that wage-price guidelines be established for the United States economy. This measure has been sought *as a supplement to, not a replacement for,* corrective monetary and fiscal policies. Critics maintain that guidelines would assist the more general measures by shortening the time required for them to slow the rise in prices and thus prevent at least some of the rise in unemployment. Guidelines would assist in offsetting cost-push pressures.

Wage-price guidelines are one variation of another type of economic policy, *incomes policies.* During the 1960's, incomes policies of various sorts were employed to help achieve the goals of stabilization policy in numerous countries. These policies vary from country to country in both objectives and methods, and there is no generally accepted definition of an incomes policy. In the spectrum of economic policies, they fall somewhere between the general or indirect monetary and fiscal policies and direct, compulsory controls. Incomes policies seldom involve actual direct controls but often restrain the more or less free reins allowed by general monetary and fiscal policies.

Most incomes policies are designed to reconcile the economic goals of individuals (such as higher profits by managers and businessmen) with the economic goals of the nation as a whole (such as stable prices). Usually an incomes policy is primarily concerned with the advance of the *general* price and wage levels, rather than with wages and prices in particular industries.

In some countries, the government not only defines acceptable limits for overall increases in wages, prices, and profits but also sets a more or less exact criterion for the distribution of incomes among the various categories of income recipients. For example, the government might decide that, in the aggregate, wage earners should receive 65 percent of the national income.

One reason for the difficulty in defining an incomes policy is the different emphasis given to the various objectives of these measures in several nations. Rather than attempt a general definition, let us look at three varieties of an incomes policy that have been used in the Netherlands, the Scandinavian nations, and the United States. This will highlight the variations in the approaches and also permit us to draw some conclusions about the effectiveness of these policies.

Incomes Policy in the Netherlands

Among the Western nations, the Netherlands has had one of the strongest incomes policies. The dependence of the nation's economy on foreign trade has resulted in extraordinary cooperation between trade unions, business, and the government. All have realized the importance of maintaining the country's international competitive position; all have been willing to accept an incomes policy.

After World War II, the Netherlands faced the task of rebuilding its economy. To assist in ac-

complishing the reconstruction without sacrificing its international competitive position, a strong incomes policy was adopted. Wage- and price-fixing machinery was established. Although controls were compulsory, they were greeted by an exceptional spirit of cooperation between all sectors of the economy. In 1945, the Labor Foundation was established to formalize cooperation between labor and management. In the same year, an Extraordinary Decree on labor relations set up a Board of Mediators with the power to fix wages and determine rules governing wage changes. The Board was also given the power to administer penalties and sanctions. However, the Board was required to seek the advice of the Labor Foundation and, in practice, generally followed its recommendations.

In 1950, another organization was established—the Social and Economic Council. The Council is comprised of equal representation from government, business, and labor. Whereas the Labor Foundation is concerned primarily with wage policy on the industry level, the Council focuses on broader, national objectives (including the distribution of income).

Among the Western nations, the Netherlands has had one of the strongest incomes policies.

Between 1945 and 1954, wages were controlled in the Netherlands. No increases were allowed without permission of the Board, and wage boosts were allowed only for cost-of-living increases. Some differences were allowed, however, where job skills differed, in order to induce workers to advance. Since economic recovery was underway, wages as a share of Gross National Product fell during this period.

In 1954, the Council developed a new policy. Rather than merely maintaining the purchasing power of wage earners, real wages would be allowed to increase. Wages as a share of GNP would remain constant. Overall wage increases were negotiated on this basis, largely through collective bargaining. Wage differentials between jobs, however, were permitted to increase.

A new government in 1959 instituted yet another new policy. Emphasis was shifted from economy-wide wage adjustments to changes by particular industries. Wage increases in each industry were tied to productivity advances in that industry, as estimated by the Board of Mediators. Industries with higher-than-average productivity advances had to pass on some of the advances in the form of both lower prices and higher wages. Falling prices in high productivity industries meant that wage increases could be granted in industries with slow productivity growth and reflected in higher prices without affecting overall prices.

The task proved too difficult for the Board of Mediators, and dissatisfaction with the estimates grew. Accurate estimates of productivity increases by industry are difficult to estimate. Also, rapidly rising wages in other nations put pressure on the Board's standards. Labor demand in the Netherlands was high and wages actually paid often exceeded approved levels.

By 1963, the program had to be changed again. Responsibility for individual negotiations was shifted to the individual firms and unions. Settlements were submitted for approval to the Labor Foundation, which in turn was influenced by the Economic and Social Council's assessment of the economic climate and acceptable wage increases. The Board of Mediators entered the process only if the Foundation disapproved specific settlements, but the Board did retain formal powers to control wages.

These new arrangements did not last; the same demand pressures developed again. In 1967, the entire system was dropped and free negotiations were permitted. The government, however, still retains the power to invalidate individual agreements.

But what about prices? Throughout the postwar period, the government also had extensive legal control over prices. However, the threat of control was sufficient in itself, and actual pricing policies were based almost entirely on voluntary cooperation between the government and business.

Price policy was actually carried out by the Ministry of Economic Affairs. The Ministry received advance notice of price increases for all goods and services, along with the justification for these price hikes. If the Ministry did not approve, it usually requested that they be rescinded. If this failed, legal powers were available to force a rollback.

Throughout the postwar period, price and wage policies were closely coordinated. For example, in 1951, prices were raised by 10 percent, but wages by only 5 percent, in order to restore ex-

ternal balance. A 5-percent wage increase in 1964 was passed on into a 5-percent price increase. These close policy links provided the Netherlands' government with considerable influence over wage and profit incomes and the uses to which income was put. Investment expenditures were stimulated, while consumption was minimized.

In summary, the Netherlands moved from a policy of virtually direct controls to progressively less restriction until 1969.[1] There is reason to believe that the policy greatly aided the nation to achieve a stable reconstruction without seriously eroding its international competitive position. As the recovery proceeded, the vital cooperation between economic sectors began to diminish, and the government's ability to rely on voluntary restraint dissipated. Free market forces finally dominated.

Throughout the postwar period, price and wage policies were closely coordinated in the Netherlands.

The Scandinavian Experience

Among the Scandinavian nations, Norway's incomes policy most closely resembles that of the Netherlands. Both nations faced similar problems. Direct government regulation was relied on to speed postwar recovery without damaging the international competitive position. Price and profits controls were extensively utilized in Norway, but since then have been progressively relaxed. Compulsory arbitration of labor disputes was employed until 1952. However, the various economic policies have not been so closely coordinated as in the Netherlands. Wage negotiations, conducted on a national level between union and management groups, usually set patterns for industry- and firm-level negotiations. The government does not enter directly into the negotiations but, rather, merely announces what it considers acceptable settlement limits. Throughout most of the 1950's, government influence was used sparingly. But in 1968, compulsory arbitration was reinstated to settle stalled negotiations. On the whole, government intervention in the economy was not quite as detailed as in the Netherlands; however, it has remained somewhat stronger.

Among the Scandinavian nations, Norway's incomes policy most closely resembles that of the Netherlands. . . . Sweden presents a slightly different picture.

Sweden presents a slightly different picture. The government's policy maneuvers in that country have been intermittent. The manual labor force and the white collar labor force are organized into two separate unions, and consequently, it has been more difficult for nationwide bargaining to achieve settlements consistent with national economic objectives. As in Norway, Sweden's formal administrative framework is not as elaborate as in the Netherlands.

Beginning in 1948, the Swedish Government urged unions and management to use a policy of wage restraint in order to achieve price stability. Dividend limitations and higher profits taxes were coupled with the request. The policy worked fairly well from 1949 to the Korean War boom, but in 1952, both wages and prices rose more than 29 percent, and the wage restraint policy was dropped by the government and by the unions. In 1953 and in 1954, the policy was reinstituted, but under the pressure of stronger demand again failed in 1955. Moderate national settlements characterized the second half of the 1950's. The reason was probably reduced demand for labor and goods, rather than union restraint. Prices remained reasonably stable.

The 1960's policy saw little change in Sweden. Central negotiations still set the national pattern for wage settlements. However, strong demand for labor and other factors resulted in local wage payments which have exceeded centrally negotiated settlements. In the latter part of the decade, the government appointed an arbitration committee to aid in settling stalled central wage negotiations.

In general, Sweden's incomes policy has been much milder and more intermittent than those

[1]Recently, this trend has been reversed. In 1969 and 1970, the Netherlands' government used price controls with varying degrees of effectiveness. These have now been extended in the form of guidelines until March 1971. Also, the budget proposal for 1971 provides for a temporary wage freeze.

of the Netherlands and Norway. Legal fixing of prices, profits, or wages was not used. Price stability was sought by efforts to hold down wage increases, but compulsory arbitration was not employed. However, this policy has probably been less effective. Substantial wage and price increases have occurred, and during periods of strong demand the policy has been dropped. However, in the face of excess demand, a general price freeze is now being employed.

The United States—Wage-Price Guidelines

The problems and the policy in the United States have been different. Postwar reconstruction was not necessary, and the balance of payments, although a matter of concern, is less important to the total economy. There were, however, two other problems. The 1950's were characterized by slow growth and persistently high unemployment, with the unemployment rate averaging a staggering 6.8 percent in 1958 and 6.7 percent in 1961. Prices during the period remained relatively stable, however.

The task in the early 1960's was to stimulate growth and employment without inducing inflation. Expansionary fiscal and monetary policies were used to spur the growth. To accompany these policies, the 1962 Economic Report of the President announced a set of wage-price guideposts. The statement noted the inflationary bias built into the institutions of the economy, such as the ability of large corporations to offset union-negotiated wage increases by raising prices. Many prices were not determined by competitive market forces, but were "administered." A vigorous application of wage-price guideposts might overcome this bias.

The Report noted that the change in productivity is the basic guide as to whether or not an increase in wages or prices is inflationary. Money wages can increase at the same rate as the overall rate of increase in productivity in the economy without raising the labor cost per unit of output. Thus, the wage increases would not be inflationary. If the rate of productivity in a particular industry is greater (less) than the overall rate, and if its money wages increase equaled the overall rate, the unit labor cost would fall (rise) in that industry. In this case its prices should be lowered (raised). There could be exceptions. For example, rapidly expanding industries might need to bid wages up in order to attract workers, while contracting industries would pay relatively less.

This policy was entirely voluntary. Direct government control of prices and wages was never threatened. However, the persuasive power of the government can still be great. Unjustifiably large wage settlements and price increases were called to the public's attention in order to mobilize public opinion. Shifts in government contracts, the possible freeing of government stockpiles, and the ever-present possibility of antitrust action were powerful incentives for business and labor to accept the guideposts.

The policy worked reasonably well so long as there was unemployment and excess capacity. As demand increased, however, so did pressure on wages and prices. By 1966, transportation and automobile wage settlements, among others, exceeded the guideposts. In 1967, average hourly compensation in the private sector of the economy rose by 6 percent and consumer prices by about 3 percent. The guideposts began to crumble under the weight of excess demand. The 1967 and 1968 Economic Reports of the President recognized the collapse of the policy. Without the threat of compulsory controls, the guideposts could not be enforced. With the guideposts ineffective, the government fell back on conventional monetary and fiscal policies to combat the inflation which resulted from the overheated economy.[2]

The problems and the policy in the United States have been different.

Success or Failure?

A review of the experience with incomes policies suggests that they have not been an unqualified success. Nevertheless, there have been instances when inflation probably would have been more severe if some form of incomes policy had not been in effect. These experiences suggest that

[2]Recently, the President established a National Committee on Productivity, with representatives from labor, business, the public, and the government. The Council of Economic Advisers now prepares reports that spotlight significant areas of inflation. Government purchases and regulations are under review for possible inflationary impact. It remains to be seen whether or not these actions will reduce inflation.

An essential requirement is that an incomes policy must be accompanied by appropriate monetary and fiscal policies.

such a policy is more likely to succeed if certain conditions are present.

An incomes policy seems more likely to hold down wage and price advances in an economy that is less than fully employed than in an economy in which there are few unused resources. Although there is an absence of general demand pressures in an underemployed economy, there may be cost-push pressures in some sectors. This type of policy could be useful in discouraging wage and price increases resulting from the concentration of economic power by either big labor or big business in certain industries. In this case, the incomes policy may hold down excessive administered price and wage increases while monetary and fiscal policies are adopted to help bring the economy to full employment. This seems to have been the case in the United States during the early 1960's.

On the other hand, experience suggests that if the economy were more than fully employed, an incomes policy would collapse. Such was the situation in Sweden in 1952 and 1955. In the United States, wage and price guidelines apparently had some marginal success until 1965 when, with the economy almost fully employed, the policy became ineffective.

Another essential requirement is that the policy must be accompanied by appropriate monetary and fiscal policies. It cannot be used as a substitute for limiting excessive demand. This is especially true when the policy relies wholly on voluntary cooperation. If the government is stimulating purchasing power through deficit financing during a period of full employment and the monetary authorities are adding to purchasing power by expanding the monetary base, no amount of exhortation would prevent businessmen and wage earners from giving in to the temptation to seek higher prices and wages.

An incomes policy would be more effective when there is a well-designed organizational framework of labor and business and when there is a strong consensus by these organizations in support of the policy. In the European countries where it was apparently effective during certain periods, there were strong labor and business organizations. The Netherlands is an outstanding example. Lacking such a well-designed and well-defined framework, the wage-price guidelines in the United States had to depend a great deal upon rallying the support of the American public on essentially moral grounds. For example, certain price increases in the early 1960's were said to be unjustified or contrary to the public interest. The huge power and influence of the Presidency was brought to bear on those seeking to exceed the guidelines.

As a practical matter, an incomes policy is more likely to be effective when productivity is increasing than when it is not. Conditions of rising productivity make possible an increase in real wages over time without pinching the profits of businesses. Under these circumstances, the policy is more likely to receive support than when productivity, real wages, and profits are declining.

Would an incomes policy be appropriate and effective in the current American economic setting?

Moreover, it is more likely to succeed if it applies to all sectors of the economy. The application of the policy to wages but not to prices would be ineffective. It must apply to both. For example, in the Netherlands, wage and price policies were closely coordinated.

An incomes policy is more likely to be successful when there is a strong threat of foreign competition than when a greater part of the economy is insulated from economic developments in other countries. This was important to the success of such a policy in the Netherlands. Foreign competition mobilized strong public support for it and provided an environment in which prices and wages were under external pressures not to increase too rapidly. On the other hand, if a country—at the same time it adopted an incomes policy—set up barriers to imports, the likelihood of success would be diminished. But it might also increase the need for an incomes policy.

Another implication to be drawn from experience is that success of this type of policy is closely tied to its timing. It might be appropriate at one time and not at another. For example, it could be worthless if applied before other restric-

tive measures begin to bite. If excessive demand pressures have been eliminated and price increases are stemming mostly from cost-push pressures, the policy stands a better chance of success.

An Incomes Policy Now?

Would an incomes policy be appropriate and effective in the current American economic setting? It is contended by many persons that excess demand has now been largely eliminated in the American economy. The slowdown in the rate of economic growth, the large amount of unused capacity, and the higher unemployment rates are cited as evidence that total demand has been brought under control. At the same time, the continuing rise in prices in some sectors of the economy suggests to these persons that most current increases in prices stem from cost-push factors. This seems, then, to be an appropriate time for applying some kind of an incomes policy.

On the other hand, there are persons who cite the diminishing strength of inflationary forces as evidence that, given time for the economy to adjust, monetary and fiscal policies will turn out effective. These persons argue that, even if the results are not completely satisfactory, one could not expect an incomes policy to do much better. In rebuttal, proponents of an incomes policy, however, argue that it would reduce the time required for monetary and fiscal policies to work, and, at the same time, hold down the rise in unemployment.

Just as it is extremely difficult—if not impossible—to determine how much influence incomes policies have had in the past, it is an open question as to how effective such a policy would be under present conditions in the United States. In any case, too much should not be expected from an incomes policy, should one be put into effect. It would not be a panacea, and it would not work without sacrifice. At best, it would be marginally helpful and would not be harmful to other well-chosen policies.

ROBERT H. FLOYD

Measuring Monetary Policy

Two men talk in a Treasurer's office, deep inside the headquarters of an American corporation. Their topic: "Has monetary policy become less restrictive since last month?" Financial statistics lie scattered around the room.

"Look what's happened to the Treasury bill rate: It's gone down three-eights of a point. The Fed's easing up."

"But the Federal funds rate (and they pay a lot of attention to that because it's what banks pay to borrow money overnight) hasn't budged. I don't see how you can say monetary policy has eased any."

"Okay, but the money supply grew at a 5-percent rate this month, and that's according to the Fed's own press release. Last month, it only grew at 4 percent. Policy looks easier to me."

"But free reserves fell. I thought that meant conditions were tighter."

"So did I. But total reserves went up. That doesn't look like the Fed is tightening any. How can conditions be tighter if the banks have more reserves?"

"I'm confused."

The conversation is hypothetical, of course. But the situation is not. A lot of people spend a lot of time trying to measure the posture of monetary policy. Often as not, they rely on published financial statistics: Treasury bill rates, Federal funds rates, money supply growth—all are so-called indicators of monetary policy. Often as not, each indicator gives a different answer. Often as not, the result is, "I'm confused."

To most economists, all this may look like nonsense. They know the economy is complicated and that a single "right" indicator of monetary policy may not exist. If there is one, it has not been discovered yet. If economic research ever discovers one, it may turn out to be something our two businessmen have never seen.

"The best our businessmen can do," most economists might say, "would be to consider as many relevant elements as they can when they analyze the economy. It is probably naive to expect a single indicator to summarize the influence of monetary policy on something as complicated as the American economy."

"All right," says the businessman, "but what do I do in the meantime? I recognize that monetary policy has a strong influence on economic behavior. I still want to measure what that influence is. Anyway, I hear all the time about experts making comments on the economy, and they cite indicators like the money supply or the Treasury bill rate. *You* can be patient and wait for the results of economic research. But *I* can't. My boss wants a sales forecast next week.

"Even if it won't do a perfect job, can't I just pick one indicator or two and use them anyway? Won't they measure monetary policy well enough for my purposes? What difference does it make which indicator I choose?"

The answer, unfortunately, is that it makes a lot of difference. That we shall see in the next section. In the concluding section, we shall see why.

Different Indicators Give Different Answers

A list of all the variables people have used to measure monetary policy might be virtually endless. But only a small group of indicators are in widespread use, either because they have been suggested by the results of economic research or because they have been publicized in the financial press. Each of them has some appeal.

We picked eight financial variables that have been widely cited as indicators of monetary policy. Two of them are interest rates: the Federal funds rate and the rate on three-month Treasury bills. A third, the level of free reserves, is denominated in dollars but is thought to behave like an interest rate. The other five indicators we picked are so-called monetary aggregates: the money supply excluding time deposits, the money supply including time deposits, the bank credit proxy, total reserves, and the monetary base.[1] (Definitions and sources of these variables are in the Appendix.)

There is no obvious way to characterize particular readings of these indicators absolutely, as either restrictive or stimulative. If we wish to use the Treasury bill rate as an indicator, for instance, then any characterization of a 5.25-percent bill rate as "restrictive" or "stimulative" is arbitrary. What is clear, however, is that a 5.25-percent bill rate indicates *less* stimulation (or more restriction) than a 5.00-percent rate and *more* stimulation than a 5.50-percent rate. More stimulation might also be "indicated" by a decrease in the Federal funds rate, by an increase in free reserves, or by an increase in the growth rates for any of the five monetary aggregates we selected.[2]

Recognizing this, we calculated the number of months in which each pair of indicators gave signals in the same policy direction—toward more restriction or toward less restriction.[3] The results, covering the 12 months of 1969 and the 60 months of 1965-69, are in Table I.

From these results, it is easy to see why our two businessmen were confused. Different indicators *do* give different signals. In 1969, the monetary base and total reserves came closest to giving the same signals; yet, even this pair agreed in only 9 out of 12 months. More typically, agreement on whether policy was more or less

[1] One of the reasons for including both interest rates and monetary aggregates on our list of indicators is that these two types correspond to the "prices" and "quantities" on the supply-demand diagrams economists use in financial analysis. The economist's choice of *which* interest rate, or *which* monetary aggregate, is determined by his definition of the market he wants to analyze. We were curious to see whether signals given by price-type (interest rates) indicators/quantity-type (monetary aggregate) indicators corresponded more closely with signals given by other price-type/quantity-type indicators.

[2] Our eight financial variables, in other words, are *ordinal* measures of monetary policy.

[3] Since we used eight indicators, each indicator can be compared pairwise with seven others. There are $1 + 2 + 3 + 4 + 5 + 6 + 7 = 28$ different comparisons to be made.

restrictive came in 6 to 8 of the 12 months in 1969, which implies that blind substitution of one indicator for another would have changed the answer almost half the time: In 4 to 6 months, the indicators gave opposite signals. Two indicators that would generally be expected to show close correspondence—the Federal funds rate and the Treasury bill rate—gave the same signals only 3 times out of 12.[4]

Nor was 1969 an unusual period. Calculations for the 60-month period from 1965-69 gave similar results. Most of the indicator pairs agreed in 35 to 45 of the 60 months or, again, only a little more than half the time. Moreover, separate calculations for each of the five years show that the degree of agreement for each pair of indicators varies considerably from year to year.[5]

Table II repeats the analysis. The approach is slightly more sophisticated, but the results are much the same. To get each coefficient at the top of Table II, we took the 12 monthly readings in

[4]Here is a case where a pair of price-type indicators agree less well with each other than with some of the quantity-type indicators. In general, Table I shows no tendency for indicators to agree more with other indicators of the same (price or quantity) type.

[5]Annual data for 1965-68 are not shown but are available on request from the Research Department, Federal Reserve Bank of Atlanta.

TABLE I

NUMBER OF MONTHS IN WHICH INDICATORS MOVED IN THE SAME POLICY DIRECTION

1965-1969*									
M_1	Money Supply (Narrow)	60							
M_2	Money Supply (Broad)	45	60						
BCP	Bank Credit Proxy	35	40	60					
TR	Total Reserves	34	39	51	60				
MB	Monetary Base	40	43	43	48	60			
FR	Free Reserves	33	32	31	31	29	60		
FF	Federal Funds Rate	33	34	32	45	35	40	60	
BR	Three-month Treasury Bill Rate	26	39	37	40	31	31	39	60
		M_1	M_2	BCP	TR	MB	FR	FF	BR
1969**									
M_1	Money Supply (Narrow)	12							
M_2	Money Supply (Broad)	8	12						
BCP	Bank Credit Proxy	6	6	12					
TR	Total Reserves	4	6	8	12				
MB	Monetary Base	7	7	7	9	12			
FR	Free Reserves	8	6	8	8	5	12		
FF	Federal Funds Rate	7	7	7	7	6	7	12	
BR	Three-month Treasury Bill Rate	3	7	5	7	6	3	6	12
		M_1	M_2	BCP	TR	MB	FR	FF	BR

* 60-month total
** 12-month total

1969 for each variable and ranked the months 1, 2, . . . , 12, in order of increasing restrictiveness. (For instance, the month with the highest Treasury bill rate was assigned a rank of 12; the month with the lowest rate was ranked as 1.) For the entire 1965-69 period, rankings ranged from one to 60. The ranked relationships for each pair of indicators are summarized by the Spearman rank correlation coefficients in Table II.[6] Here, as in Table I, a higher number shows closer correspondence between two indicators: 1.000 would show perfect correspondence; .000 would show no correspondence.

Table II reinforces the results of Table I: Different indicators *do* give different signals. In 1969, for instance, only seven pairs of indicators produced coefficients which can be considered significantly different from zero. (A zero coef-

[6]Spearman coefficients are discussed in most standard statistical texts; see, for example, J. E. Freund, *Modern Elementary Statistics* (3d Ed., 1967), p. 364. If the monthly ranks assigned to each of a pair of indicators are identical (1-1, 2-2, etc.), their joint Spearman coefficient will be one. If the orderings are opposite (1-12, 2-11, etc., in the 12-month case), the Spearman coefficient will be minus one. The Spearman analysis has two advantages over the more naive procedure embodied in Table I: It weights large movements in the indicators more heavily than small movements, and it also permits us to make some inference about whether the relationships are statistically significant.

TABLE II

SPEARMAN COEFFICIENTS OF RANK CORRELATION

1965-1969

M_1	Money Supply (Narrow)	1.000**							
M_2	Money Supply (Broad)	.669**	1.000**						
BCP	Bank Credit Proxy	.332**	.779**	1.000**					
TR	Total Reserves	.332**	.523**	.783**	1.000**				
MB	Monetary Base	.373**	.386**	.539**	.753**	1.000**			
FR	Free Reserves	.289*	.672**	.659**	.454**	.269*	1.000**		
FF	Federal Funds Rate	.237*	.611**	.529**	.278*	.184	.850**	1.000**	
BR	Three-month Treasury Bill Rate	.209	.639**	.509**	.220*	.138	.758**	.929**	1.000**
		M_1	M_2	BCP	TR	MB	FR	FF	BR

1969

M_1	Money Supply (Narrow)	1.000**							
M_2	Money Supply (Broad)	.783**	1.000**						
BCP	Bank Credit Proxy	.025	.504	1.000**					
TR	Total Reserves	−.225	.210	.532*	1.000**				
MB	Monetary Base	.144	.330	.356	.571*	1.000**			
FR	Free Reserves	.387	.683*	.252	.126	−.032	1.000**		
FF	Federal Funds Rate	.808**	.648*	.049	−.021	.144	.413	1.000**	
BR	Three-month Treasury Bill Rate	.496	.228	−.193	−.168	.147	.014	.657*	1.000**
		M_1	M_2	BCP	TR	MB	FR	FF	BR

* Difference from zero significant (95% level)
** Difference from zero highly significant (99% level)

ficient for a pair of indicators would say, in effect, that if we wanted to guess the rank of a month according to one of the indicators, we would probably come as close by guessing at random as we would come by using the ranking for the same month according to the other indicator.) Most of the 1965-69 coefficients are significantly nonzero, but in almost every case they are low enough to reinforce our conclusion that different indicators give different answers about the posture of monetary policy.[7]

Why?

Different indicators do give different measurements of monetary policy. That much is clear. Even in cases where we might expect a pair of indicators to move together very closely, they don't.

Why don't they?

For a couple of reasons: First, monetary policy actions take longer to influence some indicators than others. Second, each indicator is not influenced solely by monetary policy actions but by a great many other things. Indeed, when these considerations are recognized, it would be surprising if any pair of indicators did give the same signals month after month.

Let's look at each of these reasons in a little more detail. Before doing that, however, we should ask what we mean when we talk about an indicator of monetary policy. Few of us are interested in Federal Reserve monetary policy actions[8] for their own sake. What we are really interested in are the effects of those policy actions. People use indicators to describe, and to predict, the *effects* of monetary policy actions.

Effects on what? Effects on a great many different markets. Most people, and certainly most economists, would answer, "effects on the economy." (More precisely, perhaps, "on total income and production in our economy.") But a building contractor might not agree; he might be more interested in knowing about effects on housing starts. A prospective borrower might say, instead, "effects on interest rates." Obviously, the list could get pretty long. Different people are interested in the effects on many different markets.

Assume, however, that our basic concern is with monetary policy's effects on the whole economy. For most of us, that would be true. Like the two businessmen whose dialogue began this article, we might rely on financial statistics such as the Treasury bill rate or the money supply figures, hoping that what happens to these statistics *now* will tell us what will happen to the economy *later*. Even so, there is no reason to expect the financial statistics to move in tandem. Policy actions now may affect the Treasury bill rate right away, for instance, but it may be two or three months before we can observe the effects of the same policy actions on the money supply.

Nevertheless, policy actions probably do affect some indicators rather quickly: not only the Treasury bill rate but also the Federal funds rate and the level of free reserves. Why don't the signals given by indicators like these correspond more closely?

The answer lies in our second reason, which is probably more important: *Each indicator responds to a great many things besides monetary policy actions.* The Treasury bill rate responds to monetary policy actions, for instance, but it also responds to the amount of funds people want to invest. Then, too, the bill rate depends on the volume of bills the Treasury decides to sell. If the Treasury bill rate falls by a percentage point, there is no way we can tell how much of that drop resulted from last week's (or last year's) monetary policy actions and how much resulted from other happenings.[9]

The same point could be made for all the indicators we examined (and any other indicators, for that matter). The various indicators "indicate" a lot besides monetary policy. It is hardly surprising that they often give different signals.

Still Confused?

We started off with a pair of confused businessmen. They were confused because different indicators were giving different signals about monetary policy. If they read this article, would they still be confused? Perhaps. But in the process, they may have learned a few lessons that are not

[7] As before, there is no systematic tendency for price- or quantity-type indicators to correspond more closely with indicators of the same type.

[8] Examples of such actions are purchases and sales of government securities, changes in the discount rate, and in the reserve requirement percentages required of member banks.

[9] Economists try to answer questions like these with so-called econometric models. The results are both complicated and uncertain.

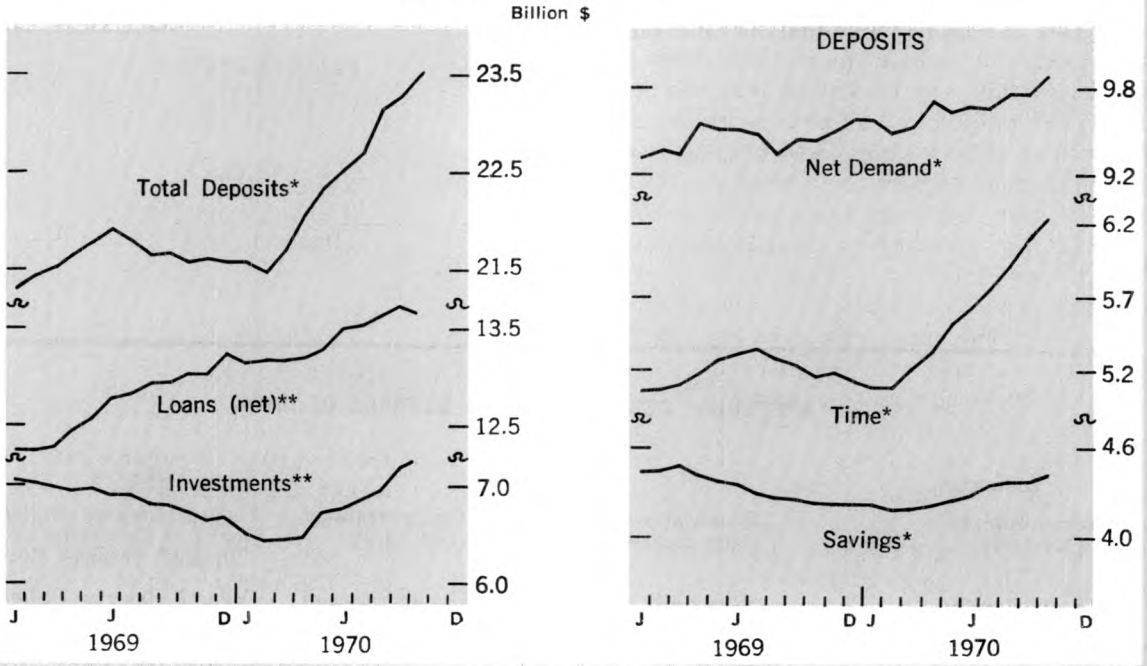
always understood: that the workings of the economy are complicated; that our knowledge of the linkages between monetary and financial measures is inexact; and that he who puts his trust in (and his money on!) a single financial variable does so at his own risk.

WILLIAM N. COX, III

APPENDIX: DESCRIPTION AND SOURCES OF DATA

Indicator	*Description*	*Source*
Money Supply (Narrow)	Seasonally adjusted monthly averages of daily figures at all commercial banks	*Federal Reserve Bulletin* Board of Governors of the Federal Reserve System
Money Supply (Broad)	Seasonally adjusted monthly averages of daily figures. (Time deposits at all commercial banks added to M_1)	*Federal Reserve Bulletin* Board of Governors of the Federal Reserve System
Bank Credit Proxy	Seasonally adjusted monthly averages of daily figures	*Money Market & Reserve Relationships,* Board of Governors
Total Reserves	Seasonally adjusted monthly averages of daily figures	*Money Market & Reserve Relationships,* Board of Governors
Monetary Base	Seasonally adjusted monthly averages of daily figures (adjusted for reserve requirement changes and shifts in deposits among classes of banks)	*Federal Reserve Bank of St. Louis Review,* August 1968, Vol. 50, number 8, and *U. S. Financial Data,* Federal Reserve Bank of St. Louis
Free Reserves	Seasonally adjusted monthly averages of daily figures	*Federal Reserve Bulletin*
Federal Funds Rate	Monthly averages of daily figures	*Federal Reserve Bulletin*
Three-month Treasury Bill Rate	Monthly average of end-of-week discounts	*Federal Reserve Bulletin*

BANKING STATISTICS



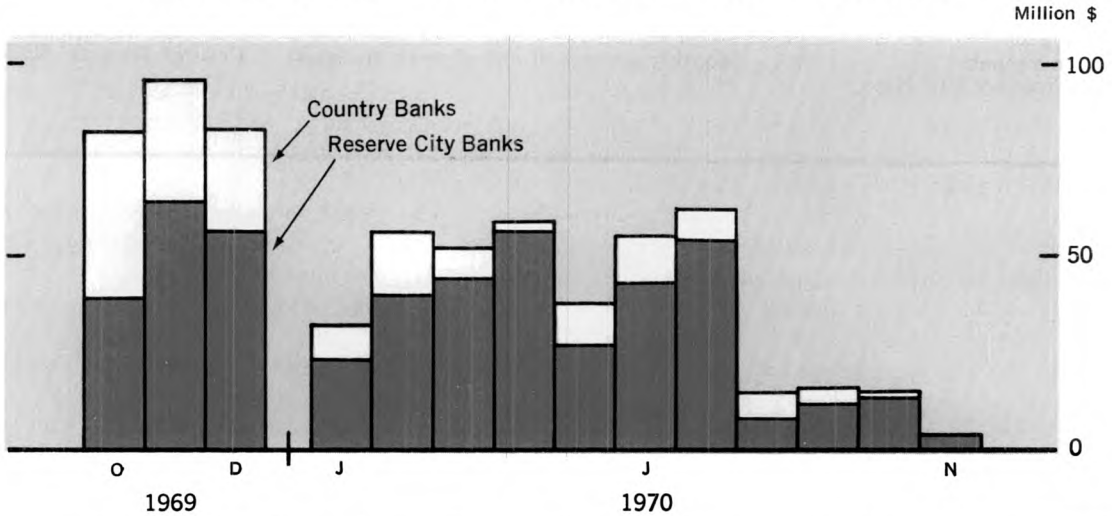
LATEST MONTH PLOTTED: OCTOBER

Note: All figures are seasonally adjusted and cover all Sixth District member banks.
*Daily average figures. ** Figures are for the last Wednesday of each month.

SIXTH DISTRICT

BANKING NOTES

BORROWINGS FROM FEDERAL RESERVE BANK OF ATLANTA



The significant decline in member bank borrowings at the Federal Reserve Bank of Atlanta is further evidence that easier monetary conditions have prevailed during recent months. After averaging $50 million during the first seven months of this year (a decline from the level of nearly $90 million in the fourth quarter of 1969), the volume of borrowings eased to approximately $15 million in August, September, and October. In November, borrowings dropped to $4 million.

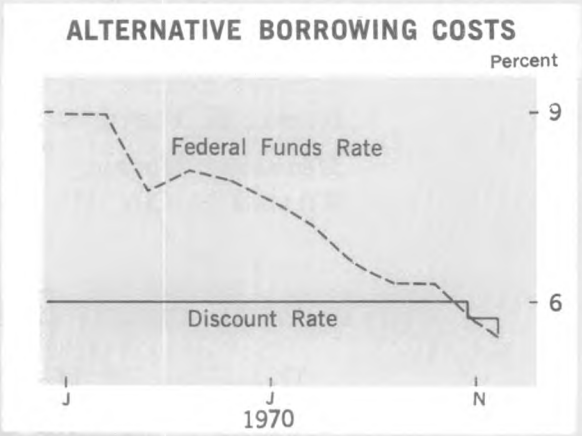
Banks that are members of the Federal Reserve System are required to set aside a certain proportion of their deposits in the form of reserves. If a bank anticipates a reserve deficit during a given reserve week, exclusive of any carryover or "as of" adjustments, then it can attempt to borrow or buy reserves to meet its reserve requirements. Those banks with excess reserves may try to lend or sell reserves.

Most commonly, banks adjust their reserve position through the Federal funds market. In the Sixth District, about 95 percent of the reserves that banks have borrowed during 1970 have come from this market.

For the individual bank, an inflow of deposits or a shift from demand deposits to time deposits results in a net addition to reserves. Banks can also acquire reserves by selling loans or investments. Discounting with the Federal Reserve, although infrequently used by banks in meeting reserve deficiencies, is held in abeyance as an important alternative to the aforementioned methods. To illustrate: The number of banks making use of the discount privilege in a given week averaged less than ten in recent months, down from over twenty a week in the first seven months of the year.

The drop in discounting during the last several months reflects conditions that have been developing since spring. Total deposit inflows have been strong throughout most of the year, with nearly all gains coming from deposits that carry low reserve requirements. Ever since Regulation Q was relaxed in June on large-denomination CD's, banks have regained their ability to adjust their reserves by controlling the inflow of these deposits. Further easing occurred during late September, when reserve requirements on all time deposits in excess of $5 million at each bank were reduced from 6 percent to 5 percent.

Other factors also help account for the reduced level of discount activity. Recently, the growth of bank credit in the Sixth District has been extremely moderate, with most of the gains centering around the acquisition of municipal obligations by banks outside the larger cities. Furthermore, the cost differences in borrowing from the discount window and alternative sources have declined sharply. The average cost of Federal funds declined from about 9 percent at the first of this year to 8 percent by early summer. However, for the last several months, Federal funds have traded below 6-½ percent. In June, many of the larger banks were offering to pay over 7-½ percent for 30-to 89-day CD's, whereas these same banks currently are posting rates under 6 percent. While rates on these alternative sources were falling, the discount rate remained stable at 6 percent until it was lowered one-quarter of one percent in early November. Then another cut took place on the first of December.



LATEST PLOTTING: DECEMBER 1

The bulk of reduction in the aggregate volume of discounts has occurred at reserve city banks, which have accounted for about four-fifths of total member bank borrowing. Facing a weaker loan demand, particularly for business loans, and being able to attract short-term CD's many of these banks have used this opportunity to rebuild liquidity and to reduce their overall indebtedness.

Unless economic and credit conditions change dramatically, discounting should remain below the levels of late 1969 and early 1970. Banks usually dislike borrowing at the discount window if there are other means through which they can acquire reserves at comparable borrowing costs. As long as monetary conditions are moderately easy, discounting will be less necessary as a means of meeting reserve requirements.

JOHN M. GODFREY

Reprints

Incomes Policies: A Quick Critique
ROBERT H. FLOYD, *December 1970, pp. 174-181*

Measuring Monetary Policy
WILLIAM N. COX, III, *December 1970, pp. 182-187*

Reviews of Sixth District State Economies

Reprints of *Monthly Review* articles (Single copies only)

A Review of Alabama's Economy, 1960-70, September 1970, 35 pp.
A Review of Florida's Economy, 1959-70, July 1970, 35 pp.
A Review of Georgia's Economy, 1960-70, August 1970 , 35 pp.
A Review of Louisiana's Economy, 1959-70, August 1970, 32 pp.
A Review of Mississippi's Economy, 1960-69, February 1970, 28 pp.
A Review of Tennessee's Economy, 1960-69, February 1970, 27 pp.

Statistical Compilations

(Single copies only)

Statistics on the Developing South, 1970.
Statistical time series for tracing long-run economic changes in the Southeast and United States.

Statistics on Commercial Banks, Sixth District, 1940-69, selected dates.
Statistical tables analyzing changes in loans, investments, and deposits of commercial banks in the Sixth District.

These publications are now available upon request to the Research Department, Federal Reserve Bank of Atlanta, Atlanta, Georgia 30303.

Bank Announcements

On November 1, **Coalmont Savings Bank,** Coalmont, Tennessee, a nonmember bank, agreed to remit at par for checks drawn on it when received from the Federal Reserve Bank.

A newly organized nonmember bank, **The Citizens & Merchants Bank,** Bremen, Georgia, opened for business on November 16. Officers are H. M. Wood, president; W. Kenneth Jones, vice president; and Dennis Vanbrackle, cashier. Capital is $250,000; surplus and other capital funds, $250,000.

On November 20, **The Community Bank of Boca Raton,** Boca Raton, Florida, opened for business as a newly organized nonmember bank. Officers are Daniel S. Goodrum, president; Jerry Thomas, chairman of the Board; L. K. Orndorff, executive vice president and cashier; and Fred Bayless, assistant cashier. Capital is $700,000; surplus and other capital funds, $350,000.

Coosa Valley Bank, Gadsden, Alabama, another newly organized nonmember bank, opened for business and began to remit at par on November 21. Officers are Tom Dawson, chairman of the board; Max L. Smith, president; and Jerry T. Goss, vice president and cashier. Capital is $250,000; surplus and other capital funds, $250,000.

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Sixth District Statistics

Seasonally Adjusted

(All data are indexes, 1957-59 = 100, unless indicated otherwise.)

	Latest Month 1970		One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT					
INCOME AND SPENDING					
Manufacturing Payrolls	Oct.	261	262	262	257
Farm Cash Receipts	Sept.	142	167	210	143
Crops	Sept.	102	149	228	99
Livestock	Sept.	179	169	197	186
Instalment Credit at Banks* (Mil. $)					
New Loans	Oct.	338	341	348	330
Repayments	Oct.	311	304	307	298
EMPLOYMENT AND PRODUCTION					
Nonfarm Employment†	Oct.	152	152	151	152
Manufacturing	Oct.	145	145	145	150
Apparel	Oct.	174	174	174	176
Chemicals	Oct.	142	141r	141	144
Fabricated Metals	Oct.	174	175r	173	181
Food	Oct.	118	118	118	115
Lbr., Wood Prod., Furn. & Fix.	Oct.	106	106	106	111
Paper	Oct.	123	124r	125	130
Primary Metals	Oct.	131	127r	126	137
Textiles	Oct.	112	113r	112	117
Transportation Equipment	Oct.	179	192	195	210
Nonmanufacturing†	Oct.	154	154	153	152
Construction	Oct.	130	128	130	141
Farm Employment	Oct.	53	55	55	56
Unemployment Rate (Percent of Work Force)†	Oct.	4.7	4.6	4.5	3.6
Insured Unemployment (Percent of Cov. Emp.)	Oct.	3.1	3.3	3.0	1.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.1	40.0r	40.4	40.9
Construction Contracts*	Oct.	201	246	220	211
Residential	Oct.	233	216	263	249
All Other	Oct.	174	271	183	179
Electric Power Production**	Sept.	168	165	168	161
Cotton Consumption**	Sept.	102	96r	108	103
Petrol. Prod. in Coastal La. and Miss.**	Oct.	311	310	294	269
Manufacturing Production	Sept.	244	244	245	239
Nondurable Goods	Sept.	208	207	208	203
Food	Sept.	167	166	166	159
Textiles	Sept.	235	236	236	231
Apparel	Sept.	261	262	261	254
Paper	Sept.	195	194	193	200
Printing and Publishing	Sept.	165	165r	167	169
Chemicals	Sept.	268	262r	261	261
Durable Goods	Sept.	288	288	291	283
Lumber and Wood	Sept.	168	168r	168	168
Furniture and Fixtures	Sept.	184	182r	182	194
Stone, Clay and Glass	Sept.	171	167r	166	168
Primary Metals	Sept.	202	199	198	194
Fabricated Metals	Sept.	241	238	239	240
Nonelectrical Machinery	Sept.	370	361r	379	384
Electrical Machinery	Sept.	593	605	616	589
Transportation Equipment	Sept.	378	382r	382	353
FINANCE AND BANKING					
Loans*					
All Member Banks	Oct.	360	358	356	334
Large Banks	Oct.	300	302	298	281
Deposits*					
All Member Banks	Oct.	247	249	242	227
Large Banks	Oct.	203	206	200	189
Bank Debits*/**	Oct.	287	282r	287	275
ALABAMA					
INCOME					
Manufacturing Payrolls	Oct.	224	231	225	225
Farm Cash Receipts	Sept.	133	153	194	131
EMPLOYMENT					
Nonfarm Employment†	Oct.	132	131	133	134
Manufacturing	Oct.	133	133	133	137
Nonmanufacturing	Oct.	131	131r	132	132
Construction	Oct.	101	103r	121	124
Farm Employment	Oct.	49	52	57	60
Unemployment Rate (Percent of Work Force)†	Oct.	5.1	5.1	5.0	3.8
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.3	40.1r	40.4	41.4
FINANCE AND BANKING					
Member Bank Loans	Oct.	327	323	326	299
Member Bank Deposits	Oct.	230	231	230	209
Bank Debits**	Oct.	246	240r	249	227

	Latest Month 1970		One Month Ago	Two Months Ago	One Year Ago
FLORIDA					
INCOME					
Manufacturing Payrolls	Oct.	348	362	361	326
Farm Cash Receipts	Sept.	198	154	220	196
EMPLOYMENT					
Nonfarm Employment†	Oct.	181	181	179	177
Manufacturing	Oct.	173	173	175	178
Nonmanufacturing	Oct.	182	182	180	176
Construction	Oct.	130	129r	130	137
Farm Employment	Oct.	93	89	93	88
Unemployment Rate (Percent of Work Force)†	Oct.	3.9	3.7	3.5	2.7
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.7	40.8r	40.5	41.2
FINANCE AND BANKING					
Member Bank Loans	Oct.	402	401	398	373
Member Bank Deposits	Oct.	286	288	276	260
Bank Debits**	Oct.	309	302	305	293
GEORGIA					
INCOME					
Manufacturing Payrolls	Oct.	252	255r	267	269
Farm Cash Receipts	Sept.	172	136	207	156
EMPLOYMENT					
Nonfarm Employment†	Oct.	152	151	151	153
Manufacturing	Oct.	136	138	139	146
Nonmanufacturing	Oct.	159	158	157	157
Construction	Oct.	140	129r	127	152
Farm Employment	Oct.	48	49	47	52
Unemployment Rate (Percent of Work Force)†	Oct.	4.1	4.0	3.7	3.1
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	39.0	39.0r	40.1	40.7
FINANCE AND BANKING					
Member Bank Loans	Oct.	358	355	355	343
Member Bank Deposits	Oct.	246	247	240	236
Bank Debits**	Oct.	331	326r	333	327
LOUISIANA					
INCOME					
Manufacturing Payrolls	Oct.	225	230r	227	212
Farm Cash Receipts	Sept.	116	269	234	116
EMPLOYMENT					
Nonfarm Employment†	Oct.	131	131	131	133
Manufacturing	Oct.	119	120	120	122
Nonmanufacturing	Oct.	134	134	134	135
Construction	Oct.	116	119	117	129
Farm Employment	Oct.	43	43	44	51
Unemployment Rate (Percent of Work Force)†	Oct.	6.5	6.6	6.4	5.0
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	42.0	41.8r	42.5	41.8
FINANCE AND BANKING					
Member Bank Loans*	Oct.	295	296	295	274
Member Bank Deposits*	Oct.	195	198	194	178
Bank Debits*/**	Oct.	213	209	222	204
MISSISSIPPI					
INCOME					
Manufacturing Payrolls	Oct.	291	287r	280	277
Farm Cash Receipts	Sept.	78	173	239	101
EMPLOYMENT					
Nonfarm Employment†	Oct.	152	152	151	151
Manufacturing	Oct.	159	159	158	161
Nonmanufacturing	Oct.	149	148	148	146
Construction	Oct.	160	163	162	168
Farm Employment	Oct.	43	46	46	42
Unemployment Rate (Percent of Work Force)†	Oct.	5.1	5.0	5.2	4.3
Avg. Weekly Hrs. in Mfg. (Hrs.)	Oct.	40.1	40.4r	40.1	40.5
FINANCE AND BANKING					
Member Bank Loans*	Oct.	449	436	433	403
Member Bank Deposits*	Oct.	298	295	300	268
Bank Debits*/**	Oct.	297	290	294	283

	Latest Month 1970		One Month Ago	Two Months Ago	One Year Ago
TENNESSEE					
INCOME					
Manufacturing Payrolls	Oct.	258	247	245	247
Farm Cash Receipts	Sept.	116	159	164	126
EMPLOYMENT					
Nonfarm Employment†	Oct.	148	148	146	149
Manufacturing	Oct.	156	153	151	157
Nonmanufacturing	Oct.	144	145	144	144
Construction	Oct.	154	149	143	159
Farm Employment	Oct.	57	60	58	58
Unemployment Rate (Percent of Work Force)†	Oct.	5.0	4.8	4.8	3.7
Avg. Weekly Hours in Mfg. (Hrs.)	Oct.	39.8	39.4r	39.8	40.2
FINANCE AND BANKING					
Member Bank Loans*	Oct.	355	354r	343	319
Member Bank Deposits*	Oct.	226	230	223	206
Bank Debits*/**	Oct.	284	285	280	273

*For Sixth District area only; other totals for entire six states **Daily average basis †Preliminary data r-Revised N.A. Not available

Sources: Manufacturing production estimated by this Bank; nonfarm, mfg. and nonmfg. emp., mfg. payrolls and hours, and unemp., U.S. Dept. of Labor and cooperating state agencies; cotton consumption, U.S. Bureau of Census; construction contracts, F. W. Dodge Div., McGraw-Hill Information Systems Co.; petrol. prod., U.S. Bureau of Mines; industrial use of elec. power, Fed. Power Comm.; farm cash receipts and farm emp., U.S.D.A. Other indexes based on data collected by this Bank. All indexes calculated by this Bank.

Debits to Demand Deposit Accounts

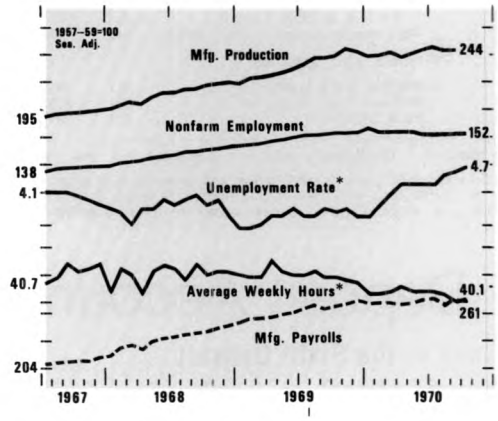
Insured Commercial Banks in the Sixth District

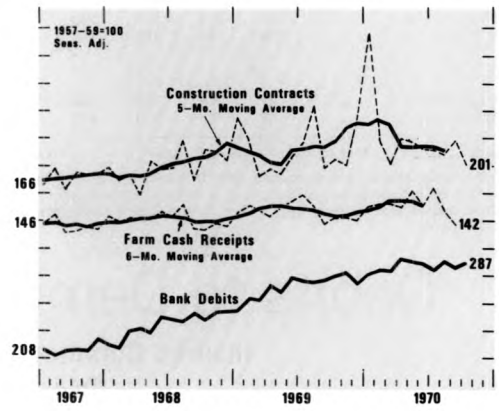
(In Thousands of Dollars)

	Oct. 1970	Sept. 1970	Oct. 1969	Percent Change: Oct. 1970 From Sept. 1970	Percent Change: Oct. 1970 From Oct. 1969	Year to date 10 mos. 1970 from 1969
STANDARD METROPOLITAN STATISTICAL AREAS†						
Birmingham	2,087,052	2,000,990	1,919,166	+ 4	+ 9	+ 6
Gadsden	74,207	75,173	72,505	− 1	+ 2	+ 6
Huntsville	226,012	204,819	224,896	+10	+ 0	+ 8
Mobile	611,177	640,619	638,570	− 5	− 4	+15
Montgomery	440,125	383,659	395,066	+15	+11	+ 7
Tuscaloosa	122,355	137,681	134,769	−11	− 9	+ 3
Ft. Lauderdale–Hollywood	1,149,324	1,028,649	1,120,002	+12	+ 3	+ 9
Jacksonville	1,952,513	2,051,455	2,021,659	− 5	− 3	+ 5
Miami	3,715,605	3,556,012	3,707,019	+ 4	+ 0	+ 9
Orlando	796,234	791,350	777,739	+ 1	+ 2	+14
Pensacola	280,841	284,050	261,797	− 1	+ 7	+12
Tallahassee	216,047	201,776	187,497	+ 7	+15	+14
Tampa–St. Pete	2,279,058	2,052,451	2,199,811	+11	+ 4	+13
W. Palm Beach	679,663	600,651	616,788	+13	+10	+10
Albany	132,611	133,668	118,065	− 1	+12	+15
Atlanta	8,043,263	7,685,679	7,623,742	+ 5	+ 6	+14
Augusta	319,094	310,648	335,953	+ 3	− 5	+ 4
Columbus	304,515	304,422	301,117	+ 0	+ 1	+ 3
Macon	349,204	344,976	329,130	+ 1	+ 6	+ 4
Savannah	343,080	323,903	357,808	+ 6	− 4	− 0
Baton Rouge	754,250	784,380	720,779	− 4	+ 5	+21
Lafayette	174,986	169,624	172,250	+ 3	+ 2	+ 5
Lake Charles	175,034	166,151	178,302	+ 5	− 2	− 2
New Orleans	2,812,745	2,707,782	2,872,795	+ 4	− 2	+ 4
Biloxi–Gulfport	251,825	178,156	179,876	+41	+40	+27
Jackson	838,765	844,064	934,492	− 1	−10	+ 8
Chattanooga	900,506	874,360	836,096	+ 3	+ 8	+11
Knoxville	657,840	580,665	621,096	+13	+ 6	+ 3
Nashville	1,907,281	1,866,335	2,019,117	+ 2	− 6	+ 6
OTHER CENTERS						
Anniston	82,316	79,097	84,606	+ 4	− 3	+ 4
Dothan	100,733	103,145	93,226	− 2	+ 8	+13
Selma	56,609	51,776	57,485	+ 9	− 2	+ 1
Bartow	35,034	34,672	35,559	+ 1	− 1	− 4
Bradenton	100,033	95,323	98,280	+ 5	+ 2	+ 4
Brevard County	208,515	208,846	223,599	− 0	− 7	− 3
Daytona Beach	104,736	96,639	110,878	+ 8	− 6	+ 3
Ft. Myers–N. Ft. Myers	137,595	131,544	128,132	+ 5	+ 7	+ 4
Gainesville	124,405	117,819	115,425	+ 6	+ 8	+10
Lakeland	158,831	151,754	178,122	+ 5	−11	+ 8
Monroe County	42,685	40,436	39,550	+ 6	+ 8	+ 8
Ocala	100,875	99,219	87,365	+ 2	+15	+19
St. Augustine	21,366	22,743	24,045	− 6	−11	− 8
St. Petersburg	518,947	479,034	480,630	+ 8	+ 8	+13
Sarasota	168,987	159,017	185,214	+ 6	− 9	+ 9
Tampa	1,229,203	1,098,598r	1,192,410	+12	+ 3	+15
Winter Haven	81,487	73,131	77,293	+11	+ 5	+12
Athens	132,709	121,913	103,620	+ 9	+28	+20
Brunswick	59,296	54,343	54,131	+ 9	+10	+10
Dalton	124,307	125,516	129,767	− 1	− 4	− 4
Elberton	18,075	20,885	16,954	−13	+ 7	+10
Gainesville	97,874	91,791	91,845	+ 7	+ 7	+16
Griffin	47,378	46,374	42,344	+ 2	+12	+15
LaGrange	25,181	22,931	23,629	+10	+ 7	− 7
Newnan	33,905	31,662	25,039	+ 7	+35	+23
Rome	96,488	93,834	98,779	+ 3	− 2	+ 6
Valdosta	71,630	71,014	64,247	+ 1	+11	+ 8
Abbeville	13,385	14,269	14,092	− 6	− 5	− 0
Alexandria	173,419	156,640	173,149	+11	+ 0	− 6
Bunkie	8,030	7,493	9,749	+ 7	−18	− 6
Hammond	51,576	44,214	46,030	+17	+12	+ 7
New Iberia	43,737	42,285	44,578	+ 3	− 2	+ 4
Plaquemine	13,784	12,941	14,878	+ 7	− 7	− 4
Thibodaux	24,644	24,160	24,996	+ 2	− 1	+ 0
Hattiesburg	86,204	77,107	82,828	+12	+ 4	− 8
Laurel	55,744	55,450	56,268	+ 1	− 1	+ 9
Meridian	81,126	72,726	95,498	+12	−15	− 8
Natchez	41,587	45,085	46,997	− 8	−12	− 5
Pascagoula–Moss Point	88,856	84,975	91,194	+ 5	− 3	+ 6
Vicksburg	58,975	55,007	51,446	+ 7	+15	+14
Yazoo City	32,488	36,448	28,723	−11	+13	+ 4
Bristol	99,049	96,372	98,773	+ 3	+ 0	+ 5
Johnson City	101,939	101,091	108,625	+ 1	− 6	+ 8
Kingsport	179,514	177,476	188,949	+ 1	− 5	− 2
SIXTH DISTRICT, Total	43,419,018	41,711,409r	43,508,152	+ 4	− 0	+ 8
Alabama‡	5,254,981	5,064,417r	5,055,952	+ 4	+ 4	+ 7
Florida‡	13,919,596	13,360,414	13,810,978	+ 4	+ 2	+ 9
Georgia‡	11,889,743	11,454,344r	12,257,344	+ 4	− 3	+11
Louisiana†*	4,955,187	4,799,449	4,968,360	+ 3	− 0	+ 6
Mississippi†*	2,045,298	1,891,172	2,034,542	+ 8	+ 1	+ 7
Tennessee†*	5,354,213	5,141,613	5,380,976	+ 4	− 0	+ 6

*Includes only banks in the Sixth District portion of the state †Partially estimated ‡Estimated r-Revised

District Business Conditions





*Seas. adj. figure; not an index
Latest plotting: October —except mfg. production and farm receipts, September

Economic activity remains lackluster in the Southeast, according to latest available data. Although nonfarm employment rose again in October, the rise was only slight. Construction contract awards dropped substantially. Consumers remained reluctant purchasers and borrowers. Agricultural prices sagged in response to bountiful production, but excessive rainfall has dimmed prospects for a bumper soybean crop. Loan demand continued weak, and the prime lending rate was marked down twice in November.

Overall, nonfarm employment edged upward for the second consecutive month. Preliminary estimates indicate, however, that October's unemployment rate edged up to 4.7 percent. Strike activity was primarily responsible for employment changes. Settlement of the construction strike in Atlanta boosted nonmanufacturing employment, but transportation equipment employment dropped sharply because of the GM strike. Secondary layoffs from the GM strike appear minimal in the District. Primary metals, in particular have fared better than nationally, with employment actually showing gains in October.

Total construction contract awards fell to the lowest level for any month in 1970. The decline was centered in the nonresidential sector. A resurgence of multi-family residential awards in Florida helped to boost total residential volume so that September's decline was reversed. Savings flows to District savings and loan associations continued strong in October, and mortgage credit was more readily available in a growing number of markets.

The volume of new consumer instalment loans made by commercial banks in October decreased somewhat but remained higher than repayments. Hence, total consumer credit outstanding increased only moderately. The continued sluggishness in auto sales and retail trade contributed to reduce expansion in new loan volume.

In October, agricultural prices declined to the low point of the year. The weakness was shared by both the crop and livestock sectors. The prospective bountiful citrus crop was the main price depressor among crops, and heavy pork supplies were responsible for triggering price declines for all livestock items except milk. Excessive rainfall damaged unharvested crops throughout the District and has dimmed the prospects for the once excellent soybean crop.

The prime rate was cut twice in November, underscoring slack loan demand and a rapid decline in short-term interest rates. The number of banks borrowing at the discount window declined because bank reserve positions were under less pressure. The discount rate of this Bank was lowered from 6 percent to 5¾ percent, effective November 11, and from 5¾ percent to 5½ percent, effective December 1. According to preliminary data, demand deposit inflows were strong in November, but interest-bearing deposits declined modestly.

NOTE: Data on which statements are based have been adjusted whenever possible to eliminate seasonal influences.