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District Banking: Ten Years of Growth and Change

by John M. Godfrey

Banking in the Sixth Federal Reserve District states of the Southeast underwent many changes in the last ten years and at the same time experienced rapid growth. For example, total deposits of insured banks in the Sixties increased 147 percent, rising from \$17.5 billion to slightly more than \$43 billion.¹ The number of new banks and banking offices also increased, and the size of existing banks rose impressively. During these years, the holding company form of organization was widely adopted as a way of controlling banks and permitting diversification into additional bank-related activities. Moreover, many banks actively promoted the use of consumer credit and new consumer time deposits and purchased increasing amounts of municipal obligations for their investment portfolios. Many larger banks developed liability management techniques that tied them more tightly to conditions in the national credit markets.

Some of these changes—such as the increased importance of consumer credit and municipal obligations as investment outlets—represent longer-run trends in banking. Some of the other changes, however, mirrored more recent adjustments that banks have made to changes in the national and local economies and in the national financial markets.

The Sixties, particularly the latter half, were characterized by rising demands for all types of credit, intermittent periods of monetary restraint designed to curb inflationary pressures, and rising interest rates that peaked at historically high

¹For purposes of this article, banking statistics in the "Sixties" cover the period December 31, 1960 to December 31, 1970 and include all insured commercial banks in the six states wholly or partly in the Sixth Federal Reserve District, unless otherwise noted.

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levels. In response, banks developed new methods of operation that better allowed them to meet requests for credit in periods of slow, or even declining, deposit growth. Many of these changes not only made District banks sensitive to the developments in national financial markets but contributed to the rise of a money market in the Southeast. At the same time, these adjustments enabled many local banks to meet the expanding credit demands of a rapidly growing economy.

District Banks Increase in Size and Number

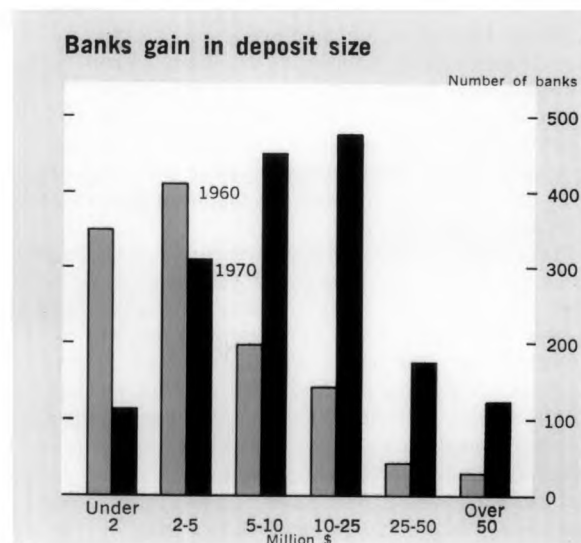
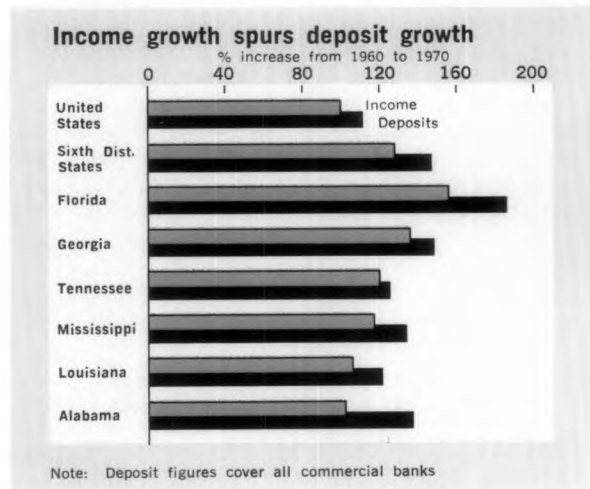
Any review of developments in District banking during the last decade must be framed against the continued economic expansion of the Southeast. Per capita income and population growth maintained an upward course during the Sixties, rising at a greater-than-national rate. The faster growth in income and population brought with it a correspondingly greater-than-national growth in banking resources, although, as with income and population, at different rates within the various District states. For example, total bank assets in the six District states combined increased 159 percent during the Sixties—a rate 30 percent faster than for the United States. But those states—Florida and Georgia—that experienced the most rapid economic growth had more than a 170-percent increase in bank assets.

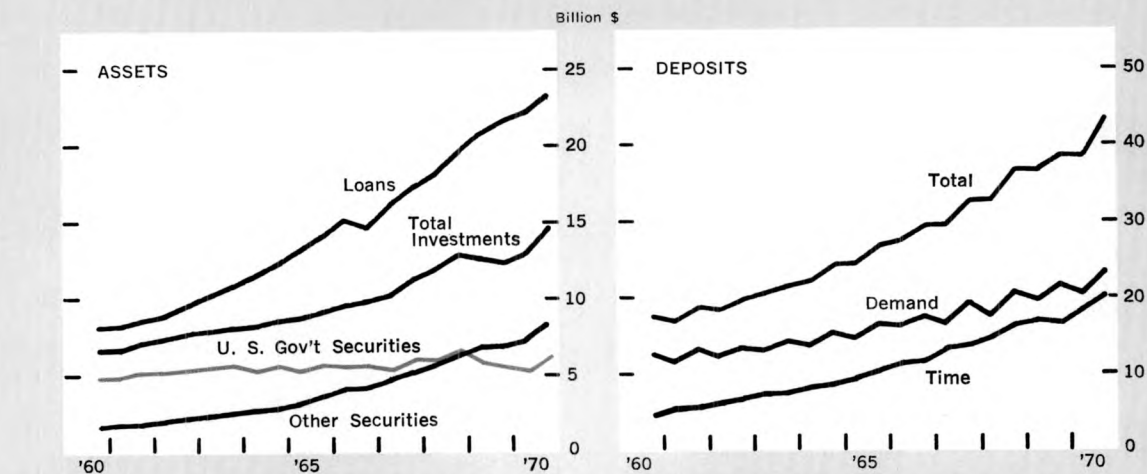
Competitive efforts by banks to participate in this growth led to the establishment of additional banking facilities. As a result, more than 270 new banks and over 1,050 new branches opened in the six District states. The growth in the number of new banking facilities was nearly the same in each District state; however, the particular form of each state's growth depended upon that state's banking laws. For example, Florida was responsible for nearly all

of the District's formation of new banks, a reflection of Florida's prohibition of branch banking. Furthermore, many of Florida's new banks were chartered as affiliates of bank holding companies or informal banking groups. The other five District states shared nearly equally in the growth of new branches. Mississippi, however, experienced a net loss in the number of banks, primarily through bank mergers.

Another positive aspect in the development of Southern banking cannot be overlooked in reviewing the Sixties. In four of the District states, state legislatures passed bills eliminating an anachronistic banking practice—nonpar banking. At the beginning of the decade, the six states had 731 nonpar banks—almost half of the national total. But by the end of 1970, only Alabama and Louisiana—with 155 nonpar banks—were still permitting this practice in the District. And, during 1971, the Alabama legislature passed measures to eliminate this practice.

The growth of banking was not limited to new banks and branches; the size of individual banks has also increased greatly. This growth—in both banking facilities and in deposit size—required investors and owners to increase bank capital. First, state and Federal bank regulatory authorities require minimum capital standards when approving applications for new bank charters and new bank branches. Then, as the banks increase in deposit size, they are required to expand their capital base. Finally, a bank's capital base determines its legal lending limits. Most banks are limited by regulatory authorities in the amount of credit they may extend to any one individual or business. As a general rule, banks may not make unsecured loans larger than





Note: All figures are December and June Call Report data and cover commercial banks in Sixth District states

10 percent of their capital and unimpaired surplus to anyone. For secured loans, banks may lend amounts up to 20 percent. If banks are going to be able to grow and serve their customers, particularly the credit requests of their larger business customers, they must have an increasing capital base.

Therefore, it was important and beneficial to the Southeastern economy that the capital accounts of District commercial banks rose from \$1.5 billion at the beginning of the decade to more than \$3.9 billion by the end of the decade. Without this growth in capital, they could not have grown as much and not as many new banks could have been chartered.

Additional bank capital may come from internal sources—such as retained earnings—or from external sources—such as the sale of stock or debentures. In either case, the bank's profitability is of major importance in the ability to expand its capital base. Increased retained earnings are a direct result of profits. And the value of bank stock depends, over the long run, on the ability of the bank to maintain a satisfactory profit level.

Throughout the Sixties, investors found Southeastern banks an attractive investment outlet because bank earnings were satisfactory and generally rising. Based upon the net income of District member banks, the average return on capital rose from less than 8.5 percent in the early Sixties to more than 11.5 percent by the end of the decade. Other data indicate that non-member banks as a group were even more profitable. Furthermore, in the District, net income was generally higher at member banks than in the

nation, and increased cash dividends on bank stock kept pace with the rise in earnings. The formation of new bank holding companies, particularly in Florida, greatly enhanced the marketability of local bank stock and eased some of the problems associated with raising additional capital externally.

An Overview of Credit Conditions

Throughout most of the 1960's, there were strong demands for credit at banks, other financial institutions, and in the credit markets. There were also times when the Federal Reserve System pursued a restrictive monetary policy in order to reduce inflationary pressures in the economy, such as in the "credit crunch" in 1966 and during most of 1969. As a result of strong credit demands and tight monetary conditions, banks throughout the nation faced rising interest rates, were forced by competitive conditions to adapt their credit policies accordingly, and had to search for new deposit sources. In the District, Atlanta emerged as the center of a regional money market; and the larger District banks, in particular, became more closely tied to financial conditions in the national money market. Even the smaller banks, however, could not escape the new directions that banking took in the Sixties and were affected more and more by credit conditions outside of their immediate service areas.

Increased Competition for Time Deposits Boosts Deposit Growth

Faced with rising credit demands and the need for increased deposits, banks in the Southeast, as

elsewhere, were forced to compete more aggressively for new deposits. By the beginning of the decade, District savings and loan associations had become formidable competitors for the consumer's savings and controlled 57 percent of the consumer's savings deposit dollars, up from 35 percent in 1950. Banks also found that the securities markets and money market financial instruments were attracting increasing amounts of idle funds of business firms and government units. To tap these funds, they raised their interest rates on time and savings deposits whenever possible and promoted a wide variety of new savings instruments.

At the beginning of the decade, banks could pay a maximum of only 3 percent per annum on their passbook savings deposits, and these deposits comprised the major part of the District banks' interest-bearing deposits. Ten years later, the interest ceilings were 4 1/2 percent on savings accounts, after several upward adjustments. But their old mainstay for consumer savings had become less attractive because other types of bank deposits and S & L accounts offered still higher rates. Therefore, by the late 1960's, passbook savings made up less than half of total bank time deposits, although they still constituted the major and most rapidly growing part of consumer time deposits at many smaller banks.

Meanwhile, during the last ten years, time deposits (*exclusive of passbook savings*) grew rapidly, illustrating one of the changes that occurred as banks were forced to compete harder for new deposits. Banks introduced and widely promoted the use of time certificates of deposit (CD's) in order to attract and hold interest-bearing deposits from households, businesses, and governments. They offered to pay interest rates above those previously offered each time the regulatory authorities raised the maximum permissible interest ceilings. Generally, the new time deposits carried longer and more specific maturity structures.

Banks, in particular, welcomed the opportunity to offer the higher interest rates in their drive to attract consumer deposits. They were willing to compete harder for time deposits because they were able to lend and invest additional funds at generally higher interest rates. Banks made increasingly more consumer instalment, mortgage, and term business loans and invested heavily in municipal obligations, areas that were more profitable than some of the more traditional credit outlets.

Until late 1966, savings and loan associations were not subject to deposit rate ceilings and had an advantage over banks in competing for consumer time deposits. Then, for a brief period during 1966, banks offered higher rates than the

S & L's and quickly experienced large deposit inflows. As a result of this widespread disintermediation that occurred in the summer of 1966, the bank and nonbank regulatory authorities were authorized to jointly determine interest rate ceilings for banks, S & L's, and savings banks. Since then, interest rate ceilings have changed at the same time, although an interest rate differential in favor of the S & L's has been maintained.

While consumers were attracted by the higher rates offered on the longer-maturity time deposits, the large-denomination negotiable CD's (those in excess of \$100,000) drew in large amounts of short-term funds from businesses and state and local governments. CD's were attractive, short-term investment alternatives for the sophisticated investor already experienced in investing his idle funds in such money market instruments as Treasury bills and commercial paper. The banks now had a money market instrument that they could offer these investors and attract funds they would otherwise have lost.

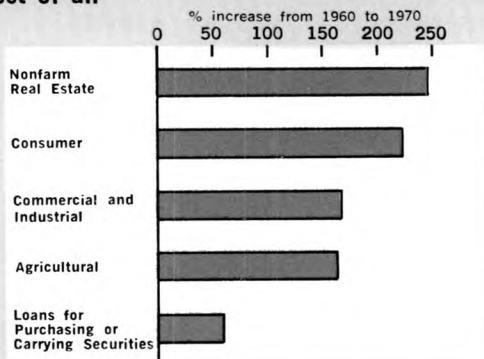
Because banks could more easily adjust their offering rates on CD's, they could better control the growth of these deposits. At the beginning of the decade, only a negligible amount of CD's were outstanding, but by mid-1966 the large District banks had about \$460 million of these money market instruments outstanding and were offering the top rate of 5 1/2 percent. From 1967 on, this volume changed in line with the bank offering rates relative to other short-term financial instruments. CD rates, however, were frequently constrained by regulatory rate ceilings. In 1969, CD runoffs were large, but by 1970 CD inflows had rebounded—reaching almost \$850 million. By early 1972, CD's totaled one and a quarter billion dollars.

Bank Credit Reflects Changed Credit Demands

Rising demands for bank credit during the Sixties influenced the changes in bank investment policies, some of which have been evident for nearly 25 years. Banks had made large purchases of U. S. Government securities during World War II. Since then, they have generally tended to increase their security holdings less rapidly than their loans. At the beginning of the decade, these two types of assets were still fairly close together in the District, as well as nationally. In the last ten years, the volume of bank loans at District commercial banks has nearly tripled and has far outpaced the 123-percent growth in investments.

Bank lending not only increased rapidly during the last ten years, but there was also a notable shift in the growth patterns of the major loan categories. Real estate and consumer loans

Real estate and consumer loans increased most of all



have become proportionately more important and business loans have become less so. Farm loans have maintained their relative standing.

Consumer Credit: The Largest Lending Advance

Banks widely promoted the use of consumer credit, and their efforts, in turn, tended to stimulate consumer purchases on credit. At the same time, rising income and increased savings afforded consumers the means of servicing more instalment debt. As a result, bank consumer lending in the District posted one of the highest rates of growth and the largest dollar growth—\$5.5 billion—during the Sixties of any bank loan category. Consumer loans now constitute the largest single loan area at these banks. Banks generally like to make consumer instalment loans because, in part, they are relatively more profitable than many other types of loans and their relatively short maturities and monthly payments provide liquidity for their loan portfolios.

As might have been expected from the surge in automobile ownership, instalment auto loans—the largest single instalment loan type—was one of the most rapidly growing areas of consumer debt. Loans for new and used automobiles accounted for nearly one-third of the increase in total consumer loans at the District commercial banks and rose to \$2.5 billion, a 250-percent advance.

Other types of consumer single payment and instalment loans also rose quite sharply. Consumers borrowed from banks to finance the repair and modernization of their homes and to purchase household durable goods. Many banks also began to extend substantial credit for purchasing mobile homes. By the end of the decade, District banks were financing nearly \$500 million in mobile

home loans, thus increasing the supply of housing and stimulating a growing new industry in the Southeast.

In addition to the more conventional forms of consumer credit, both large and small banks began to offer credit cards and other related credit plans to their customers. By the end of 1970, consumers were borrowing \$500 million on their bank credit cards.

Increased Mortgage Credit Aids Construction and Housing

Banks are usually thought of as being short-term lenders, but District bank participation in the financing and servicing of real estate loans has become an important and growing aspect of their lending programs. Nonfarm real estate loans held by banks rose about \$3.5 billion, or 250 percent, in the last ten years. The rise in mortgage loans paralleled the banks' increasing dependence on interest-bearing consumer deposits. The generally higher returns on mortgage loans provided banks with suitable investment outlets and encouraged them to compete aggressively for consumer time deposits.

Loans backed by real estate mortgages constitute 21 percent of total District bank loans, up from less than 18 percent ten years earlier. Mortgage loans are one of the rapidly growing lending areas. Loans for residential properties, particularly single-family mortgages, accounted for nearly three-fifths of bank mortgage loan expansion. Those District states that experienced the most rapid growth of housing during the last ten years—Florida and Georgia—were also the states in which banks had the largest increase in residential mortgage loans.

Because banks place a greater emphasis on mortgage loans, they have also provided a larger flow of funds for construction and permanent financing of homes, offices, and business plants. And this financing has had a direct impact on increased construction activity in the region.

Business Loans: Still An Important Lending Activity

Commercial and industrial loans—the traditional area for bank lending in previous years—did not increase as rapidly as other major types of lending. In aggregate dollar volume, however, such loans were an important and significant source of loan growth. Moreover, notable changes occurred in business lending, which reflected some of the changes in credit conditions during the last ten years.

Loans to business firms for working capital, inventories, and investment in new plant and equipment are one way that banks directly

contribute to an increase in output, employment, and income. In the District states, business loans advanced \$4.8 billion to a total of \$7.7 billion, but declined as a proportion of total loans. But in spite of the slower growth in business loans, they still accounted for about 40 percent of the aggregate increase in loan volume during the Sixties. A rising capital base during the last decade enabled the larger District banks to meet bank financing needs of many large and growing business firms. In the past, many large Southeastern firms had to seek bank financing from larger credit institutions outside the District.

At the larger District banks, loans to durable and nondurable goods manufacturers accounted for nearly 30 percent of business borrowing and for a loan volume that more than tripled during the Sixties. At the same time, more than half of the dollar volume of nondurable goods manufacturing loans outstanding was made to textile, apparel, and food products firms—some of the District's largest employers. Bank lending to durable goods manufacturers was concentrated in primary metals, machinery, and transportation equipment. Borrowing by transportation, communication, other public utilities, construction, and wholesale and retail trade firms at District "money market" banks also advanced rapidly.

These large banks tailored their lending policies to meet the credit needs of business firms in other important ways. Like the larger banks nationally, these banks became increasingly willing to extend term credit to business firms for periods ranging up to five or seven years. The higher-yielding and longer-maturity term loans tend to complement the increasing dependence by banks on the more expensive interest-bearing time deposits.

Term loan credit not only increased sharply in absolute volume but also made up an increasingly larger portion of total business loans. Ten years ago, less than 20 percent of the business loans at the larger banks were term loans. Now, however, about 30 percent are term loans, and business firms in the Southeast are able to rely more heavily on District banks for their intermediate- and long-term financing needs.

Farm Lending: A Stimulant to District Agriculture

Total agricultural loans (real estate and nonreal estate) constituted only 6 percent of District commercial bank loans in 1970, but were more important at the medium- and small-size banks. Rural banks in Mississippi, Tennessee, Alabama, and Georgia participated more heavily in farm lending than those in Louisiana and Florida.

While the average size bank loan is increasing, commercial banks, as a rule, tend to make smaller agricultural loans than do other farm

credit institutions. Southeastern farmers obtained about one-half of their nonreal estate farm credit from banks—a percentage below that in other parts of the country. Nevertheless, farm loans constituted a larger proportion of total bank lending in the District than in the U. S.—one indication of the greater importance of agriculture in this region. But the increasing size of farming units and their growing credit requirements also present potential problems for banks. Some banks, and particularly the smaller rural ones, may not be able to keep pace with the rising credit needs of farmers unless they are able to attract additional deposits and expand their capital base. And, if they are unable to service these credit requirements, farmers will be forced to turn to the larger urban banks and nonbank credit institutions for their major credit needs.

Farm loans that are secured by real estate—but may be used by the farmer for other purposes as well—account for one-half of bank agricultural loans. In the District, real estate farm loans more than doubled in the Sixties and far outpaced the rate of increase of nonreal estate credit.

Investment Holdings Shift in Composition and Use

During the last ten years, District banks continued to meet some of the increased demand for bank loans by reducing the proportion of securities in their portfolios. Even so, the volume of security holdings more than doubled. But while the trend toward reduced proportional holdings of securities has been noticeable since World War II, the most important recent bank portfolio adjustments have been in the use and composition of investments.

Reduced use of the investment portfolio to adjust assets for seasonal and cyclical changes in loan demand and reserve pressures undoubtedly accounted for part of the relative decline in bank investments. Typically, during periods when reserves are relatively abundant and loan demand slack, banks add securities. Then, during periods of restrictive monetary policy when they are pressed for reserves and new loan requests and need to honor their previous loan commitments, banks tend to reduce their net purchases or to liquidate a portion of their investments.

During the last ten years, however, reserve adjustments by purchasing and selling short-term U. S. Government issues and borrowing from the Federal Reserve System were partly replaced for some banks by varying Federal funds sales and purchases, adjusting offering rates on CD's, and using nondeposit sources of funds. These developments have better enabled banks to meet requests for credit, particularly during periods of restrictive credit.

INSURED COMMERCIAL BANKS IN SIXTH DISTRICT STATES AND UNITED STATES

December 1960 and 1970

(Millions of Dollars)

	Deposits			Investments			Loans			Assets		
	1960	1970	Percent Change	1960	1970	Percent Change	1960	1970	Percent Change	1960	1970	Percent Change
Alabama	2,121	5,024	+137	843	1,782	+111	985	2,639	+168	2,350	5,738	+144
Florida	4,867	13,937	+186	1,983	5,202	+162	2,005	6,589	+229	5,352	15,780	+195
Georgia	2,927	7,247	+148	928	1,927	+108	1,508	4,640	+208	3,280	8,860	+170
Louisiana ¹	2,964	6,541	+121	1,135	2,342	+106	1,263	3,330	+164	3,254	7,491	+130
Mississippi ¹	1,351	3,161	+134	560	1,081	+ 93	564	1,741	+209	1,472	3,596	+144
Tennessee ¹	3,314	7,442	+125	1,086	2,256	+108	1,682	4,288	+155	3,656	8,653	+137
District States	17,544	43,354	+147	6,535	14,590	+123	8,007	23,227	+190	19,364	50,118	+159
United States	228,993	482,514	+111	81,020	147,219	+ 82	117,522	292,075	+149	258,359	576,351	+123

	Alabama		Florida		Georgia		Louisiana ¹		Mississippi ¹		Tennessee ¹		District States		United States	
	1960	1970	1960	1970	1960	1970	1960	1970	1960	1970	1960	1970	1960	1970	1960	1970
Percent of Total Loans:																
Commercial & Industrial	35	33	34	33	33	30	40	37	37	29	38	35	36	33	37	38
Farm	8	7	3	3	7	6	4	5	15	15	7	6	6	6	6	5
Consumer	34	36	34	36	33	36	22	28	25	31	32	35	31	34	22	23
Nonfarm Real Estate	16	19	20	24	17	20	20	24	16	19	14	17	18	21	23	24

¹Includes the entire state.

Federal Funds Become Widely Used

The most basic liability management technique involves interbank purchases and sales of funds immediately available for use as reserves at the Federal Reserve Banks. Now, Federal funds are quite widely traded and used by nearly 90 percent of the member banks in the District to cover potential reserve deficiencies or as a source for investing excess funds temporarily. At the beginning of the decade, only about 10 percent of District member banks were buying or selling Federal funds. The smaller member banks are usually net sellers of these reserves and total daily sales in the District have averaged as much as \$1.4 billion during some months. In contrast, the larger banks are usually net purchasers, and the District's total purchases have at times averaged over \$0.9 billion. The Federal funds market has, to some extent, developed into a more attractive alternative for banks to adjust their reserve positions than the more traditional technique of buying and selling Treasury bills.

The Control of CD's

For about twenty-five of the largest District banks, the control of large-denomination CD's has influenced their ability to meet requests for credit. In late 1968, when monetary policy became restrictive, these banks had about \$700 million in negotiable CD's outstanding. At that

time, rates on competing money market instruments, such as Treasury bills and commercial paper, began to exceed maximum rates allowed by the Board of Governors. Consequently, banks in this District, as elsewhere, experienced runoffs of these interest-sensitive funds. By early 1970, the total amount of CD's outstanding had declined to almost \$400 million. But the relative decline was even more severe at the larger Atlanta banks. They lost nearly three-fourths of the \$260 million in CD's outstanding in December 1968. During the time that these money market banks were unable to attract or hold CD's, they were forced to curtail their credit extension. Rate ceilings were raised on most time deposits in January 1970 and then suspended on the 30-89 day CD issues in June 1970. Since then, banks have been able to adjust their CD offering rates to regulate the flow of new deposits with the demand for bank credit.

Nondeposit Sources of Funds

Still, the extensive loss of CD's during 1969 did not leave some of the larger District banks completely helpless. Through the extensive use of new liability management techniques, they were able to continue honoring many old and new requests for credit. Some banks sold loans under repurchase agreements to former CD customers. This technique—an old practice previously involving only securities—provided purchasers with a higher rate of return than banks could offer on

CD's. At the same time, the repurchase agreement insured against any loss on the loan and provided some liquidity. At its peak, this nondeposit source of funds brought in over \$170 million in this District, but these transactions were brought under interest rate ceilings in the summer of 1969.

After the rates under repurchase agreements were effectively controlled, other techniques came into use. Some banks turned to the sale of commercial paper by their holding company subsidiaries and, then, had the subsidiaries purchase loans from the parent banks with commercial paper proceeds. Since commercial paper sold by holding company affiliates was not subject to interest rate ceilings, banks had an effective method of tapping the money market for funds. Soon District banks attracted nearly \$235 million, and these funds reduced some of the pressure to further restrict their credit extensions. During 1970, easier credit conditions and less restrictive interest rate ceilings made use of most of these nontraditional adjustment techniques unnecessary. In the Sixties, District banks discovered both the necessity and means of managing nondeposit liabilities in order to make reserve adjustments and to meet credit demands. They also used the traditional asset adjustment techniques, though more judiciously than before.

Slower Growth in

U. S. Government Security Holdings

During the Sixties as a whole, District banks increased their Government holdings 25 percent to slightly over \$6 billion, but holdings of Government securities at banks throughout the nation declined 3 percent. This variation in trends reflects some differences in banking characteristics between this District and other parts of the country. In the District states, there are a relatively large number of small- and medium-sized banks that are still guided by basically conservative investment principles. The larger District banks added only small amounts of U. S. Government securities to their portfolios. On the other hand, the smaller non-member banks increased their holdings of these relatively liquid and safe investments more than 60 percent. Although they held only 30 percent of Government securities in the District, these banks accounted for 80 percent of the net increase at all District banks.

Municipal Obligations: Attractive Investment Outlets

States and their political subdivisions issued large amounts of tax-exempt bonds during the Sixties to finance road building, sewer and water projects, educational facilities, public housing,

and other municipal activities. Furthermore, nearly one-half of these new issues came to market in the period from 1967 to 1970, and banks purchased large amounts of these municipal obligations. In part, they found these tax-exempt obligations attractive investments that helped them offset the rising interest costs of time and savings deposits and benefited their local communities in financing new public capital expenditures.

Indeed, District banks added state and local government obligations to their investment portfolios at an almost phenomenal pace. Their holdings of tax-exempt obligations in the Sixties rose \$5.1 billion—an increase of 355 percent. The most rapid growth in bank municipal obligations, however, took place in the latter half of the decade. Between 1967 and 1970, 60 percent of the net additions for the entire decade occurred. This was also when new offerings accelerated and municipal bond yields moved up to historic highs.

District banks purchased these tax-exempt securities with only a slight letup during the restrictive credit conditions of 1966 and 1969, contrasting sharply with the reduction in holdings of U. S. Government securities. Now a major investment outlet, municipal obligations are likely to continue to attract considerable attention from banks in the future.

The Direction of Banking for the Seventies

We have seen that during the last decade, District banks experienced substantial growth in a climate of considerable change. Some of the events were merely a continuation of trends noted in earlier years, but some indicate that bankers were reacting differently when faced with new situations. Most likely, the Seventies will result in a similar pattern: Longer-run trends will continue, although probably not as pronounced as they were in the past. We can probably expect that bank lending will continue to advance, the acquisition of municipal obligations will expand, and deposit growth will be strongest in the area of interest-bearing deposits. Moreover, banks will likely face increased competition from other financial institutions for deposits and loans. But at the same time, bankers have shown they have initiative to undertake new techniques to improve and expand their operations. New innovations in liability management, payment systems, and developments stemming from the widespread use of the holding company form of organization will probably develop more fully and will be the areas of banking activity offering the greatest opportunities for future expansion. And these banking activities should be interesting to watch mature in the future.■

Federal Economic Policies in Perspective

by Robert H. Floyd

"Will taxes ever stop going up? It seems that every time I get a raise, taxes take half of it. Of course, the whole problem is that Government expenditures keep going up, up, and up. And to make matters worse, the Government is always running a deficit, and the national debt just keeps increasing. Why, each citizen in the country would have to pay about \$2,000 just to pay off his share of the national debt. And all this when jobs are hard to find. Why doesn't the Government do something about it? If the government budget were run under sound business principles, all of our troubles would be over."

How many times have we heard conversations such as this? How accurate are the thoughts of the speaker? If the Government were really run by sound business principles, would it result in sound government for the nation? The answers to these questions will become clearer if we review the objectives of the Government in the economy and some of the methods available to it to achieve them.

As generally understood, fiscal policy is the discretionary management of the Federal budget—in particular, the level of tax receipts, expenditures, and the associated surplus or deficit—in order to stabilize the economy at a high rate of employment and with reasonably stable prices. Even though this is only one aspect of the Government's economic policy, it is the aspect that we hear about and see almost daily. More appropriately, it might be called "stabilization policy."

Although stabilization policy should largely determine the level of budget surplus or deficit, it has less relevance in determining the level of Government expenditures and the types of taxes employed. Two other aspects or objectives of Government economic policy are also important for most decisions affecting budget expenditures and taxation, especially with regard to their structure. These objectives that are often overlooked or misunderstood greatly influence the uses of Federal expenditures and the intended impact of taxes on various members of society. After a brief review of stabilization policy, this article focuses on these two other objectives—the efficient allocation of the nation's resources and the equitable distribution of the nation's income. Thus, the primary concern of this article is what might be called "allocation policy" and "distribution policy."¹

Stabilization Policy

Economic stabilization is actually the newest of the Government's economic objectives. Not until the Depression of the 1930's did economic science

¹This discussion is based on the work of Professor Musgrave. See Richard A. Musgrave, **The Theory of Public Finance** (New York: McGraw-Hill Book Company, 1959), Chapter 2.

begin to accept the reasoning of those who said that an economy would not automatically stabilize itself at a full employment level. Thus, variations in the level of tax receipts and Government expenditures came to be accepted as one method of meeting our economic goals of full employment, stable prices, and vigorous economic growth. Although it is not always clear which of these goals is paramount, and even though one Government policy cannot be expected to achieve all three simultaneously, one may assume that the Government's budget is designed to achieve at least one of these objectives. But how does the process operate?

In the simplest sense, stabilization policy directly affects the level of economic activity by changing the level of taxes and expenditures. If there is unemployment, then there is not sufficient demand to absorb the output that the economy could produce at full employment. By increasing its own expenditures for goods and services, the Government adds directly to the level of demand. It is not necessary, however, for additional Government expenditures to take up all of the deficiency in demand. The process is cumulative. The additional Government demand will almost surely stimulate additional private demand. For example, new jobs are created (or existing jobs are preserved) to fill the order. The new jobs create income for those formerly unemployed. The new income will, in turn, be spent to create even more new jobs and more disposable income. This process is known as the "multiplier" effect.²

Alternatively, the Government could hold its expenditures constant and lower taxes. In this event, income remaining after taxes (take-home pay) would rise, thus permitting an increased level of expenditures. Usually, higher expenditures could be expected to start a cumulative process of additional job and income creation. Economists normally expect, however, that persons would not spend all of their savings. Some would be saved and would not tend to start the cumulative process. Thus, it is believed that an increase in Government expenditures would have a slightly more powerful effect on the economy than would an equal reduction of taxes. The 1964 tax cut, however, is widely credited with having been a major factor inducing lower unemployment and

more rapid growth during the mid-1960's in this country.

In addition to the deliberate management of taxes and expenditures to stabilize the economy, there are certain elements built into a budget that tend to help stabilize the economy automatically. These are commonly called "built-in stabilizers." For example, when unemployment develops in the economy, some Government transfer payments, such as unemployment compensation, automatically rise. Moreover, income tax receipts fall or, at least, grow more slowly. Either of these factors tends to increase the Government deficit and the expansionary impact of the budget, thereby cushioning the decline in the economy.

This description of stabilization policy is, at best, greatly simplified. A more complete discussion would delve into many aspects of the problem that can only be mentioned in passing. For example, if the economy is plagued with demand-pull inflation, then the process just described would be reversed in order to stem the inflation. Another important aspect is that there must be some method for financing budget deficits or for disposing of budget surpluses. This financing requirement gives rise to still other effects on the level and composition of liquidity in the economy. Furthermore, the budget is not the only method by which governments can attack stabilization problems. For example, incomes policies, such as the current Phase II, have been used to hold down cost-push inflation resulting from structural maladjustments in an economy.

Finally, there are two other important aspects of stabilization policy that should be mentioned briefly. First, the stabilization role of budget finance is entirely restricted to the Federal Government. No single state or local government's budget is sufficiently large to be effective in combating unemployment or inflation. Both problems are nationwide in scope and are not subject to local remedies. Second, unlike the allocation and distribution objectives of fiscal policy, there is an important stabilization role for discretionary monetary policy. The monetary authorities must independently ensure that the supply of banking reserves is adequate to finance stable growth and high employment without fueling inflation. At the same time, except in very limited cases, the stabilization roles of monetary and fiscal policies are inextricably tied together. In particular, the indirect financial effects of fiscal policy on the economy give rise to the interrelation of monetary and fiscal policy actions that must be considered in the determination of monetary policy.

The Allocation Objective

Let us now turn our attention to the efficient allocation of the nation's resources. If our limited

²More sophisticated analyses would argue that Government expenditures should not be varied freely for stabilization purposes. The level of expenditures should be set to satisfy other objectives, particularly to allocative objectives of providing the necessary level of public goods and services. This argument does not apply to expenditures for distributional goals. Thus, total expenditures could still be increased by raising transfer payments. In this case, increased Government expenditures would not add directly to the level of demand. However, the additional income of private citizens would tend to increase their demand for goods and services and, therefore, to set the multiplier effect into motion.

economic resources are utilized as efficiently as possible, then the economy will produce the greatest and least expensive possible output to satisfy our demands for goods, services, and leisure. Efficient resource use implicitly means, therefore, that the economy will produce the greatest possible output of the goods and services that people want it to produce and that it will produce this output at the lowest possible unit cost. Any inefficient use of resources would mean that there is less output and/or higher unit costs. To ensure efficient resource allocation is obviously one desirable goal for the Government. For years, it has been a *traditional* role of governments.

Ordinarily the private markets of a free enterprise economy automatically tend to allocate resources efficiently. Production is arranged so that the output supplied will be geared to meet effective consumer demands. Moreover, competition in private markets ensures that prices paid by buyers approximate the value (cost plus a reasonable return to invested capital) of the goods purchased. Why then is Government action sometimes required to achieve efficient resource allocation? The answer is that it is *not always required*. Indeed, Government action is appropriately limited to cases where the private markets do not work efficiently or do not work at all. Let us consider some of these cases.

Justifiable allocative policy can include Government action in cases where the private market would provide goods or services but would do so inefficiently or at monopoly prices. In the case of monopolies and near monopolies, the Government usually employs legal regulation of pricing and output decisions—rather than taxes and expenditures—to correct the problem. For example, the prices that most utilities charge are usually subject to approval by some governmental authority. Sometimes, legislative or judicial action is used to break up large monopolies. In some other cases, none of these actions would result in efficient or competitive-like behavior by monopolists. Certain characteristics of an industry may mean that private production can be accomplished only by very large firms, if not monopolies. Depending on the circumstances, tax-subsidy schemes may be required to ensure competitive-like pricing and efficient allocation.

The pollution problems that have recently garnered substantial public attention in our society illustrate another situation for which there is the need for Government action in the marketplace. Much pollution arises because in many production processes it is cheaper to pollute than to produce a product without pollution. Consider a simple example. Suppose a factory's smokestack pollutes the surrounding environment. Because the manufacturer does not have to control the

pollution by removing noxious gases and particles from the smoke, the cost of this product is lower than it would be if the pollutants were removed. Therefore, the cost of the pollution involved in the production process is not borne by the buyers of the product, but, rather, by those who live or work near the smokestack. It is borne by this limited group in unexpected forms, such as higher medical costs because of breathing polluted air, or increased cleaning costs in their homes, or for their clothing.

Since the price of the product does not include its full cost to society, economists say that the product is oversupplied. Buyers purchase more of the product than they would if they were forced to pay the full cost. Thus, economic resources are not efficiently allocated. How can the Government rectify the situation? In a recent example, the Administration has proposed a tax on sulphur emissions in order to combat this environmental pollutant. By taxing the pollution, the economic impact will be to force the buyer to absorb the true cost of the product through higher prices (either because of the tax itself or through reduced pollution and, consequently, higher prices). With higher prices, the amount demanded of the product and its output will fall. Thus, the tax will have the effect of improving the allocation of resources and, presumably, resulting in some reduction in pollution.

There are two sides to this coin. Some products yield benefits to society that are not reflected in the prices of the products. If the market price of such a product is too low, the producer does not receive a fair return, and the product is undersupplied. In order to increase production, a subsidy out of the Government's revenues or resources to the producer would be appropriate. For example, in the Nineteenth Century, the Government gave large right-of-way grants to the railroads expanding into the American West. This subsidy greatly aided the nation's development by assuring that adequate resources were channeled into badly needed transportation facilities. An even more recent example is the establishment of Amtrak, a quasi-public corporation intended to revitalize railroad passenger service in the United States.

Thus far we have discussed situations in which the private market can provide the output to satisfy private demand, but can do so only at the cost of inefficient use of economic resources. Fiscal or some other form of Government action is required only to correct the inefficiency resulting from the market failure. A second major situation requiring Government action is when the private market cannot or will not satisfy the demand at all. These are situations where the Government must provide public goods that the public desires but either could not or would not purchase by

their individual action. A national defense system and a judicial system are examples.

When the private market does not function, there is a major problem in determining how many of our scarce economic resources should be devoted to the provision of public goods. Citizens do not go to a market and purchase a certain amount of defense protection or of court time. Consequently, it is not possible to determine exactly how much they desire. These decisions are made indirectly, however, through the political process. If incumbent officeholders are not budgeting public funds in a desired manner, or if they are devoting too much or too little to the provision of public goods, then the voting public will presumably elect new officials who will satisfy their desires.

Regardless of how many resources are devoted to public goods, they are generally provided via a tax and expenditure process. By imposing taxes (or borrowing), the Government reduces private demand and frees resources for public uses. By expenditure of tax revenues, it actually transfers resources from private to public use and determines which public goods are provided. In general, the resources that are allocated by the Federal Government to public uses provide goods and services that benefit the country as a whole.

But not all desirable allocative activities are nationwide in their scope. Many of the requirements for governmental action are regional or local. Thus, Federal action is not always required. State and local governments also have legitimate allocative objectives and activities. Where the allocative problems are local, local action may be sufficient to correct them. Finally, regardless of the level of government involved, the resources diverted from private use definitionally equal the resources used for public goods, even though, in a budgetary sense, expenditures and tax receipts may not balance if borrowing is employed to finance capital expenditures.

Whether the allocative objective of Government policy be achieved through budget policy or through legislative regulation, it contrasts sharply with other instruments of economic control, such as monetary policy that generally cannot distinguish deliberately in its impact. A general expansion of the money supply, for example, would affect both firms that pollute and firms that do not pollute. Monetary expansion cannot be depended upon to cause one industry to expand (as would a subsidy) and another to contract (as would a tax). This does not mean that changing monetary conditions do not actually affect some industries differently than others—for, indeed, they do. It merely means that monetary policy cannot effectively and deliberately influence the allocation of resources within or between the public and private sectors of the economy.

The Distribution Objective

For many years, the allocative objective was considered to be the only valid function of Government economic policies. Social and economic institutions have changed over time, however, and so have the ideas of men and the roles they assign to their governments. Experience has shown that even an economy with efficient resource allocation may have an undesirable distribution of income and wealth. The manner in which an economy's income and wealth are distributed among its members is importantly affected by noneconomic forces. It is determined by such diverse factors as the laws of inheritance, innate and acquired talent, the availability of education, and mere chance. If left to such factors alone, there is a strong possibility that over time a very uneven distribution of income and wealth may develop. If it is sufficiently uneven, such a distribution is both socially and economically undesirable. For example, it might lead to social discontent and, simultaneously, retard economic growth from which both rich and poor would have otherwise benefited. Thus, there are not only moral objections to extremely uneven distribution, but there are also economic reasons for the central Government to take an active role in preventing uneven distribution.

The Government faces two distinct and important questions if it wishes to counter any detrimentally unequal distribution of income. First, how much redistribution is needed? The answer to this is largely a social issue. It requires value judgments that will please some and disgruntle others. There are, however, some fundamental guidelines. For example, a completely even distribution is probably just as undesirable as a very uneven distribution. A completely even distribution could destroy the incentive for persons to save in order to secure a higher future income. It could destroy the economic incentive for persons to advance their position through more education or hard work. Thus, the desired distribution lies somewhere between a completely even state and a situation of a few in wealth and many in squalor.

If it is determined that a certain redistribution is desirable, the second question is how to accomplish it. Here, the answer is predominantly economic, and it gives rise to the budgetary distributive role. Part of the answer is the determination of just what is to be redistributed or, alternatively, what measurement or criteria will be used to judge the distribution. For example, one may wish to redistribute income and, therefore, the ability to consume. Or one may wish to alter the distribution of wealth. In the United States, income (net of taxes and transfers) is usually employed as a measure of distribution.

But even this is not perfect. Two persons with the same income may derive completely different levels of enjoyment or satisfaction from it.

The choice of a measurement is obviously difficult and could certainly never be answered perfectly. We must accept with reservation, therefore, the use of income as a criterion and ask by what method will it be redistributed.

One way to redistribute income would be to employ subsidies-in-kind financed from tax revenues. That is, persons whose income is too low and who cannot alone improve their position might be provided goods and services free or at low cost, rather than money. The soup and bread lines of the Depression are examples. Even today, the Food Stamp Program and free health clinics are essentially subsidies-in-kind. These can be useful in achieving socially desirable goals, such as good health. They may involve the undesirable aspect, however, of offering a person something that he might not want or need, and consequently, something that might not help him improve his position in life.

Another way to redistribute income is legislative interference in competitive markets. For example, agricultural price supports tend to divert real income away from consumers of agricultural products to producers of agricultural products. Minimum wage levels have important distributional objectives. Tariffs may raise the level of real income of workers and/or profits in the protected industry. All of these techniques interfere, however, with the efficient allocation of resources. In the absence of a specific allocative need for intervention, they could be detrimental to our economic well-being. For this reason, economists generally prefer another method.

Probably the most desirable method to achieve a distributional goal is a tax/transfer process. This process does not dictate to the recipient how he shall use his income, and it does not interfere with the functioning of private markets. From the taxation side of the process, the tax burden varies with the level of income. The greater a person's income, the proportionately greater will be his tax burden. In the United States, the progressive income tax is used to raise almost half of the Federal Government's revenue. The wealthy, and especially the middle-income groups, must pay a larger proportion of their income than poorer groups even though some of the progressivity is offset by excise and other nonprogressive taxes.

Consideration of the tax distribution is not enough; there is another side of the story. Just as tax bills are a burden to various individuals and groups, Government expenditures provide benefits to various individuals and groups. So long as the Government expenditures and the benefits derived from them are not distributed

in exactly the same manner as the tax burden, there will be a net redistribution of income.

Consider the following simple example shown in the table. Suppose that there are two persons in the economy—one wealthy and one poor. Suppose that a progressive income tax is levied and that Government expenditures are entirely transfer payments that are equally distributed between the poor and the wealthy person. Table 1 shows that the effect of the progressive tax is to reduce the wealthy person's share of the economy's total income after taxes from 67 percent to 62.5 percent. When the effects of the equal transfer payments are also considered, the wealthy person's share of total income after taxes and transfers is reduced to only slightly more than 58 percent of the economy's total income. The effect of the tax/transfer process has been, therefore, to shift about 9 percent of the economy's income from the wealthy to the poor person. In other words, income has been redistributed with minimum interference in the pricing and output decisions of free markets.

A Tax/Transfer Scheme of Income Redistribution					
Person	Income Before Taxes	Taxes	Income After Taxes	Transfers	Income After Taxes and Transfers
Wealthy	200 (67%)	75	125 (62.5%)	50	175 (58%)
Poor	100 (33%)	25	75 (37.5%)	50	125 (42%)

In the United States, purchases of goods and services account for about 45 percent of Federal Government expenditures. About three-fourths of purchases are for national defense purposes, which presumably would tend to benefit rich and poor equally. Transfer payments to individuals, largely Social Security and welfare payments, account for about 30 percent of Government expenditures. Since these almost surely accrue primarily to older and poorer persons, the progressivity of the tax system is supplemented. Finally, grants-in-aid to state and local governments account for about 12 percent of Federal Government expenditures. While there is no evidence, the presumption might be that these expenditures finance local programs that benefit all persons equally or are used for poverty programs and welfare purposes. In such cases, they would tend to supplement the tax system's progressivity. Finally, it is of interest to note that recent proposals, such as the proposed Family Assistance Plan and the closely related negative income tax, would have the effect of tying together more closely the tax

and expenditure effects on income distribution. Persons or families that are unable to earn for themselves an adequate income would receive an income supplement rather than paying taxes.

In a limited sense, the distribution aspect of Government economic policy does not involve a budget surplus or deficit. The additional taxes paid by the wealthy either reduce taxes that would have, otherwise, been paid by the poor or they may be used to increase the command over resources by the poor. In either case, the resources given up by the wealthy will equal those gained by the poor. Unlike the allocative objective, the distributional objective requires only that resources be redistributed within the private sector of the economy. There is no net transfer between the public and private sectors.

The distributional objective also differs from the allocative objective in that it is highly doubtful whether state and local governments can accomplish in practice an effective income redistribution. For example, a state that attempts to redistribute income by using a progressive income tax and higher welfare payments than another state might, instead, force its wealthy residents to migrate to lower tax states and, at the same time, attract many welfare clients to move in. To the extent that this occurs, the state's policy would not be very effective in redistributing income. Since migration to escape Federal taxes is much more difficult, however, the Federal Government is probably much more effective in redistributing income.

Finally, note that there is no deliberate role for monetary policy in altering income distribution. The Federal Reserve does not have the power to transfer credit resources from rich to poor. For example, it cannot set maximum interest rates charged to poor persons lower than those to the rich. Nevertheless, changes in monetary conditions often have a distributional impact. High consumer loan rates hurt the poor more than the rich. General inflationary conditions hurt fixed-income recipients and help debtors. However, the causes of these distributional effects are diverse and are not under the control of the monetary authorities. Monetary actions should not be influenced by the distributional side effects that arise with monetary efforts to stimulate or restrict aggregate demand. To the extent that the side effects are undesirable, they should be rectified by Federal action to either eliminate the causes or to offset the effects with an appropriate tax/transfer scheme.

Summary and Conclusions

Clearly, the problems of Federal economic activity are an extremely complicated matter. Our conversationalist's statement that taxes or expenditures are too high greatly oversimplifies the problems. They are high primarily because the

needs and functions that are met by the Government are great. If we are to employ our resources efficiently, then an economic role arises for all levels of government in the economy. If we are to ensure that our nation's output and income are shared, not equally, but at least equitably by all, then an additional role arises. Finally, an active Government stabilization policy is a small price to pay to help maintain a high level of employment at a reasonably stable price level.

Thus, if we are to accept our conversationalist's statements, then we must assume that he really meant something like the following:

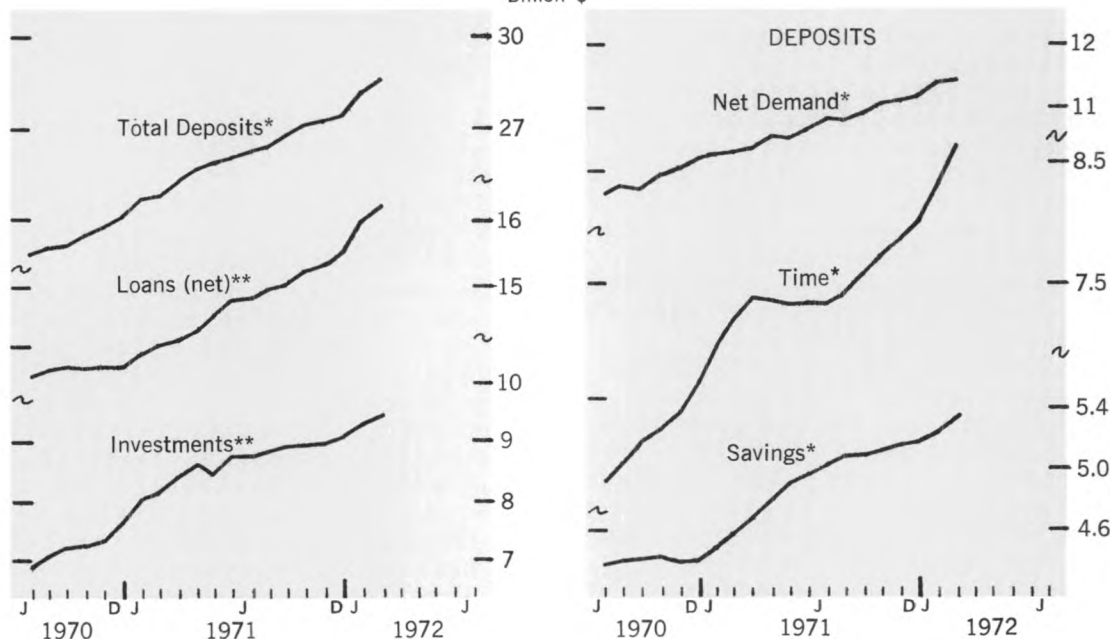
"Government expenditures are too high because too many of our economic resources are being devoted to public uses such as defense. Or, perhaps, too much income is being redistributed from the young or rich to the old and poor. Our taxes are too high because the economy is overheated; or, perhaps, the products I buy now carry a special pollution tax; or, perhaps, I earn more income than most persons." When viewed in this perspective, it is clear that the problems of high taxes and expenditures are more difficult than we thought. If we really want them reduced, we must face the hard choice of which Government programs are to be reduced, or we must make every effort to ensure that the Government itself is efficiently operated.

Even the framework in which this article has discussed economic policy oversimplifies the actual economic operations of the Government. For example, each annual budget is actually comprised of a variety of programs designed to achieve allocation, distribution, and/or stabilization goals. Each individual program, each tax, each expenditure is likely to have effects on each objective. Thus, although one may see more clearly the role of justifiable Governmental economic activity from the framework in this article, the actual result will depend on the interactions of all Government activities.

Finally, the annual budget is only a part of Governmental economic activity. Other economic policies are also necessary and have a major impact on allocation, distribution, and stabilization. For example, only the Federal Government could effectively impose wage and price controls and, then, only for limited or extraordinary periods. Only the Government can effectively break up or regulate monopolies. None of the various policies are independent of the others. Each facet affects the others. The ultimate impact of the Government in the economy, therefore, is a result of numerous actions. It is important to view not only the pieces but also the puzzle before we conclude that our taxes or Government expenditures are too high. They may not be. ■

BANKING STATISTICS

Billion \$



LATEST MONTH PLOTTED: FEBRUARY

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

SIXTH DISTRICT MEMBER BANK TOTAL INVESTMENTS

February 1972

	Amount (Million \$)	% Change Year Ago		Amount (Million \$)	% Change Year Ago
DISTRICT	9,538.8	+ 16.2	GEORGIA	1,152.0	+ 9.4
ALABAMA	1,398.9	+ 12.2	Atlanta	780.7	+ 4.7
Anniston-Gadsden	84.6	+ 18.5	Augusta	112.6	+ 15.1
Birmingham	619.3	+ 10.7	Columbus	95.3	+ 15.8
Dothan	66.8	+ 14.4	Macon	68.8	+ 18.0
Mobile	255.4	+ 27.8	Savannah	87.0	+ 43.1
Montgomery	234.9	+ 5.0	South Georgia	49.3	+ 6.0
FLORIDA	3,892.8	+ 13.7	LOUISIANA*	1,506.0	+ 33.1
Jacksonville	366.2	+ 7.2	Alexandria-Lake Charles	177.9	+ 18.0
Miami	1,890.0	+ 9.4	Baton Rouge	251.9	+ 49.3
Orlando	528.5	+ 25.9	Lafayette-Iberia-Houma	131.8	+ 15.4
Pensacola	100.9	+ 17.5	New Orleans	955.2	+ 34.6
Tampa-St. Petersburg	1,007.3	+ 18.6	TENNESSEE*	1,167.4	+ 18.8
MISSISSIPPI*	421.7	+ 13.6	Chattanooga	203.0	+ 19.9
Jackson	249.0	+ 13.9	Knoxville	221.4	+ 10.9
Hattiesburg-Laurel-Meridian	108.7	+ 9.6	Nashville	753.9	+ 19.1
Natchez	33.4	+ 35.8	Tri-Cities	105.2	+ 14.3

Note: Figures shown are for trade and banking areas, which include several counties surrounding central cities. Boundaries of some areas do not coincide with state lines.

*Represents that portion of the state in the Sixth District.

SECURITIES: A MAJOR OUTLET FOR DISTRICT MEMBER BANKS

District member banks have continued to acquire securities at a rapid clip. During the first two months in 1972, net purchases advanced nearly \$300 million, close on the heels of 1971's record 19-percent increase of nearly \$1.5 billion. Last year, holdings of municipal obligations increased 26.1 percent; U. S. Government Agency securities, 31.0 percent; and U. S. Treasury securities, 6.6 percent. By way of comparison, the total 1971 increase was just short of the total amount added during the entire five year period from 1962 through 1966.

Most District banks experienced record deposit gains during 1971, since total deposits advanced \$3.7 billion. The combination of these deposits (the majority of which were interest-bearing) with deposits that were already held compelled banks to expand their earning assets. Thus, even though loan demand strengthened during 1971 and was particularly strong from late fall to date, banks were pressured to purchase additional securities.

Municipal obligations continue to be the largest and one of the most rapidly growing parts of District member bank investments—increasing about \$200 million in January and February, following a \$961-million advance during 1971. Many banks undoubtedly regard their purchase of tax-exempt municipals as relatively permanent additions to their investment portfolios, since they rarely decrease their net holdings even under the most severe credit conditions. Indeed, since 1961, District banks have increased their municipal obligations an average of almost 20 percent each year.

Last year, the six District states and their political subdivisions sold \$3.3 billion in warrants, notes, and bonds, up from \$2.7 billion in 1970. District member banks added a net total of \$961 million in District and non-District municipals to their portfolios in 1971, up from just under \$800 million in 1970. Municipal obligations not only provide tax-exempt income to the banks, but short-maturity municipals also enhance the liquidity of bank investment portfolios.

Banks generally feel an obligation to purchase the securities of their state and of their local communities; this support aids their local economies. In recent years, nearly two-fifths of the state and local securities were for the support of housing and urban renewal projects. An additional one-third was nearly equally divided among water, sewage, and drainage projects, educational facilities, and roads. All these projects gave a strong boost to construction activity in the District last year.

Florida member banks acquired \$302 million in

	INVESTMENTS		
	Dec. 1970 (Million \$)	Dec. 1971 (Million \$) (% Change)	
U. S. Treasury	3,150	3,359	+ 6.6
U. S. Government Agencies	723	947	+ 31.0
State and Local Governments	3,685	4,646	+ 26.1
Other Securities	107	217	+102.8
Trading Account Securities	137	119	- 13.1
Total	7,802	9,288	+ 19.0

total municipal obligations in 1971 and accounted for almost two-fifths of the District banks' increase. Member banks in the District portion of Louisiana added \$184 million in municipals, a 43-percent rise. This largely reflects those bank purchases of the New Orleans' domed stadium bonds.

Less than 10 percent of District member bank investments are issues of such U. S. Government agencies as FNMA, GNMA, Federal Land Banks, Federal Intermediate Credit Banks, and TVA. Nevertheless, these holdings increased 30 percent and accounted for over 15 percent of the net increase in total investments last year. Medium- and small-size country banks held over nine-tenths of the agency issues in the District. These banks were attracted to agency issues because they provide higher returns than Treasury issues of comparable maturity, an important consideration when trying to increase income. Moreover, Government sponsorship or Government guarantees provide considerable investment safety for agency issues and, as wider secondary markets develop, these issues will become increasingly more liquid. Florida banks accounted for over two-thirds of the increase last year and for nearly three-fifths of the District's member bank holdings.

Treasury bills, notes, and bonds increased \$209 million in 1971, less than a 7-percent advance. But, during the first two months of 1972, banks added more than \$70 million, mainly because of additional holdings acquired at the mid-February exchange offering by the Treasury. Despite the safety and liquidity of Treasury securities, banks undoubtedly feel that current holdings are adequate to liquidate any securities should they need to meet reserve pressures or to honor loan commitments.

JOHN M. GODFREY

Sixth District Statistics

Seasonally Adjusted

(All data are indexes, unless indicated otherwise.)

		Latest Month	One Month Ago	Two Months Ago	One Year Ago			Latest Month	One Month Ago	Two Months Ago	One Year Ago
SIXTH DISTRICT											
INCOME AND SPENDING											
Manufacturing Payrolls	Jan.	142	140	137	132	Unemployment Rate					
Farm Cash Receipts	Jan.	142	126	123	128	(Percent of Work Force)	Feb.	5.0	5.3	5.6	5.0
Crops	Jan.	175	142	141	136	Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb.	40.7	40.9	41.4	39.9
Livestock	Jan.	132	132	126	133	FINANCE AND BANKING					
Installment Credit at Banks* (Mil. \$)						Member Bank Loans	Feb.	167	166	163	144
New Loans	Jan.	388	414	442	315	Member Bank Deposits	Feb.	151	151	147	133
Repayments	Jan.	351	342	364	317	Bank Debits**	Feb.	168	169	158	134
EMPLOYMENT AND PRODUCTION						FLORIDA					
Nonfarm Employment	Jan.	114	112	113	112	INCOME					
Manufacturing	Jan.	107	105	105	105	Manufacturing Payrolls	Jan.	145	138	136	140
Nondurable Goods	Jan.	108	108	107	108	Farm Cash Receipts	Jan.	134	151	135	101
Food	Jan.	106	103	102	105	EMPLOYMENT					
Textiles	Jan.	105	104	104	104	Nonfarm Employment	Jan.	122	121	122	119
Apparel	Jan.	104	105	104	103	Manufacturing	Jan.	109	107	108	109
Paper	Jan.	108	107	108	110	Nonmanufacturing	Jan.	125	124	124	121
Printing and Publishing	Jan.	115	114	115	115	Construction	Jan.	133	127	129	132
Chemicals	Jan.	106	106	106	106	Farm Employment	Feb.	90	98	97	89
Durable Goods	Jan.	105	104	104	105	Unemployment Rate					
Lbr., Wood Prods., Furn. & Fix.	Jan.	104	101	101	101	(Percent of Work Force)	Jan.	3.9	3.5	4.3	3.9
Stone, Clay, and Glass	Jan.	109	106	106	107	Avg. Weekly Hrs. in Mfg. (Hrs.)	Jan.	41.2	40.8	40.7	41.0
Primary Metals	Jan.	105	103	103	106	FINANCE AND BANKING					
Fabricated Metals	Jan.	111	112	113	112	Member Bank Loans	Feb.	190	188	182	160
Machinery	Jan.	162	162	162	160	Member Bank Deposits	Feb.	181	175	172	156
Transportation Equipment	Jan.	102	103	101	104	Bank Debits**	Feb.	207	194	196	169
Nonmanufacturing	Jan.	116	115	115	114	GEORGIA					
Construction	Jan.	119	110	110	114	INCOME					
Transportation	Jan.	115	114	113	113	Manufacturing Payrolls	Feb.	143	145	141	131
Trade	Jan.	116	112	114	113	Farm Cash Receipts	Jan.	129	136	114	132
Fin., ins., and real est.	Jan.	120	120	120	118	EMPLOYMENT					
Services	Jan.	116	118	118	116	Nonfarm Employment	Feb.	115	115	113	113
Federal Government	Jan.	102	101	102	102	Manufacturing	Feb.	104	105	104	104
State and Local Government	Jan.	124	122	122	119	Nonmanufacturing	Feb.	120	120	118	117
Farm Employment	Feb.	91	94	92	92	Construction	Feb.	109	115	110	105
Unemployment Rate						Farm Employment	Feb.	91	93	99	94
(Percent of Work Force)	Jan.	4.3	4.4	4.6	4.6	Unemployment Rate					
Insured Unemployment						(Percent of Work Force)	Feb.	3.7	3.7	4.0	3.9
(Percent of Cov. Emp.)	Jan.	2.5	2.6	2.6	3.0	Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb.	40.4	41.3	40.3	39.9
Avg. Weekly Hrs. in Mfg. (Hrs.)	Jan.	41.2	40.8	41.0	40.7	FINANCE AND BANKING					
Construction Contracts*	Feb.	211	172	195	133	Member Bank Loans	Feb.	163	164	156	138
Residential	Feb.	273	209	236	144	Member Bank Deposits	Feb.	141	141	137	123
All Other	Feb.	150	137	155	122	Bank Debits**	Feb.	179	182	182	157
Electric Power Production**	Dec.	168	169	168	165	LOUISIANA					
Cotton Consumption**	Jan.	89	90	86	93	INCOME					
Petrol. Prod. in Coastal La. and Miss.**	Mar.	118	119	120	127	Manufacturing Payrolls	Feb.	134	132	128	125
Manufacturing Production	Dec.	258	258	258	245	Farm Cash Receipts	Jan.	119	109	126	118
Nondurable Goods	Dec.	222	222	220	210	EMPLOYMENT					
Food	Dec.	177	176	175	169	Nonfarm Employment	Feb.	109	109	105	105
Textiles	Dec.	257	257	255	236	Manufacturing	Feb.	102	100	100	100
Apparel	Dec.	267	269	266	265	Nonmanufacturing	Feb.	110	110	107	106
Paper	Dec.	204	205	202	199	Construction	Feb.	96	97	87	88
Printing and Publishing	Dec.	161	161	159	165	Farm Employment	Feb.	83	85	85	83
Chemicals	Dec.	282	267	257	266	Unemployment Rate					
Durable Goods	Dec.	300	302	304	286	(Percent of Work Force)	Feb.	6.1	6.0	6.9	6.2
Lumber and Wood	Dec.	189	193	191	168	Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb.	42.4	42.2	42.0	42.5
Furniture and Fixtures	Dec.	181	181	179	182	FINANCE AND BANKING					
Stone, Clay, and Glass	Dec.	174	174	175	172	Member Bank Loans*	Feb.	149	152	149	135
Primary Metals	Dec.	198	195	199	209	Member Bank Deposits*	Feb.	150	147	144	129
Fabricated Metals	Dec.	251	250	249	246	Bank Debits***	Feb.	143	141	150	131
Nonelectrical Machinery	Dec.	384	401	405	353	MISSISSIPPI					
Electrical Machinery	Dec.	635	635	638	627	INCOME					
Transportation Equipment	Dec.	392	398	400	346	Manufacturing Payrolls	Feb.	163	158	149	137
FINANCE AND BANKING						Farm Cash Receipts	Jan.	208	135	111	192
Loans*						EMPLOYMENT					
All Member Banks	Feb.	170	171	165	147	Nonfarm Employment	Feb.	114	114	113	110
Large Banks	Feb.	154	157	151	136	Manufacturing	Feb.	117	116	115	109
Deposits*						Nonmanufacturing	Feb.	112	113	111	110
All Member Banks	Feb.	159	156	153	138	Construction	Feb.	98	105	96	102
Large Banks	Feb.	143	141	135	126	Farm Employment	Feb.	92	98	83	99
Bank Debits**	Feb.	178	174	174	150						
ALABAMA											
INCOME											
Manufacturing Payrolls	Feb.	144	143	139	133						
Farm Cash Receipts	Jan.	182	135	129	162						
EMPLOYMENT											
Nonfarm Employment	Feb.	108	108	109	106						
Manufacturing	Feb.	107	107	107	107						
Nonmanufacturing	Feb.	108	108	110	106						
Construction	Feb.	96	100	99	98						
Farm Employment	Feb.	88	85	89	86						

			One Month Ago	Two Months Ago	One Year Ago				One Month Ago	Two Months Ago	One Year Ago
	Latest Month						Latest Month				
Unemployment Rate (Percent of Work Force)	Feb.	3.8	3.8	3.9	5.1	EMPLOYMENT					
Avg. Weekly Hrs. in Mfg. (Hrs.)	Feb.	40.9	40.8	40.8	39.2	Nonfarm Employment	Jan.	113	112	112	112
						Manufacturing	Jan.	108	108	107	108
						Nonmanufacturing	Jan.	116	115	115	115
FINANCE AND BANKING						Construction	Jan.	137	118	115	123
Member Bank Loans*	Feb.	170	175	168	152	Farm Employment	Feb.	92	94	92	91
Member Bank Deposits*	Feb.	156	152	149	138	Unemployment Rate (Percent of Work Force)	Jan.	3.8	3.8	4.1	4.5
Bank Debits/**	Feb.	177	166	158	148	Avg. Weekly Hrs. in Mfg. (Hrs.)	Jan.	40.9	40.5	40.5	40.5
TENNESSEE						FINANCE AND BANKING					
INCOME						Member Bank Loans*	Feb.	163	168	163	148
Manufacturing Payrolls	Jan.	142	144	139	134	Member Bank Deposits*	Feb.	153	147	146	133
Farm Cash Receipts	Jan.	133	109	170	111	Bank Debits/**	Feb.	158	154	154	133

*For Sixth District area only; other totals for entire six states

**Daily average basis

†Preliminary data

r-Revised

N.A. Not available

Note: Indexes for bank debits, construction contracts, cotton consumption, employment, farm cash receipts, loans, deposits, petroleum production, and payrolls: 1967=100. All other indexes: 1957-59=100.

Nonfarm employment data for Alabama, Georgia, Louisiana, and Mississippi have been adjusted to new bench marks.

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)

				Percent Change								Percent Change	
				Jan. 1972 from								Jan. 1972 from	
	Jan. 1972	Dec. 1971	Jan. 1971	Dec. 1971	Jan. 1971		Jan. 1972	Dec. 1971	Jan. 1971	Dec. 1971	Jan. 1971		
STANDARD METROPOLITAN STATISTICAL AREAS						Gainesville	161,316	178,386	126,089	-10	- 28		
						Lakeland	229,423	238,112	186,054	- 4	+ 23		
Birmingham	3,009,116	2,647,599	2,122,695	+14	+ 42	Monroe County	54,094	54,261	49,791	- 0	+ 9		
Gadsden	79,288	86,511	73,376	- 8	+ 8	Ocala	139,565	139,085	98,079	+ 0	+ 42		
Huntsville	253,165	287,991	222,143	-12	+ 14	St. Augustine	30,305	33,079	25,037	- 8	+ 21		
Mobile	825,270	866,841	675,764	- 5	+ 22	St. Petersburg	738,706	732,346	625,022	+ 0	+ 18		
Montgomery	493,637	536,428	409,314	- 8	+ 21	Sarasota	253,145	245,739	193,117	+ 3	+ 31		
Tuscaloosa	158,045	159,548	133,040	- 1	+ 19	Tampa	1,464,147	1,656,174	1,355,608	-12	+ 8		
						Winter Haven	139,634	128,109	106,689	+ 9	+ 31		
Ft. Lauderdale—						Athens	126,405	146,543	140,987	-15	- 10		
Hollywood	1,649,429	1,564,506	1,300,248	+ 5	+ 27	Brunswick	79,203	86,628	62,307	- 9	+ 27		
Jacksonville	2,549,274	2,786,278	1,970,677	- 8	+ 29	Dalton	151,990	162,092	124,563	- 6	+ 22		
Miami	5,323,533	5,407,192r	4,259,391	- 1	+ 25	Elberton	16,282	18,788	16,652	-13	- 2		
Orlando	1,118,567	1,224,925	912,935	- 9	+ 23	Gainesville	99,881	102,017	95,058	- 2	+ 5		
Pensacola	367,611	393,675	310,234	- 7	+ 19	Griffin	52,695	55,351	47,302	- 5	+ 11		
Tallahassee	537,185	502,742	227,769	+ 7	+136	LaGrange	32,018	32,616	26,195	- 2	+ 22		
Tampa-St. Pte.	3,055,627	3,116,269	2,607,638	- 2	+ 17	Newnan	39,388	47,505	28,631	-17	+ 38		
W. Palm Beach	904,004	876,009	779,562	+ 3	+ 16	Rome	114,376	123,832	97,017	- 8	+ 18		
						Valdosta	88,658	85,722	67,488	+ 3	+ 31		
Albany	156,462	160,246	132,642	- 2	+ 18	Abbeville	16,985	19,291	16,175	-12	+ 5		
Atlanta	9,537,008	10,704,780	7,959,200	-11	+ 20	Alexandria	192,307	180,262	184,390	+ 7	+ 4		
Augusta	388,376	440,484	348,906	-12	+ 11	Bunkie	9,006	10,487	8,487	-14	+ 6		
Columbus	350,840	391,972	294,466	-10	+ 19	Hammond	59,853	61,180	49,728	- 2	+ 20		
Macon	430,868	447,549	368,535	- 4	+ 17	New Iberia	54,136	55,123	53,448	- 2	+ 1		
Savannah	418,170	463,550r	360,829	-10	+ 16	Plaquemine	17,746	15,859	17,783	+12	- 0		
Baton Rouge	1,011,807	975,801	818,632	+ 4	+ 24	Thibodaux	41,343	36,346	37,948	+14	+ 9		
Lafayette	205,789	212,692	185,579	- 3	+ 11	Hattiesburg	97,632	98,435	82,403	- 1	+ 18		
Lake Charles	209,808	206,580	182,210	+ 2	+ 15	Laurel	53,772	58,594	51,614	- 8	+ 4		
New Orleans	3,222,736	3,688,732	3,163,528r	-13	+ 2	Meridian	94,554	98,391	78,971	- 4	+ 20		
Biloxi—Gulfport	203,398	190,013	165,190	+ 7	+ 23	Natchez	49,602	52,037	41,565	- 5	- 19		
Jackson	1,009,009	1,093,226	848,208	- 8	+ 19	Pascagoula—							
Chattanooga	1,038,272	1,101,485	1,015,360	- 6	+ 2	Moss Point	107,512	120,470	87,936	-11	+ 22		
Knoxville	684,197	779,798	626,635	-12	+ 9	Vicksburg	54,368	60,248	57,419	-10	- 5		
Nashville	2,390,714	2,575,624	1,893,039	- 7	+ 26	Yazoo City	39,117	36,982	35,534	+ 6	+ 10		
OTHER CENTERS						Bristol	112,588	127,017	100,248	-11	+ 12		
Annonston	88,917	95,391	82,280	- 7	+ 8	Johnson City	126,215	138,967	119,151	- 9	+ 6		
Dotan	115,929	124,647	99,464	- 7	+ 17	Kingsport	200,071	206,276	170,397	- 3	+ 17		
Selma	58,806	69,282	50,022	-15	+ 18	District Total	54,862,176	57,674,421r	45,882,210r	- 5	+ 20		
Bartow	45,874	44,025	42,252	+ 4	+ 9	Alabama†	6,830,616	6,603,507	5,271,725	+ 3	+ 30		
Bradenton	131,403	142,781	116,936	- 8	+ 12	Florida†	19,444,433	19,882,883r	15,673,541	- 2	+ 24		
Brevard County	239,624	286,857r	242,944	-16	+ 1	Georgia†	14,166,723	15,587,731r	12,034,317	- 9	+ 18		
Daytona Beach	150,494	133,681	114,165	+13	+ 32	Louisiana†	5,899,654	6,333,226	5,474,553r	- 7	+ 8		
Ft. Myers—						Mississippi†	2,291,201	2,405,834	1,936,901	- 5	+ 18		
N. Ft. Myers	185,831	190,025	167,564	- 2	+ 11	Tennessee†	6,229,549	6,861,240	5,491,173	- 9	+ 13		

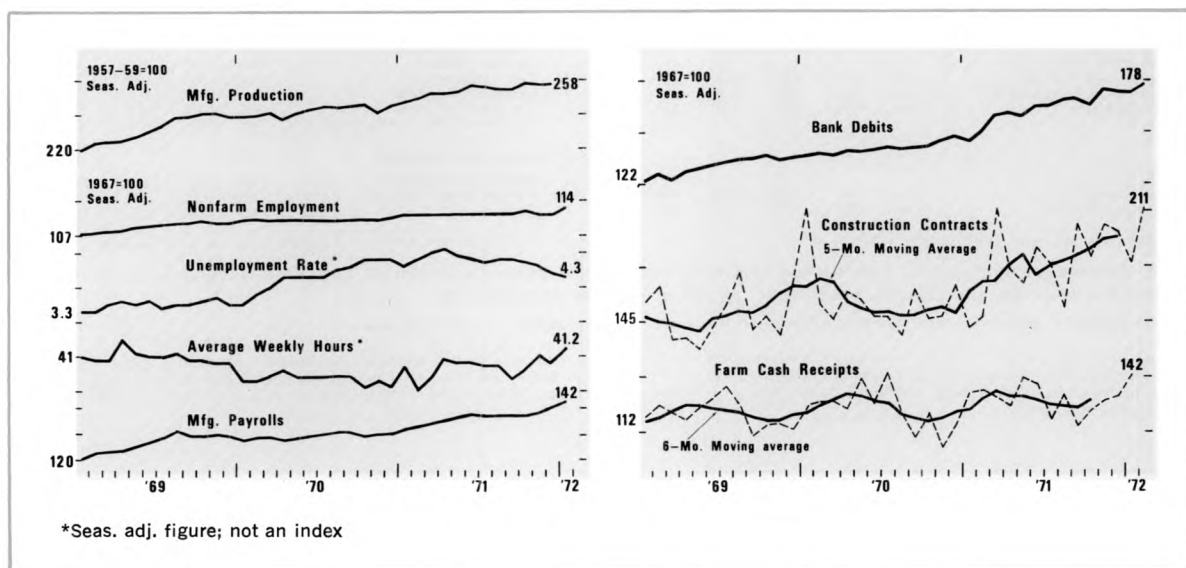
†Estimated

‡Includes only banks in the Sixth District portion of the state; partially estimated.

‡Partially estimated.

NA—Not available.

District Business Conditions



Economic activity continued to gain momentum as spring approached. Consumer borrowing stepped up, and domestic auto sales remained moderately strong. Residential construction contracts snapped back. Farm cash receipts soared. Labor market conditions were stable. Bank loans and investments combined and deposits continued to rise considerably.

In February, the increase in consumer instalment credit outstanding at commercial banks was stronger than in the previous month. Though all types of credit contributed to this gain, nonautomotive consumer goods credit showed the largest expansion. The relatively brisk sales pace of domestically produced autos that continued in February contradicts what some observers had anticipated for early 1972.

The value of construction contract awards rebounded in February, after a two-month decline. Several apartment projects in south and central Florida pushed residential contract awards to a level considerably above the previous record. The monthly level of nonresidential awards, however, has changed little since last summer.

Average prices received by farmers edged upward in February, even though tobacco and vegetable prices declined sharply. Preliminary data for March indicate that cotton and soybean prices increased but all livestock prices weakened. Orange prices dropped following the announcement of the upward revised forecast of juice yield from the current season's crop. January's farm cash receipts were

about 17 percent above the year-ago level, with Florida's 35-percent increase leading the way.

According to preliminary data, regional labor market conditions remained essentially unchanged in February. Boosted by a gain in manufacturing jobs, total nonfarm employment increased in two of the four reporting states. Construction employment dropped back, after a sizable advance in January. The factory workweek remained steady, after posting gains during the past few months. Little change took place in the unemployment rates of reporting states.

Banks continued to experience strong deposit gains through late March, with banks outside of the largest cities posting the greatest increases. Bank lending remained on an upward track, and preliminary data indicate that business borrowing at the largest banks during March was strong and broadly based among all major types of business borrowers. Some of the biggest loan gains showed up in wholesale and retail trade, durable goods manufacturing, and service-type firms. Banks also added to their holdings of municipal obligations at a faster pace than they did earlier in the year.

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