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Another Look at the National Product

A continued forward thrust in business investment, coupled with a temporary sluggishness in some aspects of consumer demand, has characterized the cross currents of business so far in 1956. The current situation in its main outlines, together with the course of events leading up to it, can be seen clearly from a look at the major constituent parts of the Gross National Product.

In this connection, certain rearrangements have been made in the usual form of presentation of the various components of GNP, in order to bring the picture into sharper focus. The discussions and charts which follow are designed to that end. All of the data are from official estimates of Gross National Product and its parts, as published by the U. S. Department of Commerce. No adjustments or changes have been made *within* the components or sectors.

Why a Rearrangement?

One reason for a rearrangement of the component parts of the Gross National Product, for purposes of presentation, stems from the fact that elements of consumer activity and business activity are incompletely separated in the conventional treatment. Thus, outlays for residential construction are included, along with categories of a strictly business nature, within a general classification known as "Gross Private Domestic Investment." From the point of view of explaining economic development in terms of the decisions and behavior of economic groups, residential construction can be better classified with a grouping of consumer categories. The point has special timeliness in any review of recent calendar quarters when residential construction has been showing some relative weakness, in contrast to the investment activity of a strictly business nature (such as outlays for producers' durable equipment) which have provided the main element of upsurge in the total business picture.[1]

Another reason for an expository rearrangement of the conventional classification of Gross National Product lies in the fact that the latter reflects an intermingling of what might be called "growth sectors" and "fluctuating sectors." Growth sectors refer to those parts which are seen, in fact, to increase from quarter to quarter and from year to year with a relative persistence. Fluctuating sectors are those which are relatively more volatile and more sensitive to short-run or cyclical changes; they are the sectors which the trained observer is apt to seek first in his reading of the latest returns.

Separating the fluctuating elements from the growth elements is, thus, one hurdle to be overcome when using GNP data to appraise the new aspects of a particular current situation. Furthermore, for some of the many users of GNP data, it is not always easy to reconcile the message provided by broad GNP information with that provided by somewhat more volatile measures of business activity, such as the Federal Reserve Index of Industrial Production.

Growth Sectors

The accompanying Chart A shows a division of Gross National Product into the two very broad groups of elements which may be

(1) The separation has been performed only roughly here. Some parts of residential construction are business activities rather than consumer. For a more detailed separation, see *Flow of Funds in the United States, 1939-1953* (Board of Governors of the Federal Reserve System, Washington, 1955) particularly Chapter 15 and Appendix B.

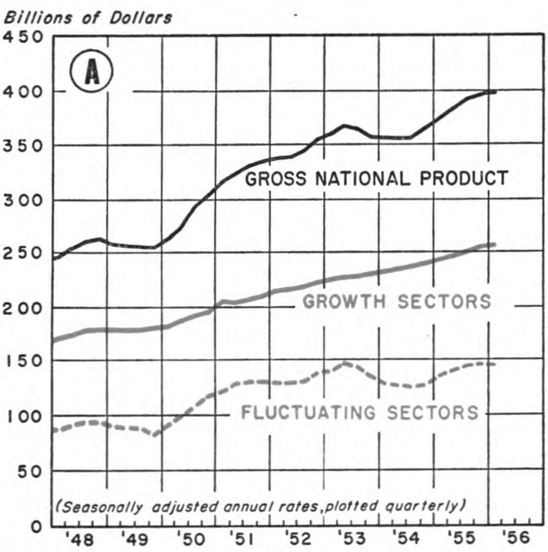
considered, respectively, the "growth sectors" and the "fluctuating sectors." Quarterly standings are shown, in terms of seasonally adjusted annual rates, for the span from early 1948 through the first quarter of 1956, the latest date for which information is available at press time. Chart B shows in greater detail what is included within the growth sectors.

The nature and composition of the growth components may be considered briefly before turning to a consideration of the fluctuating sectors, which is the central point of interest in any short-run analysis. (By contrast, a longer-run view of the economy, spanning many years or decades, might put more direct emphasis upon the growth sectors.)

Of the three separate sectors depicted in Chart B, the one for which the pattern of growth is perhaps most clearly visible, and most familiar, is the line labeled "Consumer Maintenance: Services." (More exactly, in GNP terminology, this is the "services" component of the sector called "Personal Consumption Expenditures.") Here, the growth aspect is taken for granted by most users of GNP data. The regularity of the increase stems partly from its connection with underlying population growth. Other factors which may be at work are certain persistent structural changes in the economy which appear to result in the proliferation of service functions and also, perhaps, some purely statistical factors arising from the methods used in estimating the aggregate values of current services.[2]

The very large component of Gross National Product which is classified as Personal Consumption Expenditures for Nondurable Goods refers to consumer outlays for food, clothing, gasoline and a wide scattering of consumer goods of the relatively "nondurable" (or per-

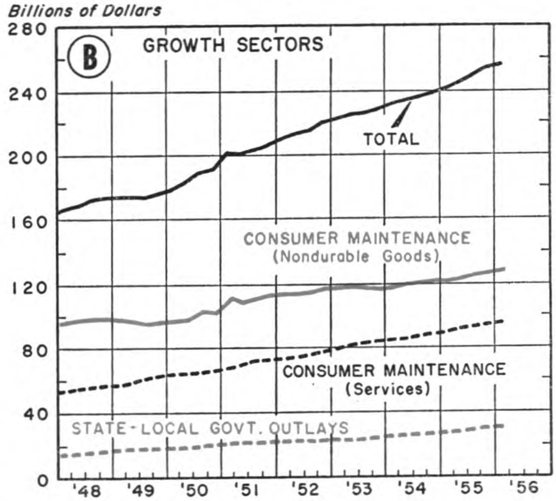
Dividing the Gross National Product into "growth sectors" and "fluctuating sectors" helps to focus attention on the nature of short-term changes.



"Growth sectors" = consumer maintenance (Chart B) + state-local government outlays

"Fluctuating sectors" = "consumer investment" (Chart C) + "business investment" + federal government outlays + net foreign investment

Consumer expenditures for services, as well as purchases by state-local governments, show a persistent rise over the period covered; consumer expenditures for nondurable goods might likewise be considered a "growth" sector.



"Consumer maintenance" = personal consumption expenditures, other than for durable goods

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(2) The services component of GNP includes, for example, the imputed value of current rents on owner-occupied homes. Such inclusion is consistent with the general conceptual framework of GNP, but many users of the data make a mental discount for this item when they are interpreting the meaning of short-run changes in the national product.

haps semi-durable) sort. Chart B shows this sector under the caption "Consumer Maintenance: Nondurable Goods." It is classified here with the "growth sectors," with full recognition that such an arrangement can be subject to question. The plausibility of such a treatment (at least in the context of the purposes at hand) may be seen from the general postwar behavior of this sector, as depicted by the first line under the total on Chart B.

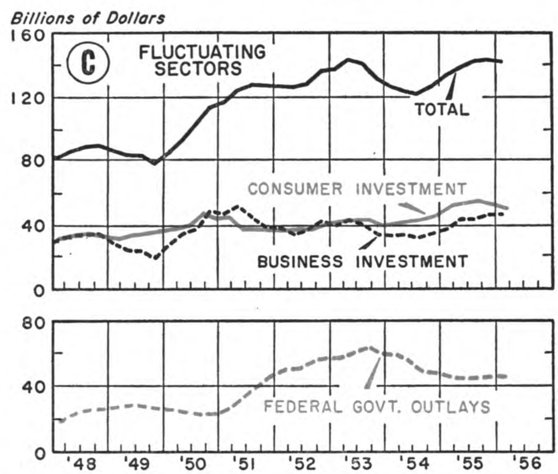
Thus, in spite of some fluctuations which are appreciable in aggregate dollar terms, the main direction of the curve representing outlays for consumer nondurable goods is a persistent and fairly steady rise. The fluctuations are relatively infrequent and, in most cases, are of minor amplitude if viewed in relative, or percentage, terms. Fluctuation is distinct in at least one of the scare-buying episodes of the Korean period (that of the first quarter of '51) but departures from the gradual upward trend are barely noticeable in respect to the sluggishness accompanying the general business recessions of '49 and '54. Altogether, the curve depicting consumer outlays for nondurable goods bears a much closer resemblance to the outlays for services than it does to the sharply fluctuating consumer outlays for durable goods. (The latter is not plotted separately here, but becomes part of "consumer investment" in Chart C.)

It will be recognized at once that a considerable part of the reason why consumer expenditures for nondurables show so much of a persistent growth aspect, and so relatively few significant fluctuations, is that expenditures for food make up the largest single sub-component. A splitting out of expenditures for clothing, or other soft-goods items of the types generally handled by department stores, would undoubtedly show more marked cyclical or short-term variations than is the case with the nondurables total.[3]

Outlays by state or local governments constitute the final factor which may be considered eligible for inclusion within the "growth" elements of GNP. As shown by the bottom line of Chart B, this series has demonstrated a steady upward movement in the postwar period, a development which has been intimately connected with the nation's general economic expansion and with population growth.

Altogether, the total of the growth sectors (shown both on Chart A and Chart B) has had an average quarter-to-quarter increase from early 1948 through early 1956 amounting to about 1½ percent, compounded quarterly. It would be a great mistake, of course, to assume that any such rate of increase is automatic or guaranteed. It simply represents what has transpired during the period. An additional point should be kept firmly in mind: all the

The total of the "fluctuating sectors" of GNP is shown here, along with the principal components. During recent quarters, "consumer investment" has been receding from unusually high positions, while "business investment" has been advancing, and Federal outlays have tended to be level.



"Consumer investment" = consumption expenditures for durable goods + new residential construction

"Business investment" = new nonresidential construction + producers' durable equipment + change in business inventories

(3) This operation, of course, could be performed with statistical materials generally available, but it would carry the rearrangement of GNP to the point of splitting the conventional sectors. That would be beyond the scope of the present rather generalized treatment, which leaves the sectors intact while altering only the major groupings of sectors.

quantities referred to here are dollar-value estimates rather than physical quantities. That suggests the need for a distinct qualification to the meaning which can be attached to "growth" in this connection.

The Price Angle

Since the basic concept of Gross National Product runs in terms of dollar-value estimates, and especially since the various parts of GNP are ordinarily handled and understood in such terms, there has been no attempt here to deal with the various sectors of GNP in "deflated" or "constant-dollar" terms. But it must be recognized that the values plotted in the chart are partly the result of price changes. Thus, during the entire period since early 1948, as depicted in the charts, general price increases were exceptionally sharp during late 1950; they were conspicuously absent during 1953 and 1954; since the middle of 1955 they have been again in evidence. Consequently, an adequate interpretation of the rising trends shown in the charts, and of the meaning of growth in that connection, would require adjustment for the price factor.

General Composition of the Fluctuating Sectors

When the growth sectors, as previously discussed, have been subtracted from the aggregate of GNP, for analytical purposes, the remaining or "fluctuating sectors" appear as shown in Chart C. The total of the fluctuating sectors, traced by the top line, presents a more vivid picture of short-term fluctuations of the economy than does GNP in general. Thus, the recessions of '49 and '54 stand out in rather sharp relief; also, an over-all increase from the beginning to the end of the period is evident, but it does not dominate the pattern as in the case of the "growth sectors."

The fluctuating sectors, as here defined, are composed of the following expenditure classifications, all of which are regularly published as components of GNP:

1. Personal Consumption Expenditures for Durable Goods
2. New Residential Construction
3. New Nonresidential Construction
4. Producers' Durable Equipment
5. Change in Business Inventories
6. Federal Government Purchases of Goods and Services
7. Net Foreign Investment

The first two of the above sectors, i.e. consumer durables and residential construction, are combined and shown in Chart C (as well as in the cover chart) under the caption "Consumer Investment." Items 3, 4, and 5, i.e. nonresidential construction, producers' durables, and inventory change, are summed up in the chart under the heading "Business Investment."

Federal government expenditures, as a component of GNP, are shown separately in Chart C. The final item, "Net Foreign Investment" is not shown separately in the chart, although its effect is included within the total of fluctuating sectors, as depicted by the top line. (Net foreign investment amounts to a series of plus or minus adjustments of the total, depending on the new flow of the payments in the nation's international accounts. The magnitudes of this item during the period covered are characteristically small as compared with the other sectors, although at some times the quarter-to-quarter changes would represent significant factors in the total.)

Significant Changes in the Two Investment Sectors

Tracing the contrasting courses of "Consumer Investment" and "Business Investment" during the past year or two gives the clue to the main features of recent business developments. (Chart C and cover chart) Relative weakness in autos and housing has characterized the most recent calendar quarters, while the upthrust of business investment has provided the expansionary force to the economy. The decline in autos and housing, reflected in what is called here "consumer investment," has been from the extremely high positions of mid-1955;[4] such positions last year were considered at the time to be unsustainable, at least by many thoughtful observers, and more recent events have proved the apprehension well founded.

The 1955 surge in autos and residential construction, which accounts for the recent behavior of the consumer investment line, had been made possible by a running start in 1954. It is interesting to note that each quarter of the year 1954 showed a gain in consumer investment from the previous quarter, even during the first two quarters which were characterized by general business recession.

By contrast, the course of business investment had been generally downward during 1954 until the final quarter of that year. In fact, business investment (including plant and equipment expenditures, and inventory changes) had been a major depressing factor during the mild business recession of mid-'53 to mid-'54. Thus, the turn toward the general business recovery which took place in mid-'54 was attributable not to any improvement in business-investment activity at that time, but, as already noted, to the lift provided by the consumer-investment sector. Stated in another way, it appears that the business-investment side of the economy (especially the large part of it represented by plant and equipment expenditures) was somewhat more sluggish on the upsweep of the cycle in '54 than has usually been the case at cyclical turning points.[5] Business investment, however, surged in '55, and, as already noted, is providing a continuing element of expansion in '56.

Role of Federal Government Outlays

The bottom line of Chart C depicts the quarterly standings of Federal government purchases of goods and services over the period under consideration. Such expenditures make up a significant part of what are called here the "fluctuating sectors" of GNP. If the pattern traced by the bottom line of Chart C is compared with the pattern traced by the top line, or total of fluctuating sectors, it will be seen that Federal government expenditures have played a very important role, complementary to that played by the two investment sectors already discussed, in shaping the total behavior of the fluctuating sectors.

Thus, it was Federal government expenditures — in the form of defense outlays, of course — which provided the upward slope during the Korean War period, i.e. from the third quarter of '50 through the second quarter of '53. Likewise, the decline in Federal government expenditures, which was quite marked from the third quarter of '53 through the second quarter of '54, was the largest single influence in the decline of the total "fluctuating sectors" line during the recession of '53-'54; it shared, however, with "business investment" in the downward pull during that episode.

Beginning with the second half of '54 and through the latest returns, a stabilization or leveling has occurred in the main direction taken by Federal government expenditures, including defense outlays. Changes during the past two years in the top line of Chart C, or total fluctuating sectors, therefore, have been brought about almost alone by the behavior of the consumer-investment and the business-investment sectors.

(4) Outlays for consumer durables *other than* autos and parts leveled off (on a seasonally adjusted basis) during the fourth quarter of '55 but showed a resumed increase during the first quarter of '56. The latter increase is estimated to have been at an annual rate of about a half billion dollars. (See *Survey of Current Business*, U. S. Department of Commerce, May 1956, p.2.) Thus, so far as the first quarter of this year is concerned, the line depicting "consumer investment" declines somewhat less sharply than it would if it were limited to autos and housing, without the other consumer durables.

(5) See article in the September 1955 issue of this *Review*, entitled "Consumer Buying and Business Buying." That article noted the developing shifts in the relationship between consumer investment and business investment; it was, perhaps, slightly premature in spotting the shift away from consumer investment and toward business investment as the bulwark of current activity. (As it turned out, the third quarter of '55 constituted the peak of consumer investment, although the data for that quarter were not yet available in September.) The method of rearranging GNP sectors utilized in the earlier article was essentially the same as, although less fully developed than, the one employed here.

Comparison with Industrial Production Index

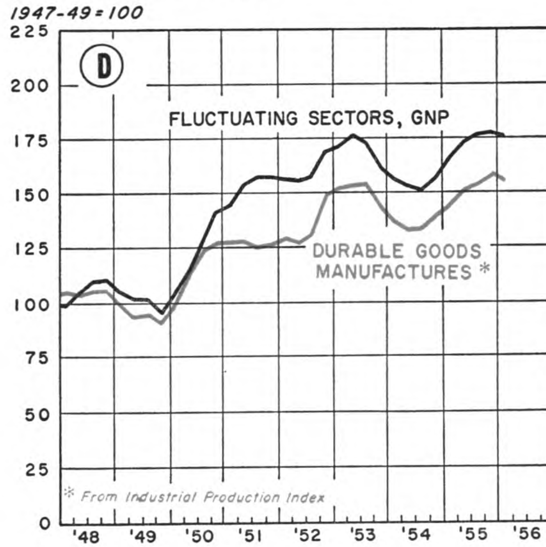
The rearrangement of the sectors of GNP which has been essayed here is suggested not only for a better understanding of the meaning of GNP changes in themselves, but also, perhaps, for a better understanding of the relation of GNP data to other broad measures of business change.

Take, for example, the Federal Reserve Index of Industrial Production. Differences between the path traced by that index and the path followed by GNP are sometimes a source of puzzlement to consumers of business statistics. Especially may that be the case, if the user of the two sets of statistics makes insufficient allowance for the effect of some of the principal defined differences between the two measurements, e.g. that: (a) the Index of Industrial Production is a physical-volume measurement, whereas GNP is an estimate of dollar values, including the influence of price changes, and that (b) the coverage of GNP is substantially wider, insofar as it includes certain important segments such as construction and consumer services which are not part of the subject matter treated by the Industrial Production Index, as presently constituted.

Now suppose that a series showing the "fluctuating sectors" of GNP, as defined above, is selected for comparison with the course traced by the Industrial Production Index. The correspondence between the two (not charted here) would be seen to be considerably closer than the correspondence between the aggregate of GNP and the Industrial Production Index. Even so, divergences are marked.

If, further, the "durable goods manufactures" component of the Industrial Production Index is selected for comparison with the "fluctuating sectors" of GNP, the similiarity of patterns becomes rather striking. That is shown by the accompanying Chart D, for the same period as that covered by the previous charts, i.e. for the first quarter of '48 through the first quarter of '56. (Both series are shown in terms of index numbers on a '47-'49 basis.)

When the "fluctuating sectors" of GNP are compared with the "durable goods manufactures" component of the Industrial Production Index, a close similarity of pattern in quarter-to-quarter changes may be observed.



The principal difference between the two curves is seen to lie in the matter of level rather in the quarter-to-quarter patterns of change. Thus, since the third quarter of 1950, the position of the fluctuating sectors of GNP (in relation to the base period) is substantially higher than that of the durable-goods manufactures component of the Industrial Production Index. That is mainly because of the influence of price increases, which register by definition upon GNP but not upon the Industrial Production Index.

Disregarding the differences in level, then, the similarity of quarter-to-quarter changes between the two series is a matter of considerable interest. It suggests the following: (a) The essential findings of GNP and of the Industrial Production Index are closer together, and tend to corroborate each other to a greater extent, than is often supposed. (b) The durable-goods sectors of the economy, because of their volatility, are once more seen as highly strategic for the interpreting of short-term general business changes; if carefully utilized, data toward this end may be drawn from GNP information or from other sources, and much the same story should emerge.

Outlook

The materials outlined above can be used as a framework for considering the questions involved in the present business outlook; by themselves, of course, they provide no definitive answer.

Consider, for example, Chart C or the cover chart, with special reference to the trends of consumer investment and business investment. One consideration to be noted is that, to the extent that there are problems or threats of price inflation in the current and immediately prospective situation, such problems would have been even greater if the colored line representing consumer investment were still maintaining the upward thrust evidenced in mid-'55, concurrently with the business-investment line pushing forward.

Secondly, the current advance of business investment, if continued (as seems highly likely in view of reasonably firm plans for capital expansion) would seem to carry the possibility that the enlarged payrolls so engendered will result in a turnabout of the "consumer investment" line toward a renewed rise. If that occurs, fears of recession will fade, and the problem of containing inflationary tendencies will become greater than at present.

Observers of a different frame of mind can, if they desire, read a different outlook from the materials provided by Chart C. If consumer takings (already weakened in some respects) should decline markedly, the growth of the business-investment line would likely be imperiled. Conceivably, that could occur both in respect to a shift away from inventory accumulation and a downward modification of the present plans for capital expansion.

Those who hold to the latter school of thought might, perhaps, make a point that even in our chart showing, the latest entry for the total of "fluctuating sectors," as of the first quarter of '56, shows a decline (although a slight one) from the previous quarter. However, to argue on the basis of that slender showing that the "peak" has already been passed should be considered a hazardous inference, and would probably be recognized as such by even the more "bearish" of present-day observers.

Business Loans

Interest Rates and Loans to Small Borrowers

THE SURVEY of business loans at member banks, conducted by the Federal Reserve System in October, 1955, revealed a number of important changes since 1946 in the characteristics of such loans and the terms on which credit is extended.(1) The discussion and charts which follow deal with business loans by size of borrower, with special reference to small business; also included is an analysis of the interest rate structure of business loans of Fourth District member banks.

Loans by Size of Borrower, 1946 and 1955

The 1955 survey indicated that business loan portfolios of Fourth District member banks continued to be composed primarily of loans to both the small and medium-size borrowers, in terms of the number of loans. There was also evidence, however, of a significant shift since 1946 from the largest and smallest classes of borrowers to the intermediate-size group. A comparison of business loans by size of borrower is given in an accompanying table for 1946 and 1955.

Between 1946 and 1955, the proportion of business loans going to the smallest size borrowers (assets under $50 thousand) declined from 11 to 7 percent of the total dollar amount and from 69 to 49 percent of the number of loans. Likewise, for the largest size firms (assets over $5 million) the amount of loans declined from 48 to 43 percent of the total; however, the number at both survey dates remained proportionally the same—2 percent of total business loans.

In the intermediate borrower groups, the percentage of business loans to firms with assets from $50 thousand to $250 thousand rose from 16 to 18 percent of the total amount and from 22 to 36 percent of the total number of loans. In the borrower class with assets from $250 thousand to $5 million, the increase in amount was from 25 to 32 percent and from 7 to 13 percent in number.

The rise in the general price level since 1946, and the consequent upward valuation of busi-

BUSINESS LOANS BY SIZE OF BORROWER, 1946 AND 1955[1]

Fourth District Member Banks
(Percent of Total)

Size of Borrower (Total assets in thousands of dollars)	Number of Loans		Dollar Amount	
	1955	1946	1955	1946
Less than 50..........	49%	69%	7%	11%
50 - 250.............	36	22	18	16
250 - 5,000..........	13	7	32	25
5,000 and over.......	2	2	43	48
All borrowers......	100%	100%	100%	100%

[1]Survey dates: November 20, 1946 and October 5, 1955.

(1) This is the second of several articles dealing with the survey results for the Fourth District. The first article was "Loans to Business by Member Banks", *Monthly Business Review*, May, 1956, dealing with changes in business loans since 1946 by type of business, by size of bank, and by maturity of loan.

ness assets, along with the growth in the volume of business activity, probably accounts for the shift in the distribution of business loans from the smallest to the intermediate-size categories of borrowers. (The shift may also be attributable in part to change in the age distribution of business.) At the other end of the scale, the increased importance of retained earnings and depreciation reserves as sources of business financing in the postwar period may explain the decline in the relative importance of the dollar volume of loans to the largest firms.

Size of Borrower and Size of Bank

With regard to the number of business loans at District member banks, predominance of borrowers with assets under $250 thousand was a phenomenon which held true not only for any one particular size of bank, but for all bank sizes. (See Table 1 for details.) Borrowers with relatively small total assets (i.e., under $250 thousand) accounted for 94 percent of the number and 84 percent of the dollar volume of business loans at banks with deposits of $10 million and less. At medium-size banks (deposits from $10 to $100 million) borrowers with assets under $250 thousand accounted for 85 percent of the number and over half of the dollar volume of loans. At the largest size banks (deposits of $100 million and over) almost three quarters of the number of borrowers represented firms with assets under $250 thousand, even though the dollar volume of loans to this group was only a little over one-fifth of total loans outstanding.

In the case of the small banks, there were no loans reported to borrowers with assets over $25 million, and at all bank sizes the proportion of the number of loans to borrowers with assets over $1 million was well under one-tenth of total loans reported.

Loans to Small Business

Over the past twenty years, serious concern has been expressed regarding the ability of small firms to enter business, to survive, and to prosper. Underlying this concern has been the belief that the long-run health of the economy requires the continual fostering of young firms, as well as a wide participation in risk-taking which is necessary to a dynamic, free-enterprise economy.

As a part of the problem, attention has been directed to the adequacy of credit and capital for small business. It is important to recognize, however, that financing is not the most critical problem in many cases. Authoritative studies have indicated that small firms are often in greater need of managerial or technical assistance, or improved accounting and record keeping. While the needs of small business are thus much broader than obtaining credit or capital, financing requirements are still vitally important.

There are several ways in which this complex question of the adequacy of credit for small business may be approached. One way is to consider the general structure of banking facilities. From the standpoint of structure, the commercial banking system of the country is well designed to accommodate the credit needs of small, local firms. Banking services are provided in the United States by more than 14,000 banks, most of which are themselves in the ''small business'' category. This stands in contrast to most other countries, which feature a handful of large branch-banking systems.

Small unit banks, which blanket the United States, are an important source of short- and intermediate-term credit to small business. In addition, a significant part of the lending activities of large banks is directed at serving small business. To the extent that the credit needs of small business are ''bankable'', the United States banking system is well designed to meet them.

A more significant approach to the question, however, is to measure the number of small-business loans actually made by banks. In this regard, the 1955 survey of business loans has provided fresh evidence as to whether small business firms are getting an equitable share of credit at commercial banks. The survey results indicate that, of total loans to business by

Fourth District member banks, 60 percent of the number of loans were to "small" borrowers, as defined below, with an additional 30 percent of the number of loans being made to "medium-size" business firms. In terms of dollar volume, small and medium-size borrowers accounted for 40 percent of total business loans. These figures generally confirm the results of the previous survey of business loans of member banks, made by the Federal Reserve System in 1946. At that time, as well as in 1955, Fourth District member banks of all sizes indicated a broad participation in loans to small business, as well as a wide variety of credit practices designed to meet the financing requirements of small firms.

"Small", "Medium", and "Large" Borrowers. Despite the attention given to the problem of small business in recent years, there has been no universal agreement as to what constitutes a "small" business.[2] The analysis below of the share of business loans going to various sizes of business is based on the following definitions, which are believed to be most meaningful when measuring size of business by total assets alone:

(1) For business firms in the areas of manufacturing and mining, commodity dealers, sales finance companies, and public utilities, "small" borrowers are those with assets under \$1 million; "medium-sized" borrowers are those with assets of \$1-5 million; and "large" borrowers are those with assets over \$5 million.

(2) For firms engaged in wholesale and retail trade, construction, real estate, and all other nonfinancial business, "small" borrowers are those with assets under \$50 thousand; "medium-size" borrowers are those with assets of \$50-250 thousand; and "large" borrowers are those with assets over \$250 thousand.

Two accompanying charts portray the share of business loans made by Fourth District member banks to small, medium, and large borrowers, as defined above, in various business lines. For all types of manufacturing and mining, as well as for public utilities and commodity dealers, an overwhelming proportion of the total number of business loans goes to small business, i.e., a proportion ranging from 84 to 94 percent of the total. When medium-size borrowers in the above lines of activity are added, the share of the total number of loans represented is from 96 to 98 percent. Only in the case of sales finance companies did small- and medium-size borrowers account for less than 90 percent of the number of loans. (See Tables 2 and 3 for details.)

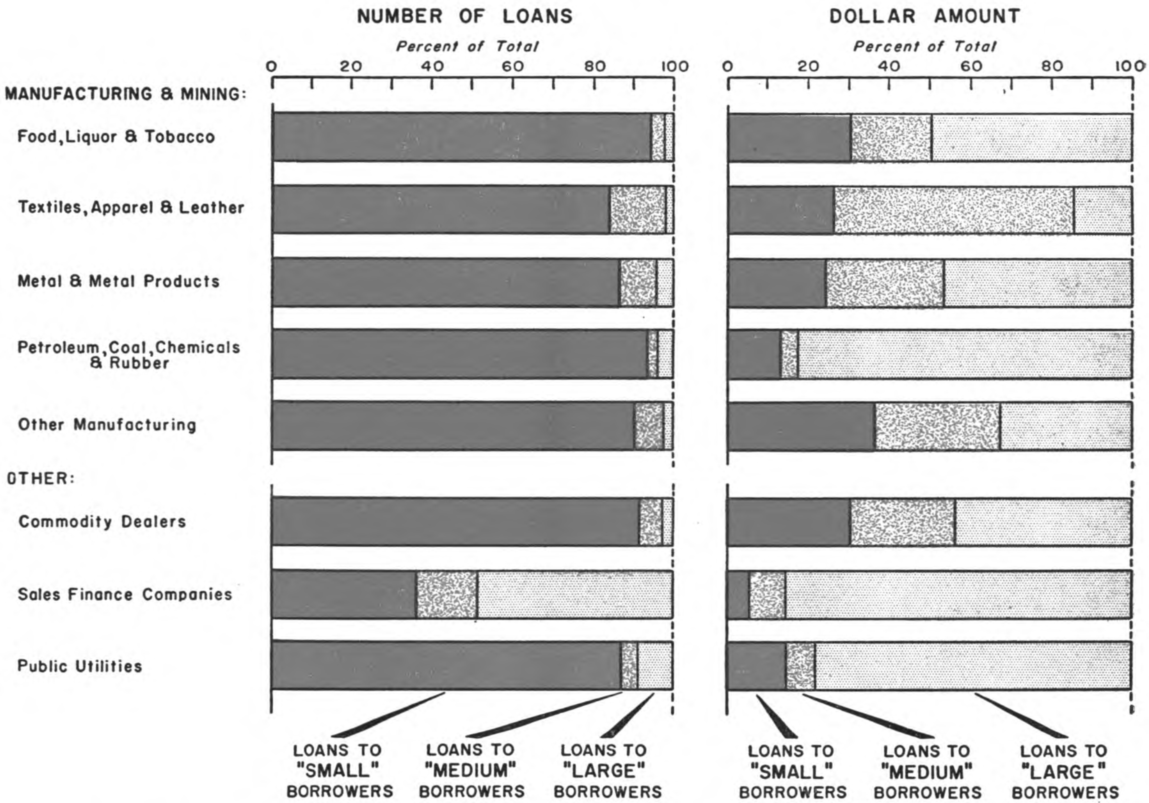
The average size of loans to small businesses in manufacturing and mining, public utilities, and commodity dealers ranged from \$7,200 to only \$15,900. In contrast, the average size of loans to large firms in the same lines of activity was as high as \$1 million. (See Table 3.) It is thus to be expected that the share of the total *dollar* volume of loans going to small business would not be as large as the share of the total represented by the *number* of loans. Nevertheless, of total business loans to the above types of business, loans to small business ranged from 13 to 37 percent of the dollar volume. Only in the case of sales finance companies, public utilities, and firms engaged in the manufacture of petroleum, coal, chemicals, and rubber products did small- and medium-size business together account for less than half of the dollar volume of business loans to the respective industry groups.

The types of businesses portrayed in the second chart—trade, construction, real estate, and all other nonfinancial firms—are inherently much smaller in terms of total assets than those discussed above, mainly because of a much lower relative need for investment in fixed assets. Hence the definition of a "small" business in such lines of activity involves a

(2) The Small Business Administration has recently adopted a set of size standards, based on number of employees in some cases and volume of sales or receipts for other types of business, which may become authoritative. Since total assets of the borrower was the only measure of size of business which it was feasible to secure in the Business Loan Survey, the distinctions of "small", "medium", and "large" borrowers which are used here are necessarily based on total assets alone. The distinctions were made, however, after consultation with the Small Business Administration.

LOANS BY SIZE OF BORROWER — BUSINESS TYPE I

Commercial and Industrial Loans, Fourth District Member Banks, October 5, 1955



Small borrowers accounted for over 80 percent of the total number of business loans to almost all the types of business shown here.

"Small" Borrowers = those with assets of less than \$1 million
"Medium" Borrowers = those with assets of \$1-5 million
"Large" Borrowers = those with assets of over \$5 million

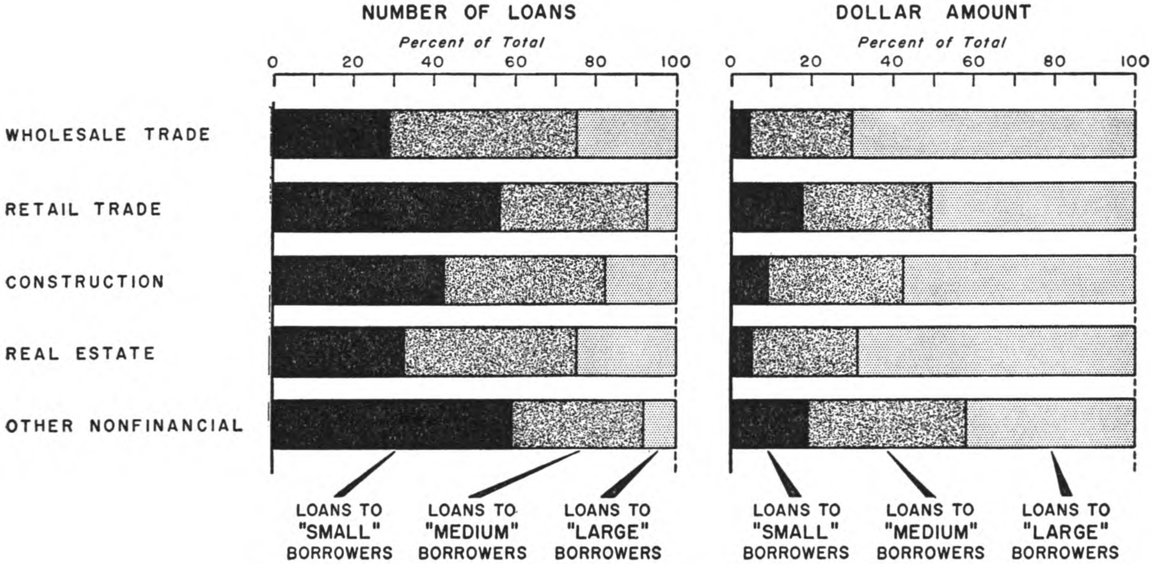
considerably lower figure for total assets than in manufacturing or mining, for example.

Of the total number of business loans at District member banks to trade, construction, real estate, and all other nonfinancial firms, the share going to small business averaged over 50 percent, ranging from 29 percent in wholesale trade to 60 percent in the case of "all other nonfinancial" borrowers. Medium-sized borrowers accounted for an additional 37 percent of the number of loans to these lines of activity. Thus, large borrowers received only 11 percent of the number of loans. (See Table 3.)

The average size of loan to small borrowers varied from \$2,600 in the case of retail trade to \$4,400 in the case of real estate firms. In contrast, the average size of loan to large bor-

LOANS BY SIZE OF BORROWER — BUSINESS TYPE II

Commercial and Industrial Loans, Fourth District Member Banks, October 5, 1955



Of the total number of business loans, to the industry lines shown, the share going to "small business" ranged from 29 percent in the case of wholesale trade to 56 percent for retail trade.

"Small" Borrowers = those with assets of less than $50,000
"Medium" Borrowers = those with assets of $50,000-$250,000
"Large" Borrowers = those with assets of over $250,000

rowers in these types of business ranged as high as $78,000. Consequently, the share of the *dollar* volume of loans to small borrowers was smaller than that of the *number* of loans. Altogether, small borrowers in the fields of trade, construction, real estate, and "other" (including service firms) accounted for 13 percent of the total dollar volume of business loans to such lines of activity, while medium-size borrowers accounted for an additional 32 percent.

Summary. The continued preponderance of the number of loans made to small- and medium-size business firms at District member banks suggests that, if any gap exists in the financial facilities for such firms, it is not in the area of short- and intermediate-term credit, which banks are prepared to provide. Other studies point to the conclusion that the major area of unsatisfied demand for funds by small business involves long-term loans as well as equity capital; the latter are not suited to bank loans and investments.(3)

Average Interest Rates

The 1955 survey indicates that the average interest rate paid by business borrowers at District member banks was 4.2 percent, as contrasted with 3.1 percent in 1946. The increase reflects the general upward trend of interest charges experienced by the economy during most of the postwar period. The higher cost of

(3) See, for example, "External Financing of Small- and Medium-size Business", *Survey of Current Business*, U. S. Department of Commerce, October, 1955, pp. 15-21.

borrowing for business purposes, and for other purposes as well, can be attributed mainly to the postwar surge in consumer and business demand for goods and services, accompanied by a heavy demand for funds. Pressures that depress interest rates, such as slowdowns in business activity, have been short-lived during the postwar period; the economy has reaffirmed its resilience and moved to new highs after each setback.

Within this framework of a rising level of interest rates, the rates charged by banks on business loans are also affected by the size, type, and corporate status of business borrowers, as well as by the maturity of the loan. Differences resulting from these factors in October 1955 are indicated in Tables 4 and 5. The most pervasive single factor was the asset size of the business borrower, which is closely related to the size of loan.

Asset Size of Borrower. It is not surprising that size of borrower overshadows other considerations in interest-rate determination. The initial cost of making a loan—credit investigation, consultation, legal checks, completing forms, and accounting requirements—must be spread over the expected income. Since initial costs do not vary as much between large and small loans, the latter tend to carry higher interest rates in order to absorb the relatively higher overhead costs. Also, the direct relation of size of business to size of loan implies some rate differential due to the smaller risk in making loans to large firms.

Generally, large borrowers were charged lower rates than small borrowers, whether classified by corporate status, size of bank, type of business, or term of loan.

Corporate Status of Borrower. Incorporated borrowers appeared to pay a lower average interest rate on business loans than unincorporated borrowers, other things being equal, in over half the cases. The difference was not marked, however, and the results were not uniform as among types and sizes of business and maturity of loans. The only outstanding case of lower rates to incorporated borrowers was that of short-term loans to borrowers having total assets of less than $250 thousand. If differences in business of borrower are ignored, incorporated borrowers of most sizes obtained lower rates than unincorporated borrowers on loans maturing in one year or less, with the reverse being true for loans maturing in over one year.

Deposit Size of Bank. The average interest rate on total business loans at large member banks was lower than at smaller member banks. Banks with less than $2 million in total deposits charged an average rate of 5.8 percent. The rate decreased, as bank size increased, to 3.9 percent at banks with total deposits of $500 million or more.

Such differences in rate among banks of different sizes is mainly attributable to the preponderance of large loans and larger borrowers at the bigger banks, at least with respect to the dollar volume of business loans. Since the maximum loan to any one borrower at member banks is usually limited by law to 10 percent of the bank's unimpaired capital and surplus, the demand of large firms for large loans naturally focuses on the bigger banks. A comparison of interest rates at various size-classes of banks on loans to the same type and size of borrower and the same maturity, however, indicates that there was no general tendency for any given size of bank to charge higher or lower rates than any other size of bank. (See Table 6 for details.)

Type of Business. Average interest rates paid by various types of business ranged from 3.5 percent paid by sales finance companies to 5.8 percent paid on the average by construction firms. Typically, sales finance companies obtain large single loans while construction firms obtain separate, smaller loans for each project.

Again, size of borrower appears to be the major influence. For all types of business, larger borrowers obtained lower rates. All types of manufacturing firms paid average rates lower than wholesale and retail trade firms. In the miscellaneous industry classification, service firms (which tend to be small)

(Text continued on page 21)

Table 1: BUSINESS LOANS BY BUSINESS OF BORROWER AND SIZE OF BANK

Fourth District Member Banks, October 5, 1955

SIZE OF BORROWER (Total assets in thousands of dollars)	All Banks	Bank Size (total deposits in millions of dollars)							
		Less than 2	2 - 10	10 - 20	20 - 50	50 - 100	100 - 250	250 - 500	500 and Over
	AMOUNT OUTSTANDING—THOUSANDS OF DOLLARS								
Less than 50..................	130,222	3,508	40,066	23,149	15,582	15,054	11,773	6,842	14,248
50 - 250.....................	339,282	2,055	56,569	58,526	49,052	64,297	38,973	32,732	37,078
250 - 1,000..................	292,760	297	13,445	28,868	26,016	65,410	48,354	60,233	50,137
1,000 - 5,000................	327,748	27	1,654	5,282	13,328	27,960	77,920	71,153	130,424
5,000 - 25,000...............	238,319	106	381	848	4,686	9,917	30,107	45,779	146,495
25,000 - 100,000.............	189,901	......	974	368	567	1,782	10,694	45,997	129,519
100,000 and over	408,834	......	1,498	1,587	2,936	7,449	45,488	50,369	299,507
All borrowers.............	1,927,066	5,993	114,587	118,628	112,167	191,869	263,309	313,105	807,408
	NUMBER OF LOANS								
Less than 50..................	46,097	1,327	13,566	10,844	5,230	5,230	2,154	2,424	5,322
50 - 250.....................	34,549	527	7,594	8,361	4,836	4,884	2,419	2,952	2,976
250 - 1,000..................	9,672	48	935	1,733	1,762	1,694	961	1,404	1,135
1,000 - 5,000................	2,653	11	127	227	294	465	462	525	542
5,000 - 25,000...............	603	10	11	40	44	53	81	171	193
25,000 - 100,000.............	374	......	26	4	11	20	36	126	151
100,000 and over	810	......	38	32	49	38	84	86	483
All borrowers.............	94,758	1,923	22,297	21,241	12,226	12,384	6,197	7,688	10,802

Table 2: BUSINESS LOANS BY TYPE OF BUSINESS AND SIZE OF BORROWER

Fourth District Member Banks, October 5, 1955

BUSINESS OF BORROWER	All Borrowers	Size of Borrower (total assets in thousands of dollars)						
		Less than 50	50-250	250-1,000	1,000-5,000	5,000-25,000	25,000-100,000	100,000 & over
		AMOUNT OUTSTANDING, IN THOUSANDS OF DOLLARS						
Manufacturing and mining—total	**660,669**	**18,397**	**67,999**	**80,297**	**166,345**	**121,410**	**89,223**	**116,998**
Food, liquor, and tobacco	79,793	4,529	10,274	9,619	15,954	20,092	13,243	6,082
Textiles, apparel, and leather	26,888	228	2,894	3,953	15,928	2,251	1,567	67
Metals and metal products	310,557	5,466	30,481	39,080	91,010	54,441	22,932	67,147
Petroleum, coal, chemicals and rubber	122,181	3,305	6,515	5,963	5,943	19,764	44,599	36,092
All other manufacturing and mining	121,250	4,869	17,835	21,682	37,510	24,862	6,882	7,610
Trade—total	**390,871**	**54,414**	**117,008**	**79,813**	**62,358**	**15,942**	**20,141**	**41,195**
Wholesale	117,453	5,604	29,560	35,357	37,959	7,565	1,179	229
Retail	273,418	48,810	87,448	44,456	24,399	8,377	18,962	40,966
Other—total	**875,527**	**57,412**	**154,275**	**132,650**	**99,045**	**100,967**	**80,537**	**250,641**
Commodity dealers	15,181	735	2,542	1,341	3,976	2,542	......	4,045
Sales finance companies	223,407	49	3,188	9,870	20,013	33,307	47,725	109,255
Transportation, communication, and other public utilities	222,659	6,728	9,743	16,743	14,939	27,212	25,066	122,228
Construction	103,458	9,579	34,592	32,286	23,135	2,009	1,000	857
Real estate	135,586	7,071	35,210	36,739	23,198	30,868	1,465	1,035
Service firms	105,528	24,575	48,497	21,035	7,496	472	149	3,304
All other nonfinancial	69,708	8,675	20,503	14,636	6,288	4,557	5,132	9,917
All businesses	1,927,067	130,223	339,282	292,760	327,748	238,319	189,901	408,834
		NUMBER OF LOANS						
Manufacturing and mining—total	**16,251**	**6,088**	**5,917**	**2,643**	**1,082**	**279**	**128**	**114**
Food, liquor, and tobacco	3,289	1,662	1,074	364	110	50	22	7
Textiles, apparel, and leather	565	119	262	93	80	4	4	3
Metals and metal products	5,454	1,457	2,148	1,123	496	118	51	61
Petroleum, coal, chemicals and rubber	2,346	1,138	748	305	60	24	36	35
All other manufacturing and mining	4,597	1,712	1,685	758	336	83	15	8
Trade—total	**39,664**	**20,522**	**15,140**	**3,005**	**614**	**65**	**38**	**280**
Wholesale	6,598	1,947	3,086	1,159	385	13	4	4
Retail	33,066	18,575	12,054	1,846	229	52	34	276
Other—total	**38,845**	**19,487**	**13,492**	**4,024**	**957**	**259**	**208**	**418**
Commodity dealers	480	213	197	30	27	7	......	6
Sales finance companies	741	27	163	81	109	82	129	150
Transportation, communication, and other public utilities	4,396	2,179	1,180	479	174	138	57	189
Construction	8,131	3,389	3,338	1,165	204	2	1	32
Real estate	4,920	1,639	2,084	944	235	16	1	1
Service firms	14,161	8,544	4,703	816	67	5	7	19
All other nonfinancial	6,016	3,496	1,827	509	141	9	13	21
All businesses	94,760	46,097	34,549	9,672	2,653	603	374	812

Table 3: PERCENTAGE DISTRIBUTION AND AVERAGE SIZE OF BUSINESS LOANS BY "SMALL", "MEDIUM", AND "LARGE" BORROWERS AND BY BUSINESS OF BORROWER

Fourth District Member Banks, October 5, 1955

	Amount of loans to:				**Number of loans to:**				**Average size of loans to:**		
BUSINESS OF BORROWER Type I	All Borrowers Type I	"Small" Borrowers (Assets under $1 million)	"Medium" Borrowers (Assets $1-5 million)	"Large" Borrowers (Assets over $5 million)	All Borrowers Type I	"Small" Borrowers (Assets under $1 million)	"Medium" Borrowers (Assets $1-5 million)	"Large" Borrowers (Assets over $5 million)	"Small" Borrowers (Assets under $1 million)	"Medium" Borrowers (Assets $1-5 million)	"Large" Borrowers (Assets over $5 million)
MANUFACTURING & MINING											
Food, liquor, and tobacco	100.0%	30.6%	20.0%	49.4%	100.0%	94.2%	3.4%	2.4%	$ 7,871	$145,455	$ 498,734
Textiles, apparel and leather	100.0	26.4	59.1	14.5	100.0	83.9	14.2	1.9	14,979	198,750	354,545
Metals and metal products	100.0	24.2	29.3	46.5	100.0	86.7	9.1	4.2	15,863	183,467	628,261
Petroleum, coal, chemicals, and rubber	100.0	13.0	4.8	82.2	100.0	93.4	2.6	4.0	7,211	98,333	1,057,894
Miscellaneous manufacturing	100.0	36.6	30.9	32.5	100.0	90.4	7.3	2.3	10,686	111,607	371,698
OTHER											
Commodity dealers	100.0	30.3	26.3	43.4	100.0	91.7	5.6	2.7	10,454	148,148	507,692
Sales finance companies	100.0	5.8	9.0	85.2	100.0	36.6	14.7	48.7	48,339	183,486	527,147
Transportation, communication, and other public utilities	100.0	14.9	6.7	78.4	100.0	87.3	4.0	8.7	8,650	85,632	454,427
All businesses—Type I	100.0%	19.4%	18.3%	62.3%	100.0%	87.7%	6.4%	5.9%	$11,333	$146,571	$ 537,769
BUSINESS OF BORROWER Type II	All Borrowers Type II	"Small" Borrowers (Assets under $50,000)	"Medium" Borrowers (Assets $50,000-$250,000)	"Large" Borrowers (Assets over $250,000)	All Borrowers Type II	"Small" Borrowers (Assets under $50,000)	"Medium" Borrowers (Assets $50,000-$250,000)	"Large" Borrowers (Assets over $250,000)	"Small" Borrowers (Assets under $50,000)	"Medium" Borrowers (Assets $50,000-$250,000)	"Large" Borrowers (Assets over $250,000)
Wholesale trade	100.0%	4.8%	25.2%	70.0%	100.0%	28.8%	47.0%	24.2%	$ 2,947	$ 9,548	$ 51,438
Retail trade	100.0	17.9	32.0	50.1	100.0	56.2	36.6	7.2	2,624	7,223	57,125
Construction	100.0	9.3	33.4	57.3	100.0	42.0	40.7	17.3	2,824	10,485	42,357
Real estate	100.0	5.2	26.0	68.8	100.0	32.7	42.9	24.4	4,438	16,762	77,750
All other nonfinancial	100.0	19.0	39.4	41.6	100.0	59.7	32.3	8.0	2,775	10,615	45,625
All businesses—Type II	100.0%	13.0%	31.8%	55.2%	100.0%	51.5%	37.2%	11.3%	$ 3,851	$ 9,439	$ 54,268

Table 4: AVERAGE INTEREST RATE ON SHORT-TERM* BUSINESS LOANS BY BUSINESS, SIZE, AND CORPORATE STATUS OF BORROWER

Fourth District Member Banks, October 5, 1955

BUSINESS OF BORROWER	All Borrowers	Size of Borrower (total assets in thousands of dollars)													
		Under 50		50 - 250		250 - 1,000		1,000 - 5,000		5,000 - 25,000		25,000 - 100,000		100,000 and Over	
		Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate
MANUFACTURING AND MINING															
Food, liquor, tobacco	4.0	4.7	5.8	4.8	5.0	4.4	4.3	4.0	5.0	3.3	...	3.1	...	3.1	...
Textiles, apparel, leather	4.2	4.6	4.5	4.9	5.1	5.3	4.4	4.1	4.0	3.5	...	3.2	...	2.0	...
Metals and metal products	4.1	5.3	5.7	5.3	5.1	4.6	4.7	4.0	4.0	3.5	...	3.4	...	3.3	...
Petroleum, coal, chemicals, and rubber	4.6	5.9	6.1	5.4	5.2	5.4	5.2	4.7	4.4	4.0	4.0	3.3	3.2	2.2	...
All other mfg. and mining	4.4	5.6	6.0	5.4	5.2	4.6	5.1	4.1	6.0	3.9	...	3.3	...	...	...
TRADE															
Wholesale	4.6	5.3	5.8	5.0	5.1	4.7	4.8	4.1	4.4	4.0	...	3.4	...	3.6	...
Retail	4.6	5.7	5.6	4.9	5.0	4.6	4.3	3.9	4.0	3.6	6.0	...	...	3.1	3.0
OTHER															
Commodity dealers	3.9	9.0	5.6	5.7	5.2	...	5.0	3.7	...	3.3	3.5	...	...	3.5	...
Sales finance companies	3.5	4.5	5.0	4.7	5.8	5.0	4.0	4.0	2.0	3.8	...	3.3	3.6	3.2	3.2
Transportation, communication, and other public utilities	3.6	5.7	7.8	4.6	5.7	4.4	4.9	4.8	3.8	3.9	...	3.2	3.0	3.2	3.1
Construction	5.1	5.8	5.9	5.3	5.6	4.9	5.1	4.6	4.4	4.5	...	3.5	...	...	3.9
Real estate	4.5	4.8	5.2	4.6	4.8	4.5	5.0	4.1	4.7	4.2	...	4.5	...	...	...
Service firms	5.6	5.7	5.8	4.7	5.1	4.8	9.7	3.9	5.5	3.9	4.0	...	...	3.5	3.5
All other nonfinancial	4.3	5.0	5.2	4.4	4.6	4.6	4.1	4.6	3.6	3.3	3.5	3.8	...	3.5	...
All businesses	4.3	5.5	5.7	5.0	5.1	4.7	5.2	4.1	4.1	3.8	3.5	3.3	3.4	3.2	3.2

* Loans outstanding as of October 5, 1955 which had an original maturity of one year or less.

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Table 5: AVERAGE INTEREST RATES ON TERM* LOANS TO BUSINESS BY BUSINESS, SIZE, AND CORPORATE STATUS OF BORROWER

Fourth District Member Banks, October 5, 1955

BUSINESS OF BORROWER	All Borrowers	Size of Borrower (total assets in thousands of dollars)													
		Under 50		50 - 250		250 - 1,000		1,000 - 5,000		5,000 - 25,000		25,000 - 100,000		100,000 and Over	
		Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate
MANUFACTURING AND MINING															
Food, liquor, tobacco	3.4	8.0	8.2	5.1	5.4	4.5	5.3	4.7	...	3.8	3.4	2.1	...	2.9	3.3
Textiles, apparel, leather	4.6	12.0	7.2	5.3	4.6	4.5	5.0	4.5	...	...	...	...	...	...	...
Metals and metal products	3.9	7.5	6.4	5.4	5.3	4.4	4.4	4.1	4.3	3.9	3.5	3.7	3.1	3.6	2.8
Petroleum, coal, chemical, and rubber	3.5	5.0	8.0	6.8	7.3	5.9	7.2	4.5	...	3.9	2.6	3.0	3.4	2.9	3.0
All other mfg. and mining	4.3	6.5	6.5	5.8	5.6	4.8	4.5	4.0	4.5	3.9	...	3.6	...	3.1	...
TRADE															
Wholesale	5.0	7.4	6.9	5.5	5.5	5.3	4.6	4.4	4.6	...	...	...	...	...	...
Retail	4.6	6.5	6.1	5.8	4.9	4.6	4.5	4.9	5.6	3.9	6.0	3.3	...	2.8	3.1
OTHER															
Commodity dealers	5.3	11.5	5.3	5.2	5.0	4.6	4.5	...	4.5	...	...	...	...	...	...
Sales finance companies	3.5	...	13.8	4.7	9.3	4.0	...	...	...	...	...	3.0	...	3.4	...
Transportation, communication, and other public utilities	3.6	9.4	8.8	7.9	6.6	6.0	7.5	4.3	6.0	3.8	...	2.7	3.3	3.0	2.8
Construction	6.5	8.6	9.4	7.0	6.1	6.5	5.8	5.0	4.3	5.0	...	...	...	7.2	4.5
Real estate	4.6	5.3	5.0	4.5	4.7	4.2	4.5	5.3	4.3	4.7	...	...	...	...	4.5
Service firms	5.4	7.0	6.5	5.5	5.2	4.8	4.8	4.0	4.5	...	...	...	5.0	...	4.3
All other nonfinancial	5.0	6.0	7.2	5.3	5.4	4.7	4.5	3.8	...	4.3	...	3.5	...	3.5	3.0
All businesses	4.2	7.2	6.6	5.6	5.2	5.0	4.8	4.3	4.4	3.9	3.2	2.9	3.2	3.2	2.9

* Loans outstanding as of October 5, 1955 which had an original maturity of over one year.

Table 6: AVERAGE INTEREST RATES ON BUSINESS LOANS BY SIZE OF BANK, MATURITY, AND SIZE AND CORPORATE STATUS OF BORROWER

Fourth District Member Banks, October 5, 1955

SIZE OF BANK (Total deposits in millions of dollars)	All Borrowers			Size of Borrower (total assets in thousands of dollars)													
				Under 50		50 - 250		250 - 1,000		1,000 - 5,000		5,000 - 25,000		25,000 - 100,000		100,000 and Over	
	Total	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate	Corporate	Noncorporate
	SHORT TERM[1]																
Less than 2	5.8	5.5	5.9	6.4	5.9	5.4	5.8	5.6	6.0	5.5	...	5.0	...	...	...	...	...
2 - 10	5.2	4.7	5.3	5.5	5.7	5.0	5.2	4.6	5.1	4.4	5.0	3.8	3.5	2.2	...	2.2	...
10 - 20	4.9	4.6	5.2	5.3	5.5	4.9	5.2	4.8	4.8	4.0	3.2	3.7	6.0	3.0	...	2.9	...
20 - 50	4.9	4.7	5.1	5.6	5.8	5.1	5.1	4.7	4.5	4.8	4.7	4.0	...	3.5	...	3.0	3.5
50 - 100	4.9	4.7	5.1	6.0	5.6	5.2	5.2	4.8	5.0	4.6	4.1	3.8	3.8	3.6	...	3.1	3.9
100 - 250	4.0	3.9	4.8	5.4	5.3	4.8	4.9	4.6	4.7	3.8	3.8	3.9	...	3.3	...	3.2	...
250 - 500	3.9	3.8	4.5	4.8	6.1	4.7	4.9	4.6	4.0	3.9	4.6	3.5	3.5	3.3	...	3.3	...
500 and over	3.9	3.8	4.4	5.6	6.5	5.5	5.0	4.8	6.6	4.3	3.9	3.9	...	3.4	3.4	3.2	3.1
	LONG TERM[2]																
Less than 2	7.0	7.2	7.0	9.3	7.1	6.5	5.3	...	...	...	...	...	...	...	...	...	...
2 - 10	5.8	5.5	5.9	6.5	6.4	5.4	5.5	5.1	5.1	5.1	5.0	...	...	...	...	...	...
10 - 20	5.6	5.3	5.7	6.5	6.7	5.5	5.3	4.9	5.0	5.4	4.8	...	...	3.5	...	...	...
20 - 50	4.9	4.8	5.1	5.6	5.6	5.1	4.9	4.8	4.8	4.6	4.7	3.9	...	...	5.0	2.7	3.0
50 - 100	5.2	5.0	5.4	7.4	6.4	5.0	5.3	4.8	4.8	5.3	5.0	4.4	...	3.5	...	2.9	...
100 - 250	4.4	4.2	5.1	6.8	5.5	5.7	5.3	4.6	4.5	4.3	4.0	3.5	...	3.5	...	3.5	...
250 - 500	4.5	4.1	5.3	9.0	7.2	5.9	5.3	5.1	4.6	4.2	4.5	4.4	6.0	2.9	...	2.8	...
500 and over	3.6	3.6	3.7	7.3	8.8	6.7	5.4	5.1	5.1	4.1	4.2	3.8	3.1	2.9	3.3	3.2	2.9

[1]Loans outstanding as of October 5, 1955, which had an original maturity of one year or less.

[2]Loans outstanding as of October 5, 1955, which had an original maturity of over one year.

paid higher rates. Utilities (which tend to be large) paid lower rates. When viewed by size of bank, a similar pattern prevailed, indicating that size of business or size of loan, rather than type of business, was the major influence bearing on differences in interest rate. With size and corporate status of business and maturity of loan remaining equal, there was no tendency for any given type of business to pay consistently higher or lower rates than any other type of business.

Maturity of Loan. The accompanying tables allow inspection of the differences in member-bank interest charges for short-term loans (scheduled to mature in one year or less) and *term* loans (which mature after one year). With size, type, and corporate status of borrower remaining equal, rates on short-term loans were generally lower than on term loans. The only important exception occurred in businesses with assets of $25 million or more, where the results were mixed.

Notes

For two informative statements on Federal Reserve credit policy, see the following:

Address by WILLIAM McC. MARTIN, JR., Chairman, Board of Governors of the Federal Reserve System, before the Pennsylvania Bankers Association, Atlantic City, New Jersey, May 4, 1956. Among other topics covered by Mr. Martin are: how "regulating the money supply to fit economic needs is one thing, and fixing interest rates is another"; how U. S. Treasury needs are related to Federal Reserve policy; how the 260 directors of the Reserve Banks and branches contribute to the development of credit policy.

Address by ALLAN SPROUL, President of the Federal Reserve Bank of New York (retired, June 1) to the New Jersey Bankers Association, Atlantic City, May 24, 1956. Mr. Sproul called for a broad national inquiry into the banking and monetary system of the United States. Also he discussed explicitly the controversial aspects of recent Federal Reserve credit policy, stating the reasons for the System's decisions.

(A limited number of copies of both speeches are available at the Research Department of this bank.)

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Recent articles of special interest, published by other Federal Reserve Banks, include the following:

"Outlook Bright for Electronics Industry," *New England Business Review*, Federal Reserve Bank of Boston, April 1956. Although the details of this article apply to the industry in New England, the subject will be of interest to businessmen and bankers of the Fourth District.

"Business Capital Spending: Plans and Realizations," *Monthly Review*, Federal Reserve Bank of Kansas City, Kansas City 6, Missouri, May 1956. This article includes an interesting chart showing the past record of comparison between anticipated plant-and-equipment expenditures and actual expenditures.

FOURTH FEDERAL RESERVE DISTRICT