

MONTHLY *Business Review*

FEDERAL RESERVE BANK of CLEVELAND

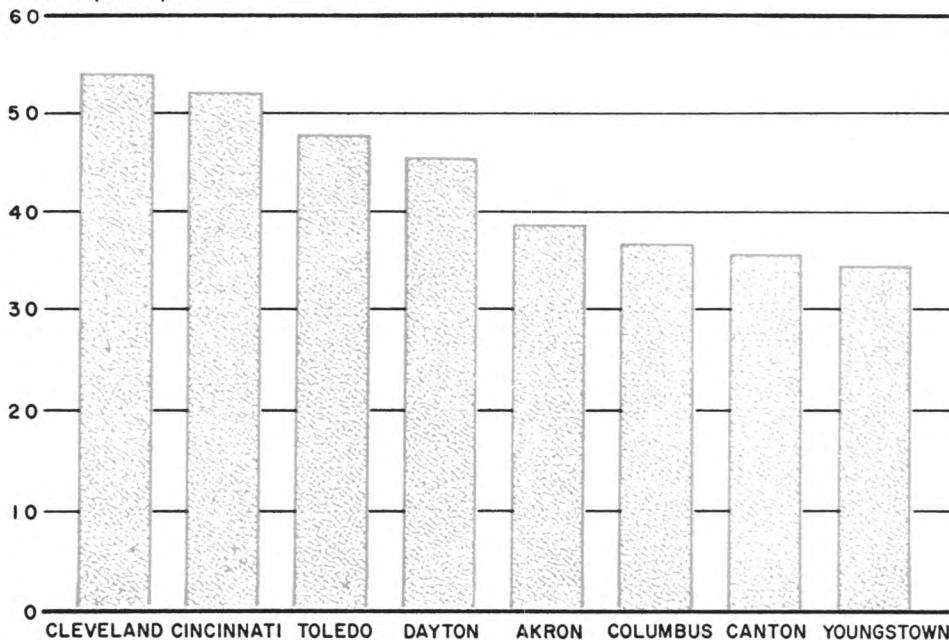
August, 1957

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Spending by city governments in Ohio shows considerable variation. In a recent report, applying to the year 1955, general expenditures per-capita by the 8 largest cities ranged from \$54 in Cleveland down to \$35 in Youngstown.

Dollars per Capita



Spending By Ohio City Governments

COMPARATIVE DATA on expenditures, revenue, debt, and other significant items of municipal finance for all Ohio cities, as of the year 1955, have recently been made available by the State government.⁽¹⁾ The 141 cities embraced by the compilation have populations ranging from 5,000 up to close to a million. Total financial outlays covered by the report add up to about \$835 million for the year 1955.

Such data provide source material for information of broad public interest, especially in view of the current trend toward expansion in activities and expenditures of local governments. Among many possible ways of selecting from the data, it may be of interest to focus attention upon 44 of the largest Ohio cities, classified according to size, with special reference to some of the key items of city expenditures revealed by the report.

Four groups of cities are distinguished below. Table 1 presents the size-group of cities of 100,000 or more inhabitants—eight in number—ranging in size from Cleveland, with 933,827 inhabitants down to Canton with 121,652. In Table 2, cities from 40,000 to 100,000 are listed—also eight in number—ranging in size from Springfield, with 85,442, down to Middletown with 40,550. Table 3 includes fourteen cities, ranging in size from Portsmouth, with 39,050, to Tiffin, with 21,872. Suburban cities, because of their somewhat special characteristics, are listed separately in Table 4. Suburban cities number fourteen and range in size from Lakewood, with 67,118, down to Upper Arlington, with 22,923.

The items selected for attention here are per-capita general expenditures and the proportions spent for certain selected functions. The latter include: protection to persons and

property; maintenance of highways, bridges, and viaducts; sanitation; and health and welfare. Other items include major sources of revenue available to municipal corporations, with special emphasis on property taxes, and the amount of bonded indebtedness owed by different cities in relation to the assessed valuation of the taxable property.

Per-Capita Spending

A comparison of general expenditures by different groups of cities reveals that the eight largest cities spent nearly 40 per cent more per capita in 1955 than did the other three groups. There were also wide differences in spending among the cities within each particular group as is shown by the accompanying charts presenting per-capita general expenditures for the four groups of cities. (Compare also per-capita general expenditures of different cities shown in the third column of the accompanying tables.)

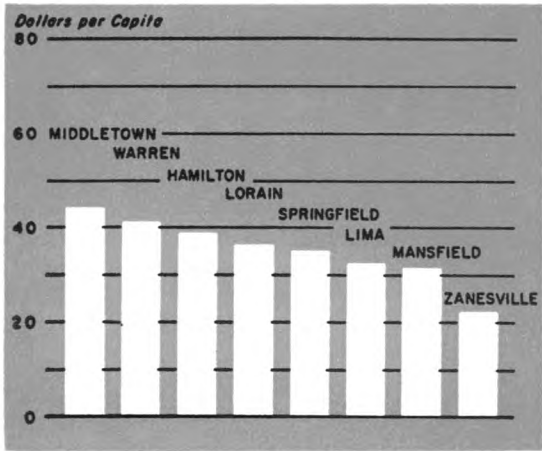
Among the group of eight largest cities, Cleveland had the largest expenditures per-capita, with \$53.77 as against \$46.45, the average for the group. Youngstown and Canton were the lowest in the same group, with per-capita expenditures of \$34.50 and \$35.78, respectively.

Among the suburban cities, Shaker Heights was highest, with \$62.10, while the average for the suburban group amounted to \$32.47.

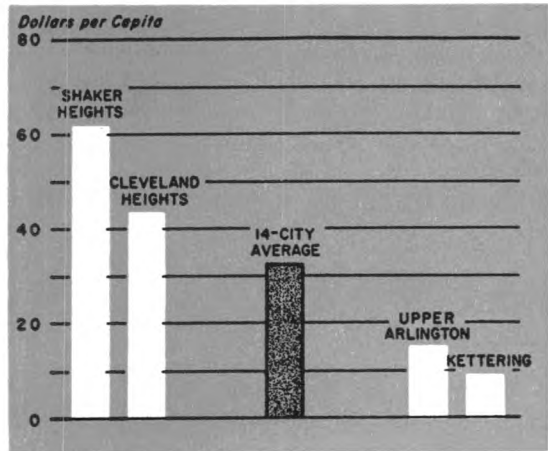
There are many reasons for the differences in the amount of per-capita expenditures. Some municipal governments are more economy-minded than others, and some municipalities perform fewer services. Also, such factors as size, geographical location, industrial character, growth rate, and the average socio-economic status of its residents, influence the amount of spending by any particular municipality. Somewhat less obvious factors influencing the relative amounts spent

(1) *Comparative Statistics, Cities of Ohio, 1955*, by the Auditor of State, Columbus, 1957.

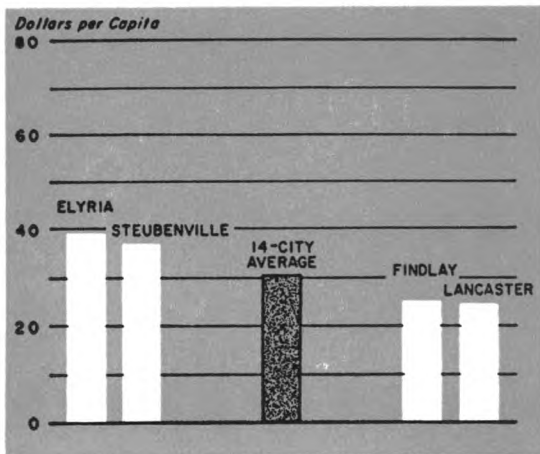
OHIO CITIES 40,000 TO 100,000
Per-capita General Expenditures
(as of year 1955)



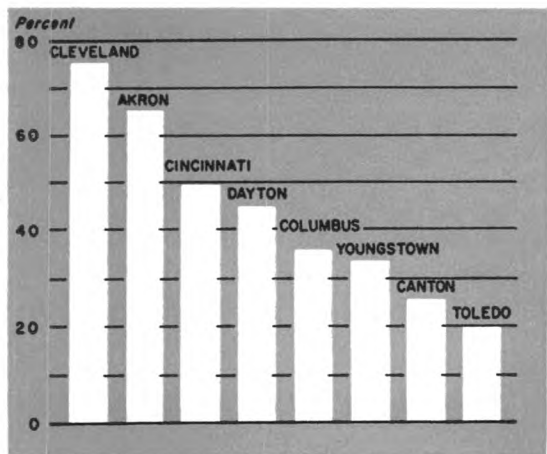
OHIO SUBURBAN CITIES
Per-capita General Expenditures
(as of year 1955)



OHIO CITIES 20,000 TO 40,000
Per-capita General Expenditures
(as of year 1955)



PROPERTY TAX AS PERCENT OF TAX REVENUE
Ohio Cities 100,000 and Over
(as of year 1955)



for municipal services are found in the shifts of responsibilities among governmental units and also in variations in accounting practices. For these reasons, differences in spending disclosed by the tables and charts should be interpreted with caution.

Protection

All cities in all four groups spent the largest share of their 1955 general expenditures for protection to persons and property (police, fire, traffic lights, inspections of buildings, etc.) The group of eight largest cities spent almost 35 percent of their general expenditures for this purpose. Next in importance with respect to the share spent on protection was the group of suburban cities. The smallest share for protection was spent by the group of cities with 20,000 to 40,000 of population.

Highways and Bridges

The expenditures for highways and bridges in this comparison include street and sidewalk repairing, street lighting, maintenance of viaducts and bridges, etc. These figures do not include capital outlays for highways and bridges, nor do they include the maintenance expenditures of other government agencies serving the same area.

A comparison of highway and bridge expenditures by different groups of cities indicates that smaller-size cities spent a larger share of their 1955 total general expenditure for this purpose than did the large cities. Outlays for highways and bridges by the group of fourteen cities, having a population of 20,000 to 40,000, averaged 18 percent of the total, whereas the proportion of the eight largest cities was 11 percent. Among individual cities, Warren, Zanesville, and Chillicothe, showed a considerably larger proportion spent on highway and bridges than that of other cities.

Sanitation

Street cleaning, garbage collection, and refuse disposal are strictly the functions of

municipal corporations. No other government agency performs these functions in city areas and therefore, municipal expenditures for sanitation reflect the total of such services extended to the community. Expenditures for sanitation by suburban cities accounted on the average for over 18 percent of their total general expenditure—a proportion by far greater than the average for any of the other three groups. Cleveland Heights spent over 25 percent for sanitation, using the highest proportion for this purpose of any of the 44 cities listed in the accompanying tables. Other cities which spent one-fifth or more of their general expenditure for sanitation were Cuyahoga Falls, Lakewood, and Norwood, all in the suburban category, and Lima in the 40,000 to 100,000 size-group, where expenditures for sanitation averaged 11 percent. Among the large cities, shown in Table 1, Toledo was highest at 17 percent, compared with the average for the group of 14 percent. Youngstown was lowest at 10 percent.

Health and Welfare

Although more and more of health and welfare functions are being taken over by stronger governmental units, nearly all municipalities maintain boards of health which are responsible for the treatment and prevention of disease, issuing regulations and making appropriate inspections. Expenditures for health and welfare varied widely, from 16 percent of total general expenditure in Alliance to less than 1 percent in Upper Arlington. Suburban cities spent the least for health and welfare, 3 percent on the average, while expenditures for this purpose in other cities averaged close to 8 percent. (With a greater-than-average proportion of high-income families residing in the suburbs, the need for public health and welfare facilities is correspondingly lower.)

Revenues

Nearly 70 percent of the general revenue of Ohio cities comes from taxes, partly collected locally and partly collected by the

State. Included are general and classified property taxes, income taxes, liquor and beer permit revenues, cigarette license fees, motor vehicle license fees, gasoline and sales taxes, inheritance taxes, and others. The remaining 30 percent is derived from such sources as State and federal grants, sales of services such as sewer rental and safety inspections, special assessments and charges, court fines, and parking meters. The most important source of tax revenue for municipal corporations is the property tax, with lesser amounts being derived from municipal income taxes and receipts from the State's distribution of gasoline taxes, sales taxes, and fees for motor vehicle licenses.

The ratio of property taxes to total tax revenue varies from city to city. Suburban cities rely more than other cities on property taxes for their revenue. On the average, the fourteen suburban cities listed in Table 4 (see column 7) derived over 63 percent of their total tax revenue from property taxes. South Euclid and Euclid were the highest in the group, with 79 percent and 77 percent, respectively. The lowest in the group were Norwood, with 29 percent of its tax revenue from property taxes, and Barberton, with 30 percent; however, they are the only cities in the suburban group to obtain revenue from income taxes.

In the group of eight largest cities as a whole, about 54 percent of total tax revenue was derived from property taxes. The ratio of property tax to total tax revenue ranged from 75 percent in Cleveland to 20 percent in Toledo. However, Cleveland and Akron were the only cities which did not have an income tax in 1955. Naturally, in the cities with income taxes, the property tax represented a much lower proportion of tax revenue than in Cleveland and Akron.

In general, it seems that suburban cities and the cities of size-group 20,000 to 40,000 depend more on property taxes than do large and medium-size cities. The eight cities of the size-group 40,000 to 100,000 collected less than 50 percent of their total tax revenue from property taxes.

Bonded Indebtedness

Nearly all municipal governments find it necessary to borrow money in order to meet certain types of expenditures, mainly those for capital outlays. General expenditures can usually be met from general revenue. Outlays for permanent improvement, however, force municipalities to go to the market and compete for funds with the private sector of the economy as well as with other types of government units.

Municipal corporations in the state of Ohio have been granted the power to borrow funds, within statutory limitations as to the amount of debt which that municipality may incur. Two general rules must be followed: (1) No municipality may incur debts of more than 1 percent of the assessed valuation of the taxable property located within the municipality without the approval of the electors; and, (2) with the approval of the electors, such debt is limited to 5 percent. (Certain types of bonds are exempted from this rule, making it possible for a municipality to exceed the 5 percent limit.)

In recent years, municipal corporations in Ohio have been required to equalize property valuation procedures for tax purposes. This equalization of property valuation makes the figures of the last column of the accompanying tables more meaningful than they otherwise would be. Comparison of general bonded indebtedness per \$1,000 of property valuation shows that most cities were well under legal limits of indebtedness in 1955. The group of eight largest cities had an average bonded debt of \$28.22 per \$1,000 property valuation. These are cities best equipped and most willing to go to the market for funds. Cincinnati was pushing close to the ceiling, with 4.825 percent. Canton was the lowest in the group, with bonded debt of only $\frac{1}{8}$ of one percent of its property value.

The group of suburban cities had an average bonded indebtedness of \$16.38 per \$1,000 property valuation. Maple Heights was the highest in the group, with \$34.08, and Upper Arlington the lowest, with only \$2.92.

Medium and smaller size cities had the lowest percentage of bonded debt on their books.

Table 1 — OHIO CITIES OF 100,000 AND OVER
Municipal Expenditures, Revenue, and Debt, 1955

CITY	Population ¹ (Apr. 1, 1956)	GENERAL EXPENDITURES ²					Property Tax as % of Tax Revenue	General Bonded Debt per \$1,000 Property Valuation
		Total per Capita	% for Protection	% for Highways & Bridges	% for Sanita- tion	% for Health & Welfare ³		
Cleveland.....	933,827	\$53.77	36.5%	10.8%	14.9%	6.8%	75.4%	\$37.94
Cincinnati.....	551,220	\$51.93	35.4%	8.6%	10.6%	9.4%	49.6%	\$48.25
Columbus.....	435,027	\$36.82	33.4%	8.1%	14.1%	4.7%	35.8%	\$19.84
Toledo.....	328,778	\$47.74	32.6%	11.8%	16.9%	7.9%	20.0%	\$ 2.01
Akron.....	294,153	\$38.47	28.3%	17.8%	15.6%	15.9%	65.4%	\$10.19
Dayton.....	281,802	\$45.43	33.0%	9.8%	15.0%	9.1%	44.9%	\$30.25
Youngstown.....	180,540	\$34.50	42.8%	15.6%	10.4%	2.7%	33.1%	\$17.58
Canton.....	121,652	\$35.78	30.8%	20.2%	13.8%	12.6%	25.4%	\$ 1.25
Average for Group		\$46.45	34.7%	11.1%	14.0%	8.1%	53.7%	\$28.22

¹Ohio Department of Liquor Control estimates.

²Excludes expenditures for municipally operated public utilities, hospitals and universities.

³Includes expenditures for Board of Health Administration, treatment and prevention of disease, regulations and inspections, poor and outdoor relief, workhouse, detention home, etc.

Table 3 — OHIO CITIES OF 20,000 TO 40,000¹
Municipal Expenditures, Revenue, and Debt, 1955

CITY	Population ² (Apr. 1, 1956)	GENERAL EXPENDITURES ³					Property Tax as % of Tax Revenue	General Bonded Debt per \$1,000 Property Valuation
		Total per Capita	% for Protection	% for Highways & Bridges	% for Sanita- tion	% for Health & Welfare ⁴		
Portsmouth.....	39,050	\$33.94	35.3%	14.3%	10.1%	8.7%	68.0%	\$ 8.83
Steubenville.....	38,506	\$37.35	27.4%	16.1%	7.8%	7.0%	73.3%	\$ 7.51
Newark.....	38,232	\$25.48	36.7%	21.4%	8.5%	3.0%	48.5%	\$ 6.89
Marion.....	37,418	\$31.48	31.7%	17.2%	11.6%	14.5%	55.4%	—0—
Massillon.....	35,979	\$26.02	34.3%	13.2%	15.7%	10.0%	40.7%	\$ 4.79
Elyria.....	35,348	\$39.61	28.6%	19.2%	17.1%	2.3%	63.7%	\$38.13
Sandusky.....	32,880	\$29.50	38.8%	12.8%	9.6%	5.1%	60.3%	\$ 7.46
Lancaster.....	30,059	\$24.92	29.3%	20.1%	13.4%	3.1%	43.7%	\$ 6.61
Alliance.....	29,618	\$27.71	31.0%	16.1%	7.3%	16.1%	52.1%	\$11.43
Findlay.....	26,861	\$25.42	29.2%	19.2%	8.0%	2.5%	49.2%	\$ 1.90
East Liverpool.....	26,363	\$26.44	32.2%	20.5%	10.8%	10.5%	62.9%	\$ 5.02
Ashtabula.....	25,941	\$34.07	33.4%	22.6%	13.5%	2.0%	67.4%	\$18.37
Chillicothe.....	25,130	\$25.81	34.0%	25.7%	9.3%	2.6%	44.7%	\$ 4.03
Tiffin.....	21,872	\$30.83	31.0%	23.8%	16.0%	4.1%	40.5%	\$ 3.99
Average for Group		\$30.18	32.3%	18.2%	11.4%	6.7%	58.4%	\$10.09

¹Excludes "suburban" cities which are shown in Table 4.

²Ohio Department of Liquor Control estimates.

³Excludes public utility expenditures and expenditures for municipally operated hospitals.

⁴Includes expenditures for Board of Health Administration, treatment and prevention of disease, regulations and inspections, poor and outdoor relief, workhouse, detention home, etc.

Table 2—OHIO CITIES OF 40,000 TO 100,000¹
Municipal Expenditures, Revenue, and Debt, 1955

CITY	Population ² (Apr. 1, 1956)	GENERAL EXPENDITURES ³					Property Tax as % of Tax Revenue	General Bonded Debt per \$1,000 Property Valuation
		Total per Capita	% for Protection	% for Highways & Bridges	% for Sanita- tion	% for Health & Welfare ⁴		
Springfield.....	85,442	\$35.34	36.8%	14.9%	10.5%	5.7%	36.7%	\$ 3.40
Hamilton.....	67,669	\$39.10	37.6%	9.4%	8.4%	12.4%	45.2%	\$15.87
Warren.....	58,481	\$41.22	28.6%	27.0%	9.7%	2.1%	32.9%	\$21.12
Lorain.....	57,307	\$36.47	29.6%	16.3%	10.2%	9.8%	68.7%	\$26.24
Lima.....	55,919	\$32.65	30.0%	17.6%	22.2%	4.8%	43.1%	\$ 2.91
Mansfield.....	49,978	\$31.79	33.3%	17.9%	6.9%	13.5%	49.1%	\$.08
Zanesville.....	43,830	\$22.06	31.5%	26.0%	11.6%	5.2%	41.9%	\$ 6.07
Middletown.....	40,550	\$44.48	36.5%	12.5%	7.4%	7.1%	68.6%	\$13.48
Average for Group		\$35.61	33.3%	17.0%	10.7%	7.6%	47.6%	\$12.02

¹Excludes "suburban" cities which are shown in Table 4.

²Ohio Department of Liquor Control estimates.

³Excludes public utility expenditures and expenditures for municipally operated hospitals.

⁴Includes expenditures for Board of Health Administration, treatment and prevention of disease, regulations and inspections, poor and outdoor relief, workhouse, detention home, etc.

Table 4—OHIO SUBURBAN CITIES OF 20,000 TO 100,000
Municipal Expenditures, Revenue, and Debt, 1955

CITY	Population ¹ (Apr. 1, 1956)	GENERAL EXPENDITURES ²					Property Tax as % of Tax Revenue	General Bonded Debt per \$1,000 Property Valuation
		Total per Capita	% for Protection	% for Highways & Bridges	% for Sanita- tion	% for Health & Welfare ³		
Lakewood.....	67,118	\$36.28	31.6%	11.5%	22.6%	3.5%	66.8%	\$24.00
Cleveland Heights..	61,207	\$43.97	30.7%	13.3%	25.1%	2.5%	67.2%	\$11.37
Parma.....	59,946	\$23.43	32.6%	20.0%	7.2%	3.0%	72.6%	\$29.82
Euclid.....	54,959	\$34.56	34.5%	16.7%	14.3%	1.6%	77.4%	\$16.65
Cuyahoga Falls....	43,518	\$27.55	31.3%	12.0%	22.6%	4.5%	69.3%	\$ 2.02
Kettering.....	43,366	\$ 9.55	31.0%	25.1%	—0—	1.3%	50.5%	\$ 8.12
East Cleveland.....	40,457	\$33.88	41.1%	11.9%	18.4%	3.2%	57.9%	\$ 2.34
Norwood.....	37,727	\$43.20	37.9%	17.4%	20.5%	1.4%	29.1%	\$23.37
Barberton.....	33,282	\$36.05	29.6%	17.4%	14.2%	11.1%	38.4%	\$23.80
Shaker Heights....	32,048	\$62.10	33.7%	12.6%	18.3%	1.3%	70.2%	\$ 9.93
Garfield Heights...	28,517	\$21.99	38.3%	18.3%	12.7%	2.4%	57.1%	\$17.57
Maple Heights.....	24,562	\$28.36	30.5%	23.8%	17.6%	2.2%	68.0%	\$34.08
South Euclid.....	24,098	\$29.90	45.2%	16.0%	16.2%	1.9%	79.0%	\$15.16
Upper Arlington...	22,923	\$15.38	39.0%	10.1%	18.7%	0.6%	54.7%	\$ 2.92
Average for Group		\$32.47	34.0%	15.1%	18.1%	3.0%	63.1%	\$16.38

¹Ohio Department of Liquor Control estimates.

²Excludes public utility expenditures and expenditures for municipally operated hospitals.

³Includes expenditures for Board of Health Administration, treatment and prevention of disease, regulations and inspections, poor and outdoor relief, workhouse, detention home, etc.

The Postal Savings System

THE POSTAL SAVINGS SYSTEM, as an adjunct of the nation's banking structure, has had an interesting history. But after nearly a half century of existence, its days may be numbered, either through Congressional action or through the workings of economic influences.

Original Purposes Outmoded

It is frequently claimed that the forty-six-year-old Postal Savings System "no longer meets today's social conditions and savings habits." This statement requires a review of the conditions existing when the Postal Savings System was created. The driving force behind the passage of the Postal Savings Act of 1910, after forty similar bills had failed, was the money panic of 1907. Confidence in banks was then at a low ebb. Agitation for guaranty of bank deposits and the creation of postal savings banks gained new vigor. It was also argued that a Government depository would provide security for small savings of low-income wage earners.

Neither of these ends necessarily pointed towards the Post Office Department as the means of providing Federal banking service. However, the Post Office Department was well known in many rural areas which were largely isolated and remote from savings facilities and, therefore, appeared to be a convenient means for providing savings facilities for farmers and others. In addition, large numbers of immigrants were still coming to the United States with little knowledge of American banking but with considerable

experience in saving through postal depositories in their homelands.

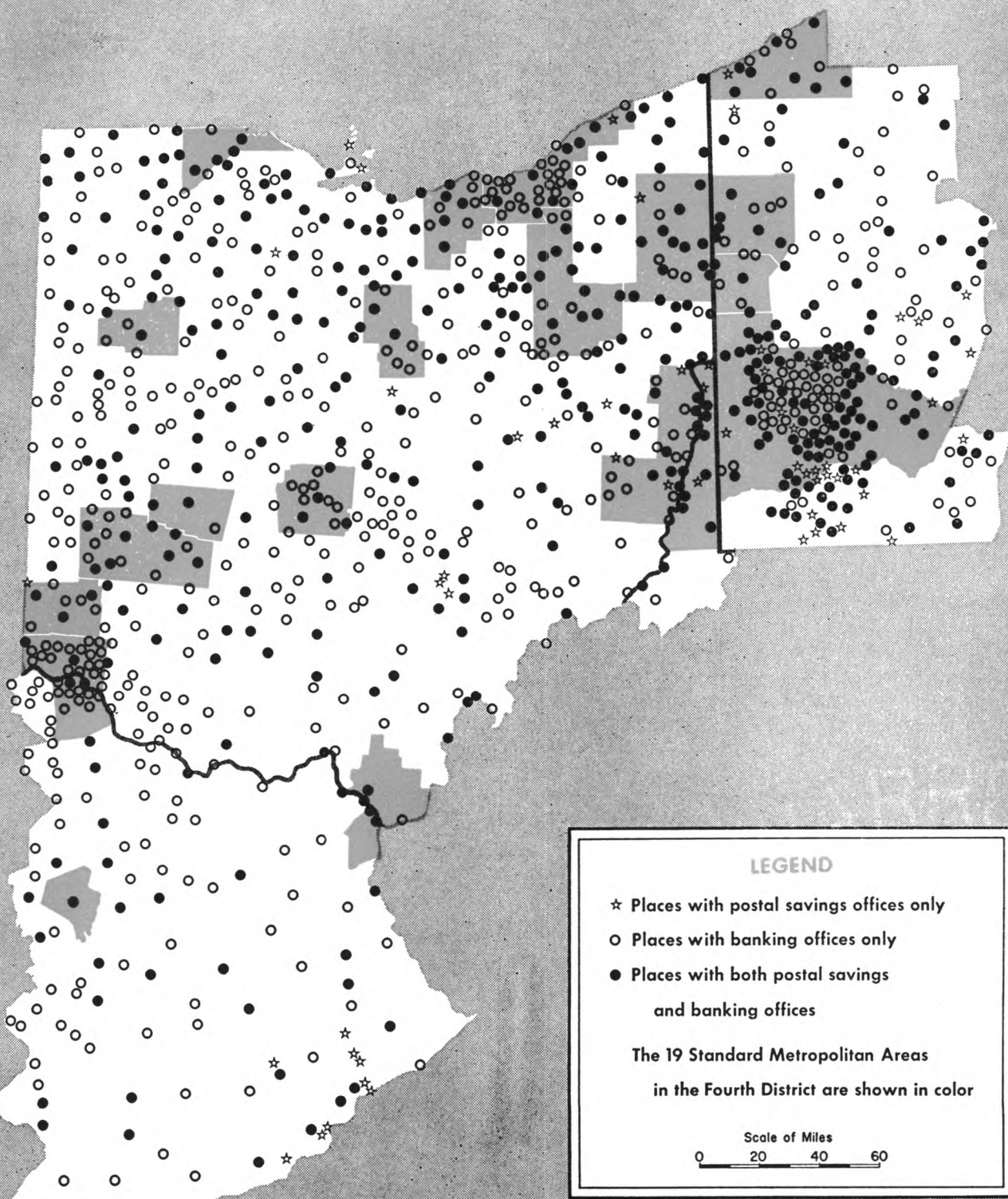
Whether the Postal Savings System still serves the purposes for which it was created depends a good deal upon one's evaluation of changes which have occurred since that time in the nation's banking structure. First, the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation now secure deposits and share accounts up to \$10,000. Second, wage earners that are largely located in large industrial centers are adequately served by banking facilities. (See Standard Metropolitan Areas¹ on the accompanying map of postal savings depositories and banking facilities in the Fourth Federal Reserve District.) Although in the early nineteen hundreds, banks were not noted for accommodating small savings accounts and national banks could not accept such deposits until 1913, banks now actively solicit such accounts. Further, many wage earners have accumulated savings in excess of the \$2,500 maximum placed on individual postal savings deposits.

The argument that postal savings banks are needed to attract savings of immigrants and farmers similarly has lost much of its former logic. The immigrant flow has slowed to no more than a trickle since the 'thirties. Improved supervision of banks and the strength of banking displayed since the

(1) The Standard Metropolitan Areas shown on the map include all those on the official list of the Bureau of the Census plus two areas—Mansfield, Ohio, and New Castle, Pennsylvania—treated as "metropolitan" here since the most recent estimates of population make it appear appropriate to do so.

PLACES WITH POSTAL SAVINGS AND BANKING OFFICES

Fourth District, June 30, 1956



Banking Holiday has undoubtedly instilled confidence in banks on the part of native citizens as well as immigrants. The tremendous improvement in private and public transportation and communication since 1910 has brought town and country areas together. As shown on the map, not a single postal savings office in the Fourth Federal Reserve District is as far as twenty miles away from a banking facility and most offices are located in towns or cities where there are banking facilities. Incidentally, many persons use the facilities of the Post Office Department to mail their savings to banks and savings and loan associations.

Competition with Banks

Much of the opposition to the Postal Savings System, even before it was established, arose from the American distaste of public institutions competing with private business. The original legislation attempted to meet this objection by requiring postal savings offices to redeposit their savings in banks in localities where the funds had been received. Banks were required to secure such deposits with collateral in the form of Government, State, or municipal bonds. Banks have always been required to pay 2½ percent interest on such deposits.

Such provisions appear to have worked adequately until 1933. At that time, roughly 85 per cent of postal deposits were redeposited with local banks. Beginning late in 1933, however, banks were finding it increasingly difficult to invest the funds, as well as to make use of excess reserves, at rates that would warrant payment of 2½ percent interest. Accordingly, banks began to decline to act as depositories for postal savings and the Postal Savings System was forced to invest in Treasury securities. Today only a nominal share of postal savings funds is held by banks. In the Fourth Federal Reserve District, postal deposits currently amount to \$125 million, but only \$1 million is deposited in 48 of the District's 600 member banks. About half that amount resides

in one bank; about forty banks accepting redeposits hold token accounts of \$10,000 or less.

Thus it appears that the banking community itself has little to fear today from competition from postal savings depositories. The geographic distribution of postal savings depositories in relation to banking facilities shown on the accompanying map might be somewhat indicative of competition. The distribution of postal savings offices, however, by the number of depositors in each office shown on the following table reveals that, at least currently, the Postal Savings System is a weak competitor. Nearly four-fifths of the postal savings offices in the Fourth District have less than two hundred depositors; one-quarter of the offices have less than twenty-five depositors. Only 12 percent of the postal depositories are in non-bank towns and three-quarters of these have less than fifty depositors. Total deposits in many post offices hardly warrant their existence and certainly fall below the volume required to make a banking facility worthwhile.

DISTRIBUTION OF POSTAL SAVINGS OFFICES BY NUMBER OF DEPOSITORS

June 30, 1956

Fourth Federal Reserve District

Depositors	Offices	Per Cent of Total	Offices in Non-Bank Towns	Per Cent of Total
Less than 25	121	25.6%	29	6.1%
25 to 49	92	19.5	15	3.2
50 to 99	86	18.2	4	.8
100 to 199	71	15.0	4	.8
200 to 299	36	7.6	4	.8
300 to 399	15	3.2	0	0.0
400 to 499	11	2.3	0	0.0
500 to 999	25	5.3	1	.2
1,000 to 4,999	10	2.1	0	0.0
5,000 to 9,999	3	.6	0	0.0
10,000 and Over	3	.6	0	0.0
Total	473	100.0%	57	11.9%

The Record

It must be acknowledged, however, that there were certain periods of remarkable growth on the part of the Postal Savings System during its forty-six years.

The accompanying chart compares time deposits at all commercial banks in the United States with total postal savings deposits. A comparison of these data for the Fourth District would yield similar results. The first period of rapid growth, 1930-1933, began with the decline in confidence in banks during the period of bank suspensions and closings. During this period, postal savings deposits quadrupled while time deposits dropped roughly one-third.

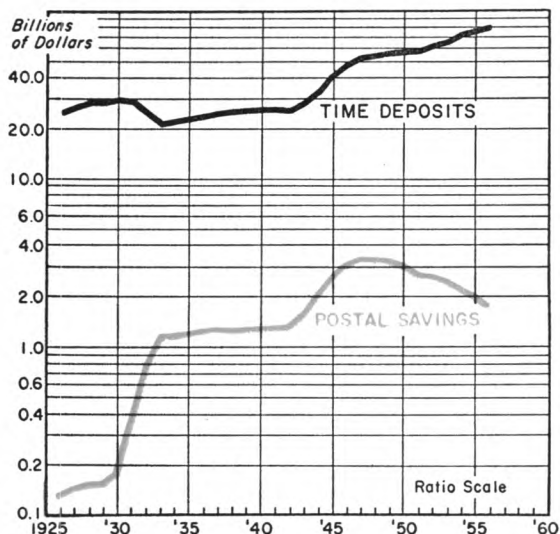
After the establishment of deposit insurance, both types of deposits recorded moderate gains of similar proportions until 1942. Between 1942 and 1947, however, time deposits increased about two and one-half times while postal savings deposits nearly trebled, to reach a peak of nearly \$3.4 billion at mid-1947. During most of that period, liquid savings of individuals grew rapidly as incomes rose and goods became scarce.

Postal savings had a competitive advantage in their 2 per cent interest rate at a time when most banks were paying 1½ per cent or less. In addition, swing-shift workers probably found post office hours more convenient than banking hours. Even the savings bond at 3 per cent was, in some respects, at a competitive disadvantage because of its ten-year term and low rate of return during the first few years held.

Liquidation by Default

Since 1947, however, postal savings have lost considerable ground, dropping by nearly one-half while time deposits continue to grow. The Post Office Department recently estimated that deposits were being reduced by \$20 million a month. Part of the decline since 1947 was probably a postwar reaction to long-delayed purchases of goods, but in recent years it is most likely that postal sav-

COMPARISON OF TIME DEPOSITS AT
COMMERCIAL BANKS AND POSTAL
SAVINGS DEPOSITS
1926 - 1956
United States



ings suffered a reversal of their earlier rate advantage. While postal savings continue to this day to pay 2 per cent, bank rates and savings and loan rates have moved to a range roughly between 2 per cent and 3½ per cent. Thus, the Postal Savings System has been gradually liquidating in response to a declining patronage. From the all-time high of \$3.4 billion reached in 1947, postal savings deposits have declined below \$1.6 billion, with further shrinkage in sight. Complete liquidation of the largest "savings bank" in the nation would mean that nearly 2.5 million depositors would have to find other havens for about \$1.6 billion currently deposited at some 7,600 post offices, postal stations, and postal branches.

In only a few of the places served by the Postal Savings System would depositors be inconvenienced by the demise of the postal savings banks. For example, in Bascom, Ohio, 45 per cent of the town's population of 400 have a postal savings account. In the great majority of Ohio towns, however, less than

1 percent of the population use the available postal savings facilities. As already shown, nearly every postal savings depositor could find a conveniently located banking facility.

It would seem that the Postal Savings System has outlived any social or economic need it may have once satisfied. It has not grown competitively. Perhaps, the only inconvenience of its dissolution would be that experienced by the Post Office Department

and the United States Treasury. The Postal Savings System has earned a profit in every year but one of its operation, thus contributing to the financial support of the Post Office Department. Moreover, the Treasury does not have ready cash available to redeem the \$1.5 billion of postal savings funds now invested in Treasury securities. But it is unlikely that liquidation would be so rapid as to pose a real problem for the Treasury.

NOTES

Among the articles recently published in *Monthly Business Reviews* of other Federal Reserve banks, the following may be of special interest to our readers:

“Recent Inventory Developments,” Federal Reserve Bank of Kansas City, July 1957.

“The Expanding Role of State and Local Governments in the National Economy,” Federal Reserve Bank of New York, June 1957.

“Managing Other People’s Money: Trust department operations a big business at District banks.” Federal Reserve Bank of Atlanta, June 1957.

“Trade Credit: a Factor in the Rationing of Capital.” Federal Reserve Bank of Kansas City, June 1957.

Copies may be obtained by writing to the Federal Reserve bank named in each case.