Federal Reserve Bank of Dallas

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New World Monetary Policies
-An Address by Philip E. Coldwell

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New World Monetary Policies

An Address by

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During the past year, the Free World finally faced the cumulative deterioration and ultimate collapse of its international financial system. The final crushing blow occurred on August 15, 1971, when the United States suspended dollar convertibility following a massive speculative run and the interruption of exchange markets. Thus, the postwar gold-dollar exchange standard created at the Bretton Woods Conference came to a staggering close, and efforts to rebuild and reorganize a new financial mechanism are under way. The economic and political stakes in this effort are extremely high because no less than the world trade and economic progress of nations rest upon the successes of the negotiators.

Perhaps we should start our look at the new world monetary policies by reviewing what went wrong with the old ones and any basic environmental shifts or changes that could impact upon the restructuring. Fundamental to the international financial mechanism of the postwar era was the agreed-upon convertibility of the dollar into gold at a set $35-an-ounce price to foreign official institutions. With United States holdings of about $24 billion in gold and the war-shattered economies of most major industrial competitors, the dollar was indeed in short supply and could be viewed as almost as good as gold. In the reconstruction period which lasted through the late 1950's, the economies of most of the allies and enemies of World War II were rebuilt and, in fact, these countries became strong competitors. Reconstruction was accomplished with the latest technological knowledge and equipment so that, to some considerable extent, we rebuilt the foreign economies into highly efficient producers able to compete with the best of our industries.

While we were busy helping foreign nations rebuild, we also tolerated trade barriers and limitations which these nations thought necessary to their internal welfare. Some of the barriers were erected to protect their developing industries, while others were probably created as measures to protect limited official reserve positions and shield their economies from excessive capital outflows. For whatever reason, the subsidies to exporters and tax and quota limits on importers persisted far beyond their initial purposes. In fact, these trade restrictions became a major hindrance to United States exporters, both in selling directly to the major nations and in competing with their producers in reaching markets of other countries.

Simultaneously with reconstruction, the United States was acting as the policeman and arbiter of the Free World. Our attentions and a sizable part of our resources and energies were thus constantly diverted from our domestic scene to meet these worldwide responsibilities, as reflected in the recurring conflicts in Korea, Israel, Cuba, and Vietnam. In foreign grants, credits, and economic and military aid, we have expended over $212 billion in the postwar period, and our costs for policing and defense-related expenditures in all parts of the world must have sharply exceeded even that large total.

From 1950 through 1971, the United States suffered overall balance-of-payments deficits amounting to more than $71 billion and had only three years of surpluses out of the 22-year period. Until 1967, the nation's trade surpluses covered a major share of the deficits from aid and capital accounts, but after that, the surpluses narrowed sharply. The trade account itself was in deficit by $2.9 billion in 1971 and at an annual rate of $6 billion in the first quarter of 1972.

By selling gold, Special Drawing Rights (SDR's), and other reserve assets and by drawing on our IMF position, we settled $14 billion of the $71 billion of deficits. Most of our deficits were, however, deferred by the foreign accumulation of an additional $57 billion of liquid claims on the United States. The official reserves of the United States–including gold, SDR's, and IMF position–declined from $26 billion at the beginning of 1950 to $12 billion at the end of 1971 and are now exceeded by those of both Germany and Japan.

In the early postwar period, the dollar was in short supply for most of the Free World. From 1954 to 1959, a semblance of balance developed, but there were early warnings of developing excesses. However, not until 1961 did the growth of United States imbalances abroad begin to be a matter of significant concern to this country's policymakers. Unfortunately, the policies adopted to meet the problem were largely directed toward the symptoms rather than a concerted attack on fundamental causes. Consequently, the deficits rolled on and foreign dollar reserve balances continued to grow despite foreign official resistance.

Concurrently, as implied, the balance of economic and financial power began to shift, and the large nations accumulating payments surpluses were slow to act against further accumulation. Despite specific provision in the Bretton Woods Agreement for parity changes to meet persisting imbalances, the nations viewed such changes as only last-resort measures. Similarly, public domestic pressures for economic growth limited the degree to which domestic monetary and fiscal restraints could be imposed.

Throughout the postwar period, the United States dollar played the central roles of both a primary reserve and the principal vehicle currency. The cost of this twin responsibility can probably never be assessed with accuracy, but in terms of policy flexibility it became a severely limiting factor. While the United States could run deficits with seeming impunity, the background of cost mounted and finally burst through the facade of increased official holdings of dollars. The United States did not believe it could change the relationships of the primary official reserves or devalue the monetary standard without setting off a chain of competitive devaluations or creating very unsettled conditions in the exchange markets. Neither could we place our economy in such a straitjacket as to limit the deficits through income restraints. So we continued building deficits, providing the needed international liquidity but steadily accumulating a stockpile of liquid liabilities which spelled eventual trouble.

The terminal development in this tail-chasing episode was the mid-1960's advance in inflationary pressures and the policies of temporizing gradualism which failed to contain these pressures until significant damage was done. Most importantly, the rate of inflation in the United States exceeded such rates in some other industrialized countries, and the advance in wage costs, given our higher starting point, sharply eroded our competitive position. Thus began the rapid decline of our trade surplus, which became a deficit in 1971.

The heavy inflation also created in businessmen and consumers rather widespread expectations of further price advances, which tended to limit the effectiveness of monetary and fiscal policies. Consequently, the rate of inflation was slowed only moderately by this fifth postwar recession and the continuing domestic inflation of prices and costs undermined the trade balance. Other complications arose as easier monetary policies in 1970 and 1971 created large interest rate differentials between American and European money markets, and interest-sensitive capital began to flow toward Europe in large volumes. The persistence of inflation and the deteriorating trade balance contributed to the growing conviction that dollar devaluation was inevitable, and the outflow of speculative capital intensified.

The converse of this trend in the United States was a steadily growing influx of both capital and speculative dollars in the major industrial nations abroad. If the outflow created problems for the United States, the inflow was equally unwelcome to the foreign nations because of the interference with their domestic policy control and the mounting need to neutralize such money supply additions.

With this background of economic and financial problems, let us turn to other causes of the downfall of the gold-dollar exchange system of settling international payments. We have already alluded to the deteriorating United States position in both official reserves and, finally, trade. We have also mentioned the cost and liquidity problems of the dollar as primary reserve and vehicle currency. But these alone might not have been sufficient to cause the collapse of the system. In addition, there have been some fundamental philosophical and policy shifts during the postwar period. The powerful surge of social concern for the unemployed and welfare and housing needs of each nation brought policy changes emphasizing continuous, accelerating growth and a lessening concern over the inflationary consequences. While this fundamental shift developed in most countries of the world, the change was especially pronounced in the United States, and, coupled with the costs of the worldwide responsibilities the United States assumed, there developed an irresistible move toward governmental deficits at home and abroad.

A second fundamental change was the increasing dependency of the United States upon external sources of primary raw materials, fuels, and a rising list of manufactured products. These imperative imports, along with others where cost considerations stimulated American consumer purchases, brought a shocking advance in total imports, reaching a 17-percent average gain per year from 1965 through 1971. At the same time, our export increase averaged only an 11-percent gain per year.

Policy changes also contributed to the failure of the international monetary mechanism. First, the attitudes of foreign governments toward dollar reserve accumulation shifted markedly as their total dollar holdings rose and potential devaluation threatened. With this policy shift, foreign governments demanded either value guarantees against parity changes or gold convertibility on short notice. As exchange rate crises recurred, new dollar exchange and capital flow restrictions were imposed by a number of foreign nations. Such efforts only heightened the sense of impending parity change and spurred further protective actions by multinational firms and speculators.

Second, attitudes among many governmental officials in the United States and abroad began to soften toward greater flexibility in intervention limits or wider bands around parities. The German and Canadian floating rates, even though closely monitored and limited by intervention, provided further evidence that the rigid parities and narrow bands were not the absolute necessity previously ordained. With this moderation came stronger appeals for fully floating rates or, at least, consideration of the even wider bands, crawling pegs, and planned parity changes. It is my contention that these attitudinal changes brought greater willingness to experiment and diminished the fear of the unknown to the extent that governments were willing to risk the upheaval of a change in the monetary mechanism.

To some extent, foreign policies on American investments abroad have been at least a partial cause of the change in attitudes toward the dollar and its role in international finance. As American foreign investments grew over the postwar era and multinational firms developed, the foreign nations became concerned over the degree to which nonresident owners controlled many important local industries. From their viewpoint, factors making such investments possible included the dollar's role in providing international liquidity and the whole problem of surplus dollars, especially in Eurodollar positions. Whether or not these arguments have validity, the attitudes engendered by them were of some import in the willingness to consider major modifications to the mechanism and toward reducing dependence upon the dollar as the primary reserve and vehicle currency.

Finally, both United States and foreign attitudes were conditioned by the problems of the United Kingdom and the demise of the reserve-currency role of pound sterling. Although Great Britain had certain special problems of its own, there were others which appeared common both to it and to the United States. Thus, the British devaluations and the consequent losses on official sterling reserves brought a new and harder look at the situation in the United States and the dollar's role as a reserve currency. Although these events may have contributed only marginally to the shift in attitudes, the strength of the German mark and Japanese yen and the growth of the European Common Market and its consideration of a unified financial position also supported the questioning on the existing monetary arrangements.

It is apparent that the downfall of the Bretton Woods international monetary mechanism developed from a long list of complex causes and interrelationships, as well as some significant changes in policies and attitudes. To assess and assign portions of the blame seems fruitless since many countries contributed to it and were responsible for it in one measure or another. Both surplus and deficit countries could be faulted for their failure to take prompt actions consistent with an international balance. The important point now is to learn from this lesson and reconstruct an international financial mechanism which will serve, in a flexible but stable manner, the needs for international liquidity, capital development, transactions capability, and transferability.

One of the primary elements of the problem is the need for an international standard which will provide the point of reference for all reserve units and will be safe from depreciation or change. It must have the respect of governments and confidence of the people and serve as a storehouse of value while permitting an adequate return to be made on the tied reserve units. This standard function in the past has been assigned to gold, but its extreme scarcity, rising industrial uses, lack of flexibility, and heavy demands for hoarding have raised questions on its role in the future. And yet, many people in the world, by custom, habit, and experience, still view gold as the ultimate protector of their savings.

Even though gold hoards yield no current interest and are costly to buy, insure, secure, and transport, there is an active hoarding market among at least a third of the world's population. Moreover, with the open market price for gold freely fluctuating since the accord of 1968, there has been a capital appreciation of nearly 90 percent at the recent price of $66 per ounce. The revaluations and devaluations of the past ten years have certainly done nothing to shake this popular confidence in gold, and the negotiating governments will need to reckon with this fact as they plan the new monetary system. This is not to say that gold must maintain its past prominence or that the link from reserve assets to gold must be so rigid or certain. But it does seem likely that to sever all relationships to gold would cause some severe questioning of the new system.

A second fundamental element in the new mechanism is the determination of the types of reserve assets which will be acceptable to all nations and the interrelationships between reserve types. Some observers suggest that an exchange mechanism based on multiple key currencies is the best way to restructure. Others have advocated only gold and Special Drawing Rights for official reserves. A few still advocate a return to a strict gold standard, but with a very large price increase to perhaps $100 to $150 per ounce.

There are many complex problems to be considered in negotiating the choice of new reserve assets. In recognition of past difficulties, the negotiators must take into account the instabilities of a mechanism utilizing only individual currencies. The problems of the dollar over the past ten years could become the problems of other currencies selected as reserve assets. There are no guarantees of responsible domestic or international policies on the part of the country supplying a reserve currency. Moreover, it may be too much to hope for perfect coordination of policy among all countries of a single currency bloc or to expect uniformly enlightened policies between blocs. While one cannot rule out this approach to the problem, especially in view of the recent steps taken by the countries in the European Common Market, it would seem that the Free World would be accepting very significant risks in establishing a new monetary mechanism with a sole centerpiece of reserve-currency blocs.

The creation of a mechanism founded only upon gold and Special Drawing Rights assumes a responsible issuance of such rights so that new liquidity is not excessive but is adequate to support international trade. The distribution formula for SDR's is yet another significant stumbling block because IMF quota distribution further concentrates reserve holdings in the large industrial nations, thus limiting reserve credits to the developing nations. On the other hand, a formula for SDR distribution heavily weighted toward the poorer nations would put the IMF, or whatever issuing body is selected, in the position of a world bank or a credit and loan agency. Such a procedure would also mean using world central bank credit creation for credit allocation. If SDR's were to be issued continuously to meet deficits of the developing nations, the world would be monetizing such debts and creating a powerful inflationary pressure which would affect all nations. Moreover, there is a significant question of whether the nations are yet ready to relinquish their sovereign authorities to a world central bank, which would need extensive disciplinary powers to manage a world monetary mechanism of this type.

The return to a strict gold standard runs quickly into severe political and economic problems. The present distribution of gold holdings among nations, the windfall profits to speculators and nations that have maintained a heavy gold reserve-composition policy over the past ten years, and the problems of rewarding the few major gold producers are political factors which could be especially difficult in creating a new gold standard. Of equal difficulty are the problems of rigidity of price and lack of flexibility in new units for liquidity, as well as the extreme problems of using gold as a transactions currency. To many countries, especially the underdeveloped, the primary problem of using only gold as a reserve asset is the lack of any return plus the heavy costs of storage, insurance, and security. This important consideration was one of the primary advantages of the Bretton Woods mechanism because, at least in theory, the world could have the disciplinary feature of a gold standard coupled with the interest return on a key currency whose value was tied to gold.

Perhaps we have said enough about the problems of reserve selection to give you some flavor of the factors in the primary choices which the negotiators must select in their ultimate decisions. Beyond the selection of the reserve assets and their interrelationships one to another, the nations must also settle a number of very practical monetary policy problems. These include the establishment and operating guides for the range of intervention points, monetary policy exchange rate actions, interest rate competition, control of destabilizing currency flows, international or domestic restraints on multinational currencies such as the Eurodollar, and the degree to which one nation's deficits or surpluses and inflation or recession will be permitted to interfere with another nation's domestic policy position. Stated somewhat differently, the negotiators will need to determine the disciplinary elements of the new system, the areas of cooperative policy objectives and implementation, and the areas of policy freedom which each nation can exercise.

It is abundantly clear that international laws or agreements cannot be written so tightly as to deny to any country the right of self-determination of its domestic monetary and fiscal policies. However, it is equally clear that self-interest cannot be the sole criterion for international relations or the monetary policies affecting external positions of any country. Especially during the past ten years, central bank cooperation has improved sharply, with swap transactions, the two-tier gold price agreement, and the reserve and investment policies of foreign banks reflecting this attitude. Such cooperative efforts are of even greater importance in our present state of uncertainty and may be critical under the new monetary mechanism.

One particularly difficult problem to be faced by the negotiators will be the disposition of the presently large overhang of dollars in foreign official reserves. While we can hope that return flows will absorb a part of this overhang, few observers believe that the shift in the United States payments position will be sufficient to handle all of the problem, even within a two-year time frame. Thus, inter-central bank cooperation is likely to be required to neutralize the excess for some period of time, especially if dollar convertibility is to be reestablished.

Having raised some of the central problems and considerations facing the central banks and political leaders in restructuring the world's monetary mechanism, what can we say about new world monetary policies and the likelihood of certain paths of reconstruction? Perhaps the best I can offer today is an outline of a possible direction of reconstruction and some comments on the monetary policies needed to aid in its implementation. As I view these international problems, several central factors seem unassailable.

- While many may wish it could be different, any new monetary mechanism will likely have to accommodate at least some nominal role for gold.
- Realities of the present world situation, the size of the United States financial markets, and the pervasiveness of this nation's current role lead to the conclusion that the dollar cannot be entirely replaced as a reserve or vehicle currency in the near term. Moreover, it must be remembered that until SDR's were issued, the dollar was the only significant source of new liquidity to meet the needs of growing world trade.
- The growth and strength of other countries, especially Japan and those in the Common Market, suggest that they should have a greater role in sharing the responsibilities of maintaining international financial stability and the viability of the monetary mechanism.
- The growing acceptance of and confidence in Special Drawing Rights seem to augur well for an enlarged role for this reserve asset.
- There will need to be equitable and balanced trade relationships established by negotiations to accommodate the new responsibilities and relative positions of the major industrial nations and to ensure open markets for primary products of developing nations.
- While the major industrial nations should have a strong voice in reshaping the monetary mechanism, there should be a way for developing nations to register their concerns and have some influence on the terms and conditions of the new system.
- The trend toward multinationalization of aid to developing countries should be accelerated and emphasized, especially in view of the tendency for some countries to use their reserve asset strength in conjunction with their aid and loan policies in order to influence patterns of trade.
- The evident desirability of greater flexibility of exchange rates and the need to reduce speculative pressures on intervention points seem to suggest that wider bands around central rates will be a feature of the new system. However, the resistance of the central banking community and the problems of forward rate determinations suggest that freely floating rates are not likely to be incorporated.

Accommodation of these and the many other diverse and even conflicting needs of the new monetary system will require patient, cooperative negotiations. An aggressive spirit of good will and ability to adjust and compromise will be needed among all nations. The precise form and characteristics of the new system are not known, but one thing seems clear to me. Unless prompt negotiations are undertaken, we will see a further proliferation of exchange controls and a hardening of attitudes toward reform. In the six months since the Smithsonian Agreement, the uncertainties of ultimate reform have brought further pressure on the dollar and, recently, heavy speculative movements in gold. Further delays in negotiations will only subject the central rates of the Smithsonian Agreement to even greater questioning.

Whatever the central features of the new system, it is essential, if not mandatory, that the central banks and finance ministers pursue cooperative and enlightened policies which will reduce the destabilizing impact of multinational currency flows and firm transactions. Multilateral surveillance of Eurocurrencies may require joint action to neutralize the balance-of-payments effects and prevent such flows from interfering with the orderly conduct of domestic policies. Even in the brave new world of tomorrow, with a new effective international payments mechanism, there will still be a place for close coordination of central bank policies to narrow the international differential in interest rates and thus reduce the flows of interest-sensitive funds. Similarly, central bank cooperation in handling foreign exchange intervention will be important as money markets proliferate and develop under the impetus of the greater sharing of key-currency burdens.

At the heart of the problem of developing a continuingly effective monetary mechanism is the pursuit of monetary, fiscal, and other governmental policies designed to reduce inflationary pressures and expectations in terms of both domestic and external impacts. A balance-of-trade equilibrium and a continuity of competitive positions will be necessary for all major nations if the new system is to operate effectively. But these are not attainable if significant and disparate rates of inflation are permitted in large industrial countries. We must reestablish business and consumer confidence in the viability of price and wage relationships and in the dedication of governments to restrain inflation.

The aims and aspirations of each nation and its right to self-determination of monetary and fiscal policies designed to reach those goals are facts we must accommodate in the new monetary world. However, we cannot permit the nationalistic self-interest of nations to destabilize or upset the international equilibrium or destroy the settlement mechanism, for these are among the critical keys to peaceful coexistence and economic progress for all nations.

The views expressed are those of the author and do not necessarily reflect the position of the Federal Reserve System or the opinions of any of his associates.

Trust survey

Results of a survey conducted in cooperation with the Trust Section of the Texas Bankers Association are available on request. Covering the 1971 income and expenses of trust departments of 63 member banks in the Eleventh Federal Reserve District, the report includes some modifications from previous trust survey reports. As a result, the report of the 1970 survey has been restated in accordance with the revised format. Requests for copies of the 1971 trust survey or the restated 1970 survey should be made to:

Research Department
Federal Reserve Bank of Dallas
Station K
Dallas, Texas 75222

New member bank

The Heritage National Bank, Tyler, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business June 19, 1972, as a member of the Federal Reserve System. The new member bank has capital of $350,000, surplus of $350,000, and undivided profits of $175,000. The officers are: Allen M. Burt, President and Chairman of the Board; Charles G. Grimes, Vice President; and Edmund Serur, Vice President and Cashier.

New par banks

The Jonesville Bank & Trust Company, Jonesville, Louisiana, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, May 25, 1972. The officers are: J. C. Gilbert, Chairman of the Board; George Griffing, Vice Chairman of the Board; C. D. Doyle, President and Cashier; James H. Terry, Vice President; and Charles Wurster, Jr., Vice President.

The White Oak State Bank, White Oak, Texas, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, June 5, 1972. The officers are: Tommy A. Moore, President; Mrs. Edith Wilson, Vice President; and Mrs. Betty Odom, Cashier.

The Benbrook State Bank, Benbrook, Texas, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, June 19, 1972. The officers are: William Bever, Chairman of the Board; Bill M. Shaw, President; and Dwain Dickey, Vice President and Cashier.

The North Central Bank, Saginaw, Texas, an insured nonmember bank located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, was added to the Par List on its opening date, June 21, 1972. The officers are: Ira Loftin, President; T. J. Elkins, Vice President; Nick Griffin, Cashier; and Mrs. Betty Weddle, Assistant Cashier.

Federal Reserve Bank of Dallas
July 1972

Statistical Supplement to the Business Review

Total credit at weekly reporting commercial banks in the Eleventh District rose significantly more than seasonally expected in the four weeks ended June 21. Reflected in the rise were sizable increases in both loans and investments accommodated by a substantial expansion in total deposits.

Total loans rose sharply, reflecting larger than usual gains in business and real estate loans. These increases probably resulted from the continued improvement of economic conditions in the District. Although demand for most other types of loans was about in line with comparable periods of other recent years, the highly volatile security loans were also up significantly.

Holdings of Government securities rose slightly. Investments in other securities–particularly municipal issues–increased considerably more than usual.

Inflows of demand deposits increased sharply, and as a result of a moderate expansion in large CD's outstanding, time and savings deposits rose somewhat. Reporting banks also increased their borrowings from nondeposit sources. This increase was mainly in the Eurodollar market.

Texas regained its standing as the nation's leading cattle feeding state on June 1. The state had over 2 million head of cattle on feed–11 percent more than a month before and 22 percent more than a year before. Arizona had over half a million head on feed. That was 10 percent more than a year earlier.

The index of prices received by Texas farmers rose 5 percent in the month ended May 15, reaching a point 15 percent higher than a year before. Higher prices for cattle, hogs, lambs, wool, mohair, and cotton accounted for the increase. The index of prices paid by U.S. farmers held steady.

Through April, cash receipts from farm marketings in states of the Eleventh District topped $1.9 billion. The increase in cash flow, which brought receipts 19 percent ahead of the first four months of last year, stimulated farmers' capital investments. Tractor sales in these states in the first quarter of the year were 55 percent more than in the same period last year.

Registrations of new passenger automobiles in Dallas, Fort Worth, Houston, and San Antonio rose 28 percent in May. All four metropolitan centers showed increases, which ranged from 11 percent in Dallas to 46 percent in Houston. Registrations were up 30 percent from May 1971, and cumulative registrations through the first five months of 1972 were 12 percent greater than in the same period a year before.

Total employment in the five southwestern states rose only slightly in May, reaching a seasonally adjusted level 2.7 percent higher than a year before. The small increase in employment was accompanied, however, by an expansion of the labor force. As a result, at 4.4 percent, the unemployment rate was left essentially unchanged from April.

Nonagricultural payroll employment edged up from April to May, although employment was down 0.5 percent in construction and 0.2 percent in mining. These declines were largely offset by increases of 0.3 percent in service industries and 0.2 percent in finance. Manufacturing showed no significant month-to-month changes.

All industry groups showed year-to-year increases in employment. The largest advance was in construction, which employed 6.9 percent more workers than in May 1971.

Department store sales in the Eleventh District were 10 percent higher in the four weeks ended June 24 than in the corresponding period last year. Cumulative sales through that date were 10 percent higher than during the comparable period last year.

Oil allowables in all four producing states of the Eleventh District were left unchanged again for July. Texas has maintained its allowable at a record 100 per cent of maximum efficient production since April. Special rates of 86 percent for the East Texas field and 76 percent for the Kelly-Snyder field have also held steady since April.

The Louisiana allowable has been at 75 percent of maximum efficient production since February. The allowable in Oklahoma remains at the 200-percent rate set in January. In New Mexico, there has also been no change since January, when the allowable for the southeastern part of the state was raised to 80 barrels per well a day.

The seasonally adjusted Texas industrial production index changed very little in May. With declines in mining and utilities nearly offsetting an increase in manufactur-

(Continued on back page)

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	June 21, 1972	May 24, 1972	June 23, 1971
Federal funds sold and securities purchased under agreements to resell	634,096	779,872	631,408
Other loans and discounts, gross	7,961,094	7,725,646	6,950,763
Commercial and industrial loans	3,581,944	3,479,397	3,310,580
Agricultural loans, excluding CCC certificates of interest	196,169	196,667	125,244r
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	1,160	1,160	500
Other securities	72,602	56,823	57,056
Other loans for purchasing or carrying:			
U.S. Government securities	5,670	2,688	5,195
Other securities	470,086	456,639	426,271r
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	131,198	120,964	183,807
Other	584,623	562,237	519,999
Real estate loans	1,036,148	1,004,214	716,075r
Loans to domestic commercial banks	20,342	21,086	15,475
Loans to foreign banks	32,835	30,996	24,798
Consumer instalment loans	868,052	859,782	764,315
Loans to foreign governments, official institutions, central banks, and international institutions	0	0	0
Other loans	960,265	932,993	801,448r
Total investments	3,700,070	3,622,480	3,191,450
Total U.S. Government securities	1,012,396	1,003,077	995,507
Treasury bills	188,273	167,081	119,476r
Treasury certificates of indebtedness	0	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	148,300	159,575	185,510r
1 year to 5 years	505,979	509,024	544,996
After 5 years	169,844	167,397	145,525
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	133,696	144,290	94,507
All other	2,299,996	2,229,086	1,871,874
Other bonds, corporate stocks, and securities:			
Certificates representing participations in federal agency loans	23,043	23,104	93,883
All other (including corporate stocks)	230,939	222,923	135,679
Cash items in process of collection	1,517,750	1,378,532	1,264,067
Reserves with Federal Reserve Bank	816,653	803,356	926,983
Currency and coin	98,627	99,834	91,689
Balances with banks in the United States	396,412	421,266	510,028
Balances with banks in foreign countries	10,270	11,895	8,756
Other assets (including investments in subsidiaries not consolidated)	584,313	568,858	471,829
TOTAL ASSETS	15,719,285	15,411,739	14,046,973

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LIABILITIES	June 21, 1972	May 24, 1972	June 23, 1971
Total deposits	12,252,117	12,011,452	10,963,856
Total demand deposits	6,767,722	6,531,479	6,331,266
Individuals, partnerships, and corporations	4,645,708	4,439,995	4,319,119
States and political subdivisions	459,986	525,420	413,375
U.S. Government	249,326	200,919	142,387
Banks in the United States	1,289,177	1,243,014	1,312,356
Foreign:			
Governments, official institutions, central banks, and international institutions	2,775	5,372	2,321
Commercial banks	33,591	34,900	34,603
Certified and officers' checks, etc.	87,159	81,859	107,105
Total time and savings deposits	5,484,395	5,479,973	4,632,590
Individuals, partnerships, and corporations:			
Savings deposits	1,175,318	1,164,179	1,072,127
Other time deposits	2,806,579	2,843,814	2,459,623
States and political subdivisions	1,369,088	1,335,659	996,813
U.S. Government (including postal savings)	24,303	23,261	20,096
Banks in the United States	87,207	91,160	64,346
Foreign:			
Governments, official institutions, central banks, and international institutions	20,800	20,800	18,485
Commercial banks	1,100	1,100	1,100
Federal funds purchased and securities sold under agreements to repurchase	1,676,322	1,658,093	1,420,126
Other liabilities for borrowed money	39,808	34,521	91,116
Other liabilities	482,158	443,520	369,782
Reserves on loans	139,152	138,697	130,137
Reserves on securities	17,699	17,697	20,753
Total capital accounts	1,112,029	1,107,759	1,051,203
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	15,719,285	15,411,739	14,046,973

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	5 weeks ended June 7, 1972	4 weeks ended May 3, 1972	4 weeks ended June 2, 1971
RESERVE CITY BANKS			
Total reserves held	898,321	907,949	816,747
With Federal Reserve Bank	838,279	846,912	761,206
Currency and coin	60,042	61,037	55,541
Required reserves	898,518	903,056	825,994
Excess reserves	—197	4,893	—9,247
Borrowings	0	3,003	1,928
Free reserves	—197	1,890	—11,175
COUNTRY BANKS			
Total reserves held	968,926	976,548	875,439
With Federal Reserve Bank	768,413	772,373	682,960
Currency and coin	200,513	204,175	192,479
Required reserves	947,008	956,114	844,281
Excess reserves	21,918	20,434	31,158
Borrowings	20	184	48
Free reserves	21,898	20,250	31,110
ALL MEMBER BANKS			
Total reserves held	1,867,247	1,884,497	1,692,186
With Federal Reserve Bank	1,606,692	1,619,285	1,444,166
Currency and coin	260,555	265,212	248,020
Required reserves	1,845,526	1,859,170	1,670,275
Excess reserves	21,721	25,327	21,911
Borrowings	20	3,187	1,976
Free reserves	21,701	22,140	19,935

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	May 31, 1972	Apr. 26, 1972	May 26, 1971
ASSETS			
Loans and discounts, gross	15,063	14,987	13,152
U.S. Government obligations	2,342	2,399	2,330
Other securities	5,161	5,048	4,160
Reserves with Federal Reserve Bank	1,605	1,633	1,458
Cash in vault	291	303	276
Balances with banks in the United States	1,369	1,166	1,333
Balances with banks in foreign countries[e]	14	12	10
Cash items in process of collection	1,876	1,761	1,397
Other assets[e]	1,169	1,110	919
TOTAL ASSETS[e]	28,890	28,419	25,035
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,782	1,692	1,660
Other demand deposits	10,855	10,591	9,568
Time deposits	11,173	10,950	9,545
Total deposits	23,810	23,233	20,773
Borrowings	1,742	1,905	1,292
Other liabilities[e]	1,394	1,342	1,102
Total capital accounts[e]	1,944	1,939	1,868
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	28,890	28,419	25,035

e—Estimated

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	June 21, 1972	May 24, 1972	June 23, 1971
Total gold certificate reserves	379,198	240,525	454,714
Discounts for member banks	1,280	0	14,700
Other discounts and advances	0	0	0
U.S. Government securities	3,241,196	3,245,421	2,940,793
Total earning assets	3,242,476	3,245,421	2,955,493
Member bank reserve deposits	1,487,054	1,421,267	1,532,168
Federal Reserve notes in actual circulation	2,138,141	2,111,849	2,029,833

BANK DEBITS, END-OF-MONTH DEPOSITS, AND DEPOSIT TURNOVER

SMSA's in Eleventh Federal Reserve District

(Dollar amounts in thousands, seasonally adjusted)

Standard metropolitan statistical area	DEBITS TO DEMAND DEPOSIT ACCOUNTS[1]				DEMAND DEPOSITS[1]			
		Percent change				Annual rate of turnover		
		May 1972 from						
	May 1972 (Annual-rate basis)	April 1972	May 1971	5 months, 1972 from 1971	May 31, 1972	May 1972	April 1972	May 1971
ARIZONA: Tucson	$9,837,456	9%	27%	25%	$291,141	33.3	29.9	29.4
LOUISIANA: Monroe	3,873,120	—3	11	18	110,203	35.1	36.6	37.6
Shreveport	13,921,296	2	30	20	305,781	45.8	47.1	41.0
NEW MEXICO: Roswell[2]	972,660	5	0	8	42,290	22.7	21.8	24.9
TEXAS: Abilene	2,547,540	1	9	12	120,733	21.9	22.6	21.8
Amarillo	7,844,580	8	22	13	198,921	40.8	40.0	38.8
Austin	12,114,840	—3	12	23	422,098	30.7	32.3	26.8
Beaumont-Port Arthur-Orange	6,668,400	1	0	3	277,922	24.1	24.4	26.4
Brownsville-Harlingen-San Benito	2,685,768	10	27	17	101,333	27.3	25.5	24.8
Bryan-College Station	1,304,209	5	21	24	52,308	26.4	25.9	24.3
Corpus Christi	7,080,864	—2	3	14	271,966	26.7	27.6	24.3
Corsicana[2]	471,048	—3	0	—4	33,880	14.0	14.4	14.1
Dallas	148,346,832	0	15	11	2,851,221	53.1	56.0	54.8
El Paso	9,297,120	1	10	16	302,357	32.1	33.3	33.4
Fort Worth	27,389,400	—3	—7	7	794,341	34.8	36.1	42.2
Galveston-Texas City	2,970,444	4	3	—2	125,357	24.1	23.5	26.3
Houston	132,244,056	—4	19	22	3,204,656	42.0	46.0	41.0
Laredo	1,082,220	2	7	9	50,669	21.8	22.5	23.5
Lubbock	5,631,372	—2	8	18	191,237	29.4	30.9	30.6
McAllen-Pharr-Edinburg	2,375,232	—8	16	30	144,734	16.9	18.8	18.8
Midland	2,170,488	4	8	5	149,579	14.4	13.8	14.6
Odessa	1,808,820	—7	12	12	109,631	16.9	18.2	16.9
San Angelo	1,544,136	—8	6	9	81,027	19.4	21.9	19.6
San Antonio	21,564,288	—3	8	9	828,125	26.5	27.7	28.0
Sherman-Denison	1,161,696	—9	—1	11	75,609	15.8	17.6	17.0
Texarkana (Texas-Arkansas)	1,724,580	3	8	13	83,863	19.9	19.6	21.2
Tyler	2,526,864	—3	9	11	117,545	21.8	23.2	22.3
Waco	4,013,460	16	24	17	146,327	27.7	24.6	25.0
Wichita Falls	2,841,012	0	8	13	136,974	21.3	22.1	21.4
Total—29 centers	$438,013,801	—1%	14%	15%	$11,621,828	38.4	40.2	38.5

1. Deposits of individuals, partnerships, and corporations and of states and political subdivisions
2. County basis

BUILDING PERMITS

Area	NUMBER		VALUATION (Dollar amounts in thousands)				
					Percent change		
					May 1972 from		
	May 1972	5 mos. 1972	May 1972	5 mos. 1972	April 1972	May 1971	5 months, 1972 from 1971
ARIZONA							
Tucson	725	4,051	$11,327	$87,733	26%	9%	109%
LOUISIANA							
Monroe-West Monroe	66	635	1,440	15,451	—76	17	73
Shreveport	534	2,374	6,899	26,351	8	18	13
TEXAS							
Abilene	67	360	1,297	8,002	—49	—43	103
Amarillo	213	835	2,313	11,173	24	1	—13
Austin	564	2,763	17,936	99,818	—5	88	60
Beaumont	236	1,044	3,116	12,257	—30	285	163
Brownsville	101	512	1,399	5,711	151	269	102
Corpus Christi	437	2,154	5,022	31,182	11	—45	8
Dallas	1,930	8,339	31,983	184,710	48	21	53
Denison	37	163	202	1,460	—56	15	—14
El Paso	703	2,943	15,359	82,801	81	35	66
Fort Worth	448	2,184	8,920	31,349	106	—68	—37
Galveston	81	371	2,205	6,940	—9	133	—2
Houston	4,099	18,983	53,096	266,027	8	—4	1
Laredo	52	235	534	5,225	—14	—53	30
Lubbock	188	957	5,474	22,416	65	60	0
Midland	92	507	864	10,189	31	—10	63
Odessa	106	440	2,002	16,295	—83	107	351
Port Arthur	109	465	1,288	2,793	179	—3	—84
San Angelo	59	365	691	3,248	99	—2	—28
San Antonio	1,579	7,577	13,615	97,241	—65	110	106
Sherman	50	252	317	3,959	—81	—20	13
Texarkana	60	245	905	4,196	0	0	0
Waco	231	1,142	2,677	13,504	—27	41	15
Wichita Falls	97	437	911	6,012	2	—60	—42
Total—26 cities	12,864	60,333	$191,792	$1,056,043	—6%	4%	31%

TOTAL OIL WELLS DRILLED

Area	First quarter 1972	Fourth quarter 1971	Percent change, first quarter 1972 from	
			Fourth quarter 1971	First quarter 1971
FOUR SOUTHWESTERN STATES	1,802	1,534	17.5%	1.2%
Louisiana	256	296	—13.5	.4
Offshore	64	44	45.5	—27.3
Onshore	192	252	—23.8	15.0
New Mexico	144	76	89.5	38.5
Oklahoma	305	278	9.7	4.1
Texas	1,097	884	24.1	—2.8
Offshore	1	0	—	—
Onshore	1,096	884	24.0	—2.8
UNITED STATES	2,981	3,264	—8.7%	.3%

SOURCE: American Petroleum Institute.

GROSS DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	GROSS DEMAND DEPOSITS			TIME DEPOSITS		
	Total	Reserve city banks	Country banks	Total	Reserve city banks	Country banks
1970: May	10,233	4,671	5,562	7,394	2,659	4,735
1971: May	11,348	5,216	6,132	9,516	3,688	5,828
December	11,981	5,519	6,462	10,273	4,044	6,229
1972: January	12,313	5,580	6,733	10,607	4,179	6,428
February	11,983	5,419	6,564	10,864	4,249	6,615
March	12,118	5,563	6,555	10,978	4,255	6,723
April	12,407	5,676	6,731	10,938	4,180	6,758
May	12,268	5,652	6,616	11,075	4,262	6,813

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	May 1972	April 1972	May 1971r	Percent change from April 1972	Percent change from May 1971
FOUR SOUTHWESTERN STATES	7,125.9	7,171.6	7,039.2	—0.6%	1.2%
Louisiana	2,505.8	2,498.9	2,652.7	.3	—5.5
New Mexico	310.0	319.3	332.9	—2.9	—6.9
Oklahoma	585.1	593.2	597.9	—1.4	—2.1
Texas	3,725.0	3,760.2	3,455.7	—.9	7.8
Gulf Coast	712.2	706.0	696.8	.9	2.2
West Texas	1,865.4	1,902.1	1,670.4	—1.9	11.7
East Texas (proper)	233.2	226.8	206.6	2.8	12.9
Panhandle	77.8	80.9	73.9	—3.8	5.3
Rest of state	836.4	844.4	808.0	—.9	3.5
UNITED STATES	9,756.9	9,760.1	9,709.4	.0%	.5%

r—Revised
SOURCES: American Petroleum Insitute
U.S. Bureau of Mines
Federal Reserve Bank of Dallas

INDUSTRIAL PRODUCTION

(Seasonally adjusted indexes, 1967 = 100)

Area and type of index	May 1972p	April 1972	March 1972	May 1971
TEXAS				
Total industrial production	132.4	132.3	129.7r	121.3
Manufacturing	133.9	132.9	132.0r	121.5
Durable	143.6	141.9	138.7	131.2
Nondurable	126.9	126.4	127.2r	114.4
Mining	121.6	122.5	116.0r	114.7
Utilities	159.9	164.6	160.9r	145.2
UNITED STATES				
Total industrial production	111.6	111.1	110.0r	107.0
Manufacturing	110.7	110.1	108.6r	105.7
Durable	104.6	104.1	102.1r	100.5
Nondurable	119.5	118.8	118.1r	113.3
Mining	108.4	108.9	108.5r	108.6
Utilities	139.5	139.6	139.7r	132.1

p—Preliminary
r—Revised
SOURCES: Board of Governors of the Federal Reserve System
Federal Reserve Bank of Dallas

LABOR FORCE, EMPLOYMENT, AND UNEMPLOYMENT

Five Southwestern States[1]

(Seasonally adjusted)

Item	Thousands of persons May 1972p	April 1972	May 1971r	Percent change May 1972 from Apr. 1972	May 1971
Civilian labor force	8,450.5	8,440.5	8,265.9	0.1%	2.2%
Total employment	8,075.1	8,073.1	7,864.2	.0	2.7
Total unemployment	375.4	367.4	401.6	2.2	—6.5
Unemployment rate	4.4%	4.4%	4.9%	[2].0	[2]—.5
Total nonagricultural wage and salary employment	6,578.7	6,576.3	6,367.3	.0	3.3
Manufacturing	1,152.4	1,152.2	1,126.6	.0	2.3
Durable	623.0	623.5	609.5	—.1	2.2
Nondurable	529.4	528.8	517.2	.1	2.4
Nonmanufacturing	5,426.3	5,424.1	5,240.6	.0	3.5
Mining	227.2	227.6	226.3	—.2	.4
Construction	431.1	433.1	403.3	—.5	6.9
Transportation and public utilities	455.7	456.1	449.6	—.1	1.4
Trade	1,558.3	1,557.6	1,500.6	.0	3.8
Finance	350.3	349.5	333.0	.2	5.2
Service	1,063.2	1,059.8	1,029.6	.3	3.3
Government	1,340.5	1,340.4	1,298.2	.0%	3.3%

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas
2. Actual change
p—Preliminary
r—Revised
NOTE: Details may not add to totals because of rounding.
SOURCES: State employment agencies
Federal Reserve Bank of Dallas (seasonal adjustment)

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	May 1972	April 1972	March 1972	January—May 1972	January—May 1971
FIVE SOUTHWESTERN STATES[1]	1,256	1,153	898	4,872	3,415r
Residential building	518	498	475	2,299	1,685r
Nonresidential building	343	273	251	1,283	1,142r
Nonbuilding construction	396	381	171	1,291	589
UNITED STATES	9,098	8,100	7,284	36,205	30,719r
Residential building	4,428	3,971	3,617	17,326	12,542r
Nonresidential building	2,908	2,182	2,187	10,748	9,801r
Nonbuilding construction	1,762	1,947	1,480	8,130	8,376r

1. Arizona, Louisiana, New Mexico, Oklahoma, and Texas
r—Revised
NOTE: Details may not add to totals because of rounding.
SOURCE: F. W. Dodge Division, McGraw-Hill Information Systems Company

ing, the index rose only 0.1 percent. Even so, it stood 8 percent higher than at the beginning of the year.

Manufacturing output was slightly higher than in April, mainly because of a 1.2-percent increase in the production of durables. All durable goods industries showed increases over both the previous month and the same month a year ago. The largest increase over the previous month was in the production of nonelectrical machinery. The largest increase over a year before was in the production of lumber and wood products.

Production of nondurable goods increased 0.4 percent in May, with all industries posting year-to-year gains. The largest advance of the month was in the output of printing, publishing, and allied industries. The largest year-to-year advances were in paper and allied products and in petroleum refining.

All types of mining contributed to a 0.7-percent drop in total mining output. The sharpest decline–a 4.0-percent drop–was in the production of natural gas liquids. The only year-to-year decline, however, was in natural gas production, down 7.1 percent.