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Bicentennial Perspective–
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At the birth of the nation, money consisted of full-bodied gold and silver coins and bank money legally redeemable in these coins. In the two centuries since, the role of gold in the national and international monetary systems has steadily declined.

This decline culminated in 1975, when a committee of the Board of Governors of the International Monetary Fund proposed amendments to the IMF's *Articles of Agreement* that would abolish a fixed monetary price for gold and allow central banks to trade their stocks of the metal at market-related prices. Gold will continue to be used as a reserve asset by various countries. But its role has been transformed from the primary reserve asset of the international monetary system to that of a stockpiled commodity, likely to be used only in exceptional cases.

Advocates of gold have traditionally believed that tying money to a commodity like gold prevents excessive issue of money and lessens economic instability. But a review of history indicates that the discipline of the gold standard has usually been more apparent than real.

Fixing the price of gold rigidly links the money supply to the stock of monetary gold only if monetary institutions and practices remain unchanged. But institutions and practices have been constantly evolving in the direction of economizing on gold, first nationally and then internationally. Part of this economizing has been in response to excessive issues of money–largely in times of war. But an equally important factor has been a tendency for gold production to lag.

Because of this tendency, rigidly linking money supplies to gold would, in most periods, have resulted in deflation rather than price stability. The effects of the gold shortage could have been neutralized by periodic increases in the price of gold. However, such changes in the price of gold would have undermined the discipline of the system. Instead, the gold standard has been allowed to wither away.

Bimetallic period

In 1789, Congress received exclusive power, from the Constitution of the United States, to coin money and regulate its value. Three years later, the Coinage Act established the dollar as the monetary unit and defined it in terms of both silver and gold. The early American monetary system, therefore, was bimetallic.

Except for a brief period during the War of 1812, Congress abstained from issuing paper money before the Civil War. It permitted only two types of money: full-bodied gold or silver coins produced by the U.S. mint plus bank money issued by state and federally chartered banks, which was legally redeemable in gold or silver money.

The bimetallic system established by the Coinage Act of 1792 reflected the recommendations of Alexander Hamilton. Hamilton knew that if the mint ratio of gold to silver materially differed from the ratio of their market values, the metal that was undervalued by the mint would cease to circulate as money. But because various gold and silver moneys were already in circulation, Hamilton feared that there might not be sufficient quantities of gold or silver for one alone to serve the needs of trade. As a result, he persuaded Congress to base the new monetary unit on both metals.

Under the Coinage Act, holders of gold or silver were entitled to free coinage by the mint, and both types of coins were legal tender. The U.S. dollar consisted of a gold coin containing 24.75 grains of fine gold or a silver coin composed of 371.25 grains of fine silver. Since the ratio of these weights is 15 to 1, an ounce of gold was worth 15 times as much as an ounce of silver at the mint, which was in accord with the market values of the metals at the time. In practice, gold was used for minting coins worth more than a dollar, while coins with valuations of a dollar or less were minted in silver. In addition, some foreign coins continued to circulate for many years.

During the 40 years after the Coinage Act of 1792, the market value of gold averaged 15.6 times the market value of silver, exceeding the mint ratio by a significant margin. In 1803, France had also gone on a bimetallic standard, but at a mint ratio of 15.5 grains of silver to 1 grain of gold. Because of France's large economic size, its ratio tended to dominate the world market.

The result of the undervaluation of gold by the United States was predictable. Arbitrageurs exchanged silver money for gold money in the United States and sold the gold either in the open

market or at the French mint for silver. Or if they held gold metal, they could obtain more dollars from the U.S. mint by exchanging the gold for silver at the market rate and having the silver minted into coins. Consequently, the amount of gold coins in circulation diminished greatly.

By 1805, the U.S. mint had stopped producing $10 gold pieces and was producing only small amounts of gold coins in lesser denominations. Consequently, during this period, the United States was on a *de facto* silver standard.

A select committee of the House of Representatives and the Secretary of the Treasury recommended changing the mint ratio to 15.6 to 1. But in 1834, Congress adopted a new ratio of 16.002 to 1 by reducing the gold content of the dollar–apparently, at least in part, to spur the country's newly emerging gold mining industry.

This overvaluation of gold by the mint, plus greatly increased world production from discoveries of gold in California and Australia, drove silver money out of circulation. The bimetallic standard, which until that time had functioned as a silver standard, became a *de facto* gold standard.

Because of differences in the availability of substitutes for gold and silver coins, the consequences of an overvaluation of gold were more severe than those of undervaluation. When large-denomination gold coins had become scarce because of undervaluation, bank notes largely filled the void. But with overvaluation, the lack of ready substitutes for smaller-denomination silver coins resulted in a great scarcity of small change, despite the fact that some banks issued notes for fractional parts of a dollar.

To remedy this, in 1853, Congress reduced the silver content of all coins in denominations under a dollar by roughly 7 percent. It also eliminated the right to free coinage of silver in fractional denominations and limited the legal-tender quality of silver coins to $5.

Before the Civil War, the values of the currencies of some nations, most notably the British pound sterling, were based on gold. The values of other currencies, like the Indian rupee, were defined in terms of silver. But because of the dominance of its bimetallic system, France's mint ratio tended to govern the price ratio between gold and silver in world markets.

The result was that exchange rates between gold-standard and silver-standard currencies were stabilized. Exchange rates between gold and silver currencies, such as the pound sterling and the rupee, could not differ from the ratio of the market values of their metallic content by more than the cost of melting, shipping, and recoining the metals. Since most countries were on gold, silver, or bimetallic standards, the values of their currencies were linked together by the metallic content–just as under a full-fledged gold standard.

The United States went off the bimetallic standard during the Civil War. In 1861, to help finance the war, Congress authorized the U.S. Treasury to issue $50 million of paper money, redeemable in gold on demand. But inflation–caused, in part, by the selfsame issue of paper money–increased the production costs of all commodities, including gold. The Treasury held little gold to start with and could not obtain any at the legally fixed price. So, in 1862, faced with a growing demand for redemption of notes, it declared itself unable to redeem them.

Banks also were faced with gold withdrawals and were unable to obtain gold at the fixed monetary price. And if they had purchased gold at the market price, they soon would have become insolvent. Thus, bank money, as well, became inconvertible. Gold and silver coins either were hoarded or circulated at values consistent with their metallic content.

International gold standard

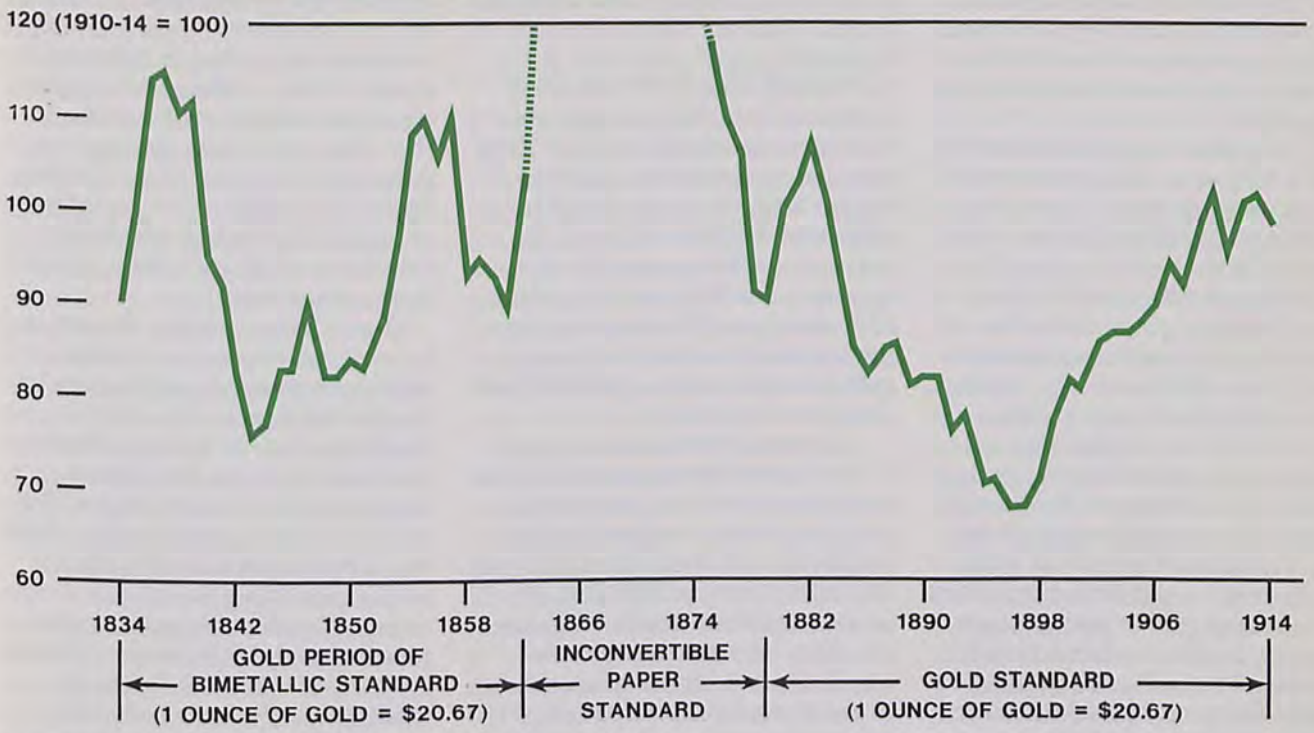
The Treasury was required by the Resumption Act of 1875 to make the paper money it had issued redeemable in coin on demand. But the silver dollar had not been in circulation for many years, and its free coinage had been discontinued by an act of Congress in 1873. The remaining silver money in circulation was not unlimited legal tender.

Consequently, the Treasury undertook to meet the requirement of the Resumption Act by redeeming its money in gold coin–which effectively returned the country to the gold standard. The nation's entire money supply became either directly or indirectly convertible to gold. Definitive legal recognition of the gold standard, however, did not come until passage of the Gold Standard Act of 1900.

The international gold standard gained momentum in the 1870's, when a silver glut threatened inflation for countries remaining on the silver or bimetallic standards. The German government soon adopted the gold standard and began selling silver on a large scale to augment its gold reserves. The resulting fall in the price of silver helped move France, Belgium, Switzerland, Italy, Greece, Norway, and Sweden onto gold. Austria-Hungary, Russia, and Japan followed somewhat later. And by World War I, practically all the major countries except China were on the gold standard.

For gold to work its discipline, the money supply should have a fixed relation to the monetary stock of gold. Then, given the cost of producing gold relative to the

Historical Behavior of U.S. Wholesale Price Index



SOURCE: Historical Statistics of the United States, 1789-1945

cost of other commodities, a monetary price of gold can be set so as to produce growth in monetary gold–and, hence, in the money supply–at a rate roughly equal to the growth in economic activity.

But the exhaustion of old mines, discovery of new ones, and breakthroughs in mining and refining technologies produced significant changes in the cost of producing gold during the 19th century. And since the monetary price of gold was fixed, the resulting changes in the rate of gold production generated similar fluctuations in the growth of money supplies of countries on the gold standard.

According to estimates by Professor Robert Triffin of Yale University, the world's monetary gold stock increased only 1.4 percent a year from 1816 to 1848. The annual growth of monetary gold stocks then jumped to 6.2 percent from 1849 to 1873, fell back to 1.4 percent from 1874 to 1892, and recovered to 3.6 percent from 1893 to 1913.

These fluctuations in the growth of monetary gold stocks were reflected in the behavior of U.S. and foreign prices. For example, in the period of gold shortage from 1872 to 1896, wholesale prices fell 50 percent in the United States, 39 percent in the United Kingdom, 36 percent in Germany, and 43 percent in France. But from 1896 to 1913, when gold production had recovered, prices rose 49 percent in the United States, 32 percent in the United Kingdom, 41 percent in Germany, and 41 percent in France. Similarly, during bimetallism from 1814 to 1849, an overall shortage of gold and silver had prompted an average price decline of 46 percent in these countries.

Shorter-term fluctuations in prices tended to be offsetting, however, creating a reasonable degree of price stability over the longer term. Wholesale prices in the United States, for example, were only about 10 percent higher in 1913 than in 1834. Nevertheless, it would be erroneous to attribute such longer-term stability entirely to the discipline of the gold standard.

The use of both paper currency and demand deposits increased markedly during those years. Paper money and demand deposits probably accounted for less than a third of the U.S. money supply in the first part of the 19th century but possibly as much as nine-

tenths by 1913. And the monetary gold stock–gold coins and gold reserves of the Treasury–declined sharply relative to the nation's money supply over the corresponding period.

If, as under a true gold standard, gold is to be the sole regulator of the rate of monetary expansion, monetary gold should bear a constant ratio to the money supply. But if this had happened during the 19th century, prices in the United States and other countries would have fallen severely, instead of remaining relatively stable.

The discipline of gold was consistent with relatively stable prices only because it was not fully operative during a period of gold shortage. The monetary price of gold was too low to call forth production of monetary gold in proportion to the growth in economic activity. If demand deposits and paper money had not been substituted for gold, there would have been a severe deflation.

Payments adjustment under gold

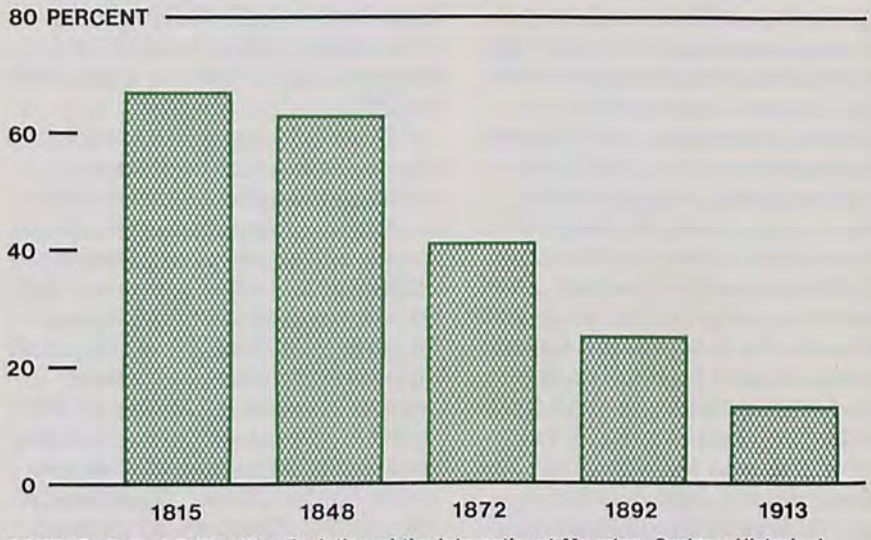
Internationally, the gold standard provided an automatic mechanism whereby payments imbalances between nations could be ironed out. This could not be done by varying exchange rates between national currencies because these were fixed by their gold contents. For example, if the market price of the pound sterling rose very much above its gold parity with the dollar, pounds could be obtained more cheaply through shipments of gold abroad than through purchases in the foreign exchange market. This prevented any rise in the price of pounds above the gold export point.

If the United States spent more abroad than it was taking in, the price of foreign exchange rose to a level above the gold export point. Importers could then obtain their foreign exchange more cheaply by exchanging U.S. moneys for gold at the U.S. Treasury and shipping the gold abroad. This caused an immediate equal reduction in the U.S. money supply. A secondary decline in the money supply also took place, as the shortage of Treasury moneys redeemable in gold caused banks to create fewer bank notes and deposits. Abroad, the chain of events was exactly the opposite, resulting in an injection of new money into the system as the monetary authorities bought gold and the banks expanded their notes and deposits.

A decrease in the money supply of the United States and increases in countries with payments surpluses tended to correct the U.S. payments imbalance through three different channels. The first and most immediate channel was interest rates. Money supply movements created higher interest rates in the United States and lower interest rates abroad. Since there was absolutely no risk of any significant change in exchange rates, capital movements were probably even more sensitive to international interest differentials under the international gold standard than they are today. An interest differential in favor of the United States tended to create an inflow of capital that could effectively eliminate a U.S. payments deficit in the short run.

Over a longer period, the rise in interest rates acted to depress aggregate demand and income in the United States. The initial result, because of income effects, was lower imports and higher exports for the United States. But later, and more permanently, there was a better balance of trade in response to the price effects induced by the changes in aggregate demand. Ultimately, only the price effects on the balance of trade generally remained, with prices being lower in the United

Ratio of Gold and Silver Money to Total Money Supply In United States, United Kingdom, and France



SOURCE: Robert Triffin *(The Evolution of the International Monetary System: Historical Reappraisal and Future Perspectives)*

States and higher abroad in response to the changes in money supplies. Eventually, interest rates, output, and employment tended to return to normal.

However, the amount of adjustment required in practice was relatively small because there was nothing to generate very large imbalances of payments in the first place. The prime cause of potential international payments imbalances today is differences in international rates of inflation, which, in turn, are related to differences in rates of national monetary growth. But in the latter part of the 19th century, the monetary growth of all the major countries was regulated by gold.

A new gold discovery tended to inflate the money supplies of all countries. Even if new gold production emanated from only one country, once gold sales to its monetary authority created enough money in that country to drive the price of the foreign currencies to the gold export point, gold producers could obtain a better price in their own currency by selling the gold abroad. So, additions to the monetary gold stock tended to be rather evenly distributed throughout the world.

Also, the fact that bank money was convertible to money redeemable in gold prevented the banking system of any one country from overexpanding its money supply relative to others. If it did, the pressure on the balance of payments caused importers to cash in their bank money for money redeemable in gold to make foreign payments. But the loss of currency reserves from the banks put a check on any further creation of bank money.

In short, countries tended to inflate and deflate together. And the imbalances in their payments that actually arose were generally corrected by changes in their rates of inflation or deflation relative to others–not by opposite movements in their price levels.

Attempt to restore gold standard

The international gold standard broke down under the strains of World War I. Belligerent countries generally sought to get gold coins out of circulation and into official hands and to prevent the exportation of gold abroad. Neutral governments frequently suspended the free coinage of gold and ceased to buy gold freely at the official price so as to avoid importing inflation.

Partly because of the severe inflation experienced in many countries during the war, popular sentiment favored restoration of the international gold standard. The United States was the first to return to the gold standard in 1919, with the removal of its embargo on gold exports. And by 1927, the number of countries on a gold standard was larger than ever before. But the restored international gold standard bore only a superficial resemblance to the previous one.

Once again, central banks bought and sold gold at fixed prices, and gold was allowed to move freely internationally. But with the exception of the United States, most countries operated on a gold bullion standard, rather than a gold coin standard. These countries redeemed their money in gold bars of large denomination only, and some–like Great Britain and the Netherlands–restricted gold sales to people wanting it for export or industrial uses only. By reducing the amount of gold used in domestic circulation, these measures made more gold available for international payments. Without such measures, gold would have tended to be in short supply.

Of even more significance was the widespread adoption of a gold-exchange standard for international reserves. To economize further on gold, central banks began to hold a significant proportion of their reserves in the form of financial investments in London and, to a lesser extent, in New York and Paris. Because these reserves could be withdrawn anytime, and especially because the gold reserves of Great Britain were not large, this system contained the seeds of its own destruction.

Another problem with the restored gold standard was that the new gold parities did not adequately reflect the different degrees of inflation after 1914. Of particular significance, because of its role as a reserve currency, was the overvaluation of the British pound sterling. To reassert its financial leadership and to attempt to restore prices to prewar levels, Britain returned to gold in 1925 at the prewar parity for the pound sterling. But because many other countries had devalued their currencies from prewar parities, Britain's trade balance became depressed, and the pound sterling was at or near the gold export point most of the time. However, the losses of gold, and consequent monetary deflation in the British economy, did not reduce wages and prices enough.

Finally, in 1931, a series of continental bank failures led to heavy withdrawals from the London money market, forcing the Bank of England to announce that its gold reserves had fallen to the point where it could no longer maintain the gold standard. The pound sterling was allowed to float downward, creating losses for the central banks that had held their reserves in London. Pressure then shifted to other countries, forcing most of them off the gold standard also.

The Depression brought an important modification to the gold standard of the United States. In

1933, apparently as a temporary measure for alleviating the banking panic that year, the Roosevelt Administration prohibited private holdings of gold coin, gold bullion, and gold certificates. But in 1934, the Gold Reserve Act gave the Government permanent title to all monetary gold and allowed gold certificates to be held only by Federal Reserve banks. This put the United States on a limited gold bullion standard, under which redemption in gold was restricted to dollars held by foreign central banks and licensed private users.

Also under this act, President Roosevelt devalued the dollar by increasing the monetary price of gold from $20.67, as established in 1834, to $35 an ounce. The devaluation of the dollar was not undertaken for the purpose of defending the country's balance of payments but, rather, in the belief that it would raise the dollar price of exports and, hence, help stimulate prosperity.

One effect, however, was to overvalue the currencies of the few countries that were still on gold–notably France. These countries had earlier repudiated the gold-exchange standard and decided to depend on gold as the only reliable international reserve. But the deflationary effects stemming from its overvalued exchange rate prompted France to devalue the franc 26 percent in 1936 and to float it in 1937. When the French franc was once again pegged in 1938, it was to the pound sterling rather than gold.

Even the limited gold bullion standard, under which the United States operated at this time, could have been the basis for complete regulation of the money supply by gold if that had been desired. In this system, when the U.S. Treasury bought gold, the cash balances to pay for it were created by issuing gold certificates to Federal Reserve banks. The total amount of credit that Reserve banks could create was, in turn, limited by law to a multiple of their holdings of gold certificates.

Each dollar of Federal Reserve credit generates several dollars of money in circulation. So, if the Federal Reserve had varied its credit creation in proportion to gold flows, the effect would have been to make the money supply vary in proportion to the monetary gold stock of the Treasury.

In practice, such gold backing requirements did not significantly limit the operations of most central banks during the interwar period. For instance, in the 1920's, the amount of gold certificates held by Reserve banks was nearly twice the amount legally required, giving the Federal Reserve System considerable leeway in its money-creating powers.

Some central banks were constrained, however, by the effects of their operations on the balance of payments–and, hence, on their limited gold stocks. For example, because of a precarious balance-of-payments position, the Bank of England did not allow money and credit to expand as much as would otherwise have been desirable for the domestic economy.

But balance-of-payments constraints were asymmetrical. The United States and France both experienced large gold inflows in the 1920's, which, under the rules of the gold standard, should have led to expanded money supplies. But rather than allow such expansions to inflate their economies, these countries neutralized the monetary effects of gold inflows.

The attempted restoration of the gold standard in the 1920's did not meet the test of consistency. Exchange rates were pegged on an *ad hoc* basis following the unheavals of the war, but hoped-for price adjustments in countries with payments deficits were too slow in coming. And the looser ties between money and gold allowed countries to follow more independent monetary policies than before. Also, international reserves varied in a haphazard manner as central banks substituted more or less reserve currencies for gold.

Though the worldwide Depression subjected it to abnormal stress, the system was basically fragile. Gold parities were adopted without a complete enough acceptance of the other rules of the gold-standard game and, therefore, could not have been permanently viable.

Bretton Woods system

Growing out of discussions among the major powers during World War II was a new international monetary organization, formally created at a 1944 conference at Bretton Woods, New Hampshire, and called the International Monetary Fund. The purpose of the Fund was to reestablish a fixed exchange rate system, with gold as the primary reserve asset. At the same time, rigidities and inconsistencies of the previous gold-exchange standard were to be avoided.

Member countries were obligated to declare fixed parities for their currencies in terms of gold or, alternatively, the gold content of the U.S. dollar in 1944. Thus, these parities were unequivocally expressed in gold. But other countries were not required to join the United States in making their currencies convertible to gold for foreign central banks. The requirement of maintaining a fixed parity for a currency could also be fulfilled by stabilizing its dollar value within plus or minus 1 percent of parity through central bank intervention in the foreign exchange market.

The U.S. Treasury continued to buy and sell gold at $35 an ounce in transactions with foreign central banks and licensed users. But foreign countries that had been on the gold standard before World War II did not return to it. Even though their citizens could, in many cases, freely hold gold, no currency other than the U.S. dollar was again made convertible to gold.

Thus, the Bretton Woods system restored a gold-exchange standard, with the United States assuming Britain's earlier role as the main reserve currency country. Because of vast inflows of gold during the 1930's, the United States was in a better position to assume this role than Britain had been before.

An important implication of the use of dollars as a reserve currency was that the total supply of international reserves varied with the payments position of the United States. When the United States ran a payments deficit, other countries were obligated to purchase the excess supply of dollars in the foreign exchange market to maintain the exchange values of their currencies at parity.

If these dollars were converted to gold, the total amount of international reserves did not change, but the process increased foreign reserves at the expense of U.S. reserves. However, to the extent that foreign countries were satisfied with holding inflows of reserves in dollars, there was an increase in reserves abroad but no decrease in the gold reserves of the United States. Similarly, as long as no gold changed hands, a payments surplus for the United States produced a decline in total international reserves.

A problem with the gold-exchange standard of the 1920's had been that exchange rates were fixed in terms of gold parities but monetary policies of central banks were not harmonized sufficiently to ensure that fixed rates could be easily maintained. So, under the Bretton Woods system, member countries were allowed to change the par values of their currencies in case of a *fundamental disequilibrium.*

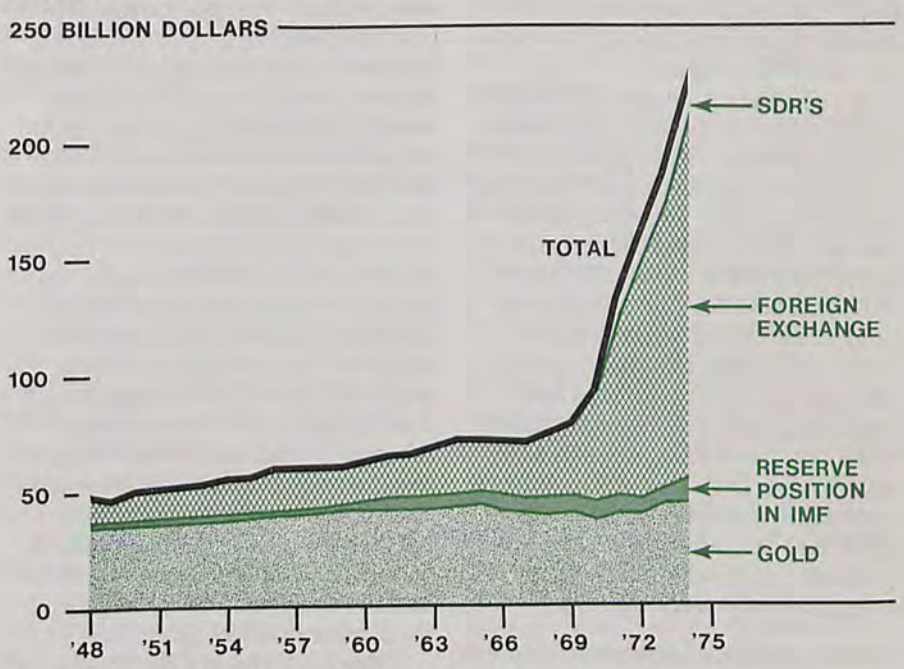
Although this term was not defined in the *Articles of Agreement,* it seemed to mean that internal economic stability should not be unduly sacrificed to achieve a balance in international payments. Nevertheless, it was widely believed that national monetary policies could be harmonized enough so that the need for changes in par values would be infrequent.

To facilitate the financing of temporary and reversible swings in a country's payments position, a new credit facility was established. Each member country paid into the IMF an amount of gold plus its own currency equal to a quota that was roughly proportionate to its economic size.

Countries with temporary payments deficits could obtain foreign exchange from the IMF's pool of funds by purchasing it with their own currencies. Later, they would sell an equivalent amount of foreign exchange back to the Fund. Interest on credits extended in this manner was normally paid in gold. Countries could automatically purchase foreign exchange in an amount equal to the gold they had deposited with the Fund. Further drawings were conditional on the Fund being satisfied that the countries' economic policies were consistent with an improved balance in their international payments.

Although quotas have been increased from time to time, credits extended by the IMF have, in fact, constituted only a small proportion of total international

World Monetary Reserves



SOURCE: International Monetary Fund

reserves. Gold and the U.S. dollar–and, to a much lesser extent, the British pound sterling–have been far more important.

By allowing a degree of flexibility in exchange rates, the Bretton Woods system was supposed to discourage exchange controls. But maladjustments inherited from the war were so great that most currencies did not become freely exchangeable for one another at near their official parities until 1958. Although reappearance of the prewar dollar shortage had been expected, this did not materialize. Marshall Plan aid and very substantial devaluations of foreign currencies against the dollar in 1949 had helped restore the competitive positions of war-torn countries relatively quickly.

Disintegration of postwar standard

Dollar liabilities of the United States to foreign official institutions exceeded U.S. gold holdings for the first time in 1964. A run on the U.S. gold stock then became conceivable but was not likely so long as U.S. payments deficits could be corrected. The Fund agreement did not require that the gold value of the dollar remain fixed. But the special position of the dollar as a reserve currency made it difficult for U.S. officials to contemplate a dollar devaluation in terms of gold. Also, the economic importance of the United States made it difficult for them to devalue the dollar without triggering sympathetic devaluations by other countries, leading to uncertain results.

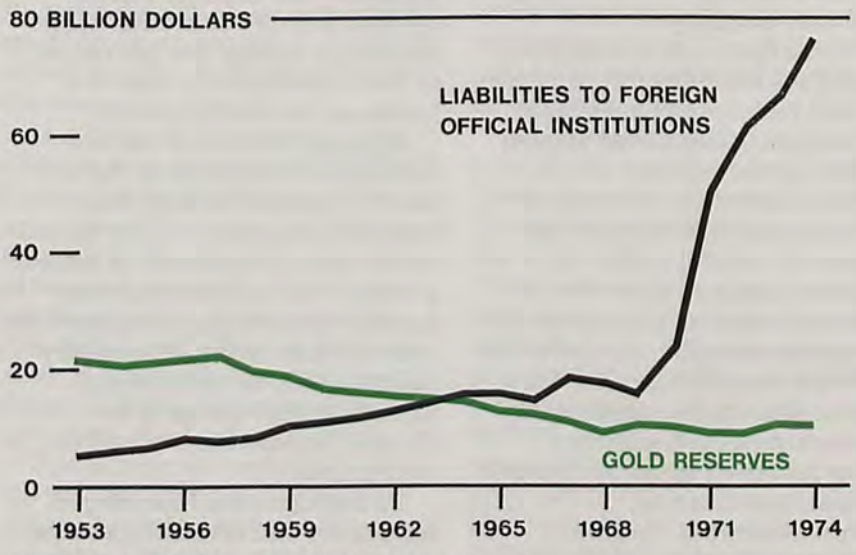
Actually, it was not clear that U.S. payments deficits ought to be eliminated before something was done about the shortage of monetary gold. The Bretton Woods system needed the international reserves being created by U.S. deficits because world production of gold barely exceeded private demand. But if the United States continued to run payments deficits, its position as the world's banker would deteriorate. Further deficits would increase its dollar liabilities and reduce its holdings of gold, leading to weakened confidence in its ability to maintain convertibility of the dollar to gold.

On the other hand, if the United States restored confidence in the dollar by taking steps to curb its payments deficits, an important source of international reserves would be cut off. If this happened, the expansion of international reserves would tend to lag behind the growth of international trade and payments, making it more likely that countries would resort to tariffs, exchange controls, or deflationary policies for balancing their international payments.

France proposed a devaluation of all currencies by the same amount, which, while maintaining exchange rates exactly as before, would have increased the value of gold reserves. The difficulty with this idea was that a large increase in the price of gold might generate such large increases in gold production and reserves as to encourage inflationary monetary policies. But only a small increase could generate expectations of further increases, which might swell private hoarding of gold and decrease its availability to central banks. In addition, a higher gold price would have penalized the countries that had, in good faith, held most of their reserves in dollar or pound sterling balances.

In fact, France went further and recommended, in addition to a higher price for gold, the complete return to an international gold standard, with permanently fixed parities and the convertibility of all currencies to gold, at least for central banks. From then on, the monetary policies of every nation would have been constrained by

International Reserve Position of United States



SOURCES: Board of Governors, Federal Reserve System
International Monetary Fund

the revalued stock of international gold reserves. But the proposal to return to an international gold standard did not receive wide acceptance. The majority of countries were unwilling to give up the monetary sovereignty entailed.

In 1967, to make the international monetary system safe for the elimination of U.S. payments deficits, the members of the IMF agreed, instead, to the creation of a new international reserve asset–called Special Drawing Rights (SDR's)–to supplement dollars and gold. These bookkeeping entries in the accounts of the Fund are allocated to participating members in proportion to their quotas and have been used to settle payments imbalances between members.

Special Drawing Rights are similar to gold in that they are a generally acceptable reserve asset without being a legal debt. They have, in fact, been called "paper gold." Initially, their value was defined in terms of gold, and they had a gold-value guarantee. The SDR facility has worked well to date. But its establishment did not prevent a breakdown of the Bretton Woods system as a result of overly rigid exchange rates.

Steps were taken to insulate the gold stocks of central banks from the effects of the gold shortage. To keep the market price of gold from being bid up above the official price of $35 an ounce, the major central banks stood ready to feed gold into the London market. But by 1968, speculative buying of gold had so depleted the stocks of central banks that this practice was abandoned. Instead, the free-market price of gold was allowed to find its own level.

Also in that year, an act of Congress eliminated the requirement that the Federal Reserve hold gold certificates equal to at least 25 percent of the value of Federal Reserve notes, thereby freeing all Treasury gold for international use. A similar reserve requirement against other Federal Reserve liabilities had been dropped in 1965.

By the time of the first allocation of SDR's in 1970, the U.S. payments position had worsened, rather than improved. The U.S. trade balance, which had been in surplus by over $6 billion in 1964, registered surpluses of less than $1 billion in 1968 and 1969 and fell into deficit by over $2 billion in 1971. The deterioration of the U.S. trade position was due partly to rising inflation in the United States and partly to more rapid productivity increases abroad.

Countries with payments surpluses might have revalued their currencies upward in the light of the fundamental disequilibrium that had occurred. But surplus countries were reluctant to revalue because of the resulting impact on employment in their export industries. Moreover, they did not seem willing to accept a devaluation of the U.S. dollar without countering with some devaluations of their own, at least partially nullifying its effects.

A basic weakness of the Bretton Woods system was that the responsibility for adjustment was unclear. A multilateral agreement on a new structure of exchange rates that was acceptable to all countries was needed. To private holders of dollars, however, a depreciation of the dollar, one way or another, was inevitable. And the resulting massive outflow of dollars in the summer of 1971 forced the United States to suspend convertibility, as Britain had done 40 years before.

In December 1971, parties at an international conference at the Smithsonian Institution agreed to a new structure of exchange rates. But the attempted return to a fixed parity system was unsuccessful. The reserves of central banks amounted to less than half of the short-term funds that could be switched from one currency to another.

Moreover, even when reserves of central banks could be used to defend fixed parities, the cost in terms of economic stability had become too high. Central banks of countries with payments surpluses, by buying foreign exchange to maintain their currencies at parity, injected new money into their economies. And the resulting inflation was not easily offset by other means. In early 1973, after another bout of massive speculative flows of money into surplus countries, the major central banks decided to allow their currencies to float, rather than try to defend the Smithsonian parities or negotiate a new structure of rates.

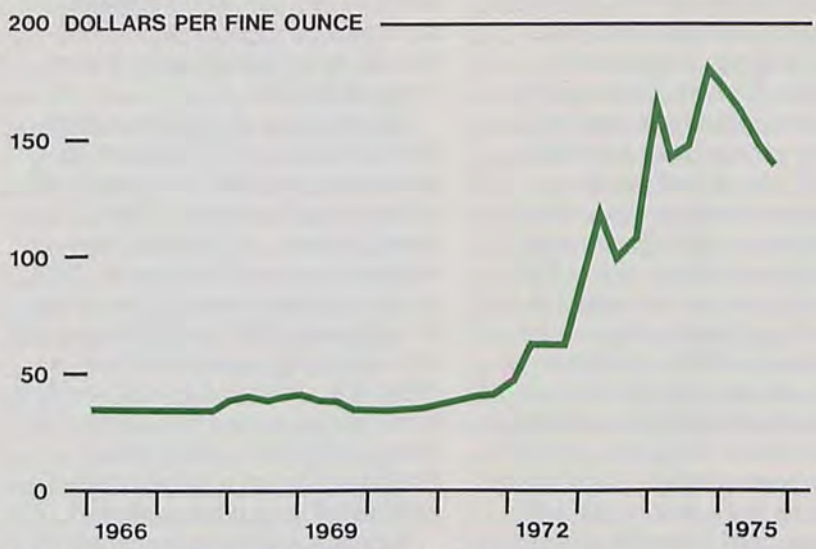
Like the gold-exchange standard of the 1920's, the Bretton Woods system suffered from basic inconsistencies. Because exchange rate adjustment was made only in cases of fundamental disequilibrium, private speculation could anticipate coming devaluations or revaluations, setting the stage for an international monetary crisis. The Fund agreement did not establish a procedure for making timely and frequent adjustments of exchange rates but, instead, assumed that exchange adjustment would be a rarity because of a hoped-for harmonization of national monetary policies. Yet, there was no mechanism to coordinate national monetary policies, as had automatically occurred under the 19th-century gold standard.

There was a similar lack of consistency in the rules regarding gold. Gold was to be the primary international reserve asset, and its price was fixed because of the uncertainties and inequities involved in changing it. But there was no assurance that there would

be enough gold production at a fixed price. When a gold shortage arose, the dollar and SDR's had to be substituted for gold in international reserves.

Moreover, since the dollar was convertible to gold for foreign central banks, the United States could not continue feeding it into the private market to keep its price there at the official level of $35 an ounce. Instead, there had to be a separation of the private-market price from the official price. But central banks then became unwilling to trade gold at the official price when the market was telling them it was really worth much more. The resulting immobilization of gold suggested that a rethinking of its role in the international monetary system was badly needed.

Price of Gold in London



SOURCE: Board of Governors, Federal Reserve System

Role of gold today

A system of managed floating of exchange rates has been substituted for the Bretton Woods system of par values based on gold. But international trade and investment have not been adversely affected to any significant extent, as some observers had feared. Still, since even managed floating requires international coordination of central bank intervention, efforts have been made to formulate new rules for the international monetary system.

Until June 1974, the main forum for this discussion was the IMF Committee on Reform of the International Monetary System–also called the Committee of Twenty–representing the entire 127-nation membership. At that time, this committee completed its *Outline of Reform*, indicating the general direction in which it believed the international monetary system should evolve.

The committee agreed that there should be an improved procedure for assuring timely and effective balance-of-payments adjustments by both surplus and deficit countries. The committee also agreed that all currencies should be convertible to reserve assets, with symmetrical obligations for every country. In addition, the committee suggested that there should be new par values for currencies, expressed in terms of the SDR rather than gold, and that the SDR should become the principal reserve asset, substituting to a large extent for gold and reserve currencies. Nevertheless, it recognized that gold reserves are an important component of global liquidity that should be usable for financing payments imbalances.

Until such time as new par values may be adopted, the valuation of the SDR has been changed to make it more usable under managed floating. Originally, the value of the SDR was defined as equal to 1/35 of an ounce of gold, or $1. But the two official devaluations of the dollar, in 1972 and 1973, increased the value of the SDR to $1.21. The value of the SDR in a foreign currency was obtained by multiplying its dollar value by the exchange rate for the currency. Under managed floating of exchange rates, the value of the SDR was, therefore, fixed in terms of dollars but fluctuated in terms of other currencies.

To make the value of the SDR more broadly based–and, hence, more usable as a reserve asset–a new valuation procedure was put into effect in July 1974. The new procedure, effective until such time as new par values for currencies are expressed in SDR's, defines the SDR as equal to fixed amounts of 16 leading currencies. The weight of the dollar in the basket of currencies was put at a third, and the SDR was given the same value in dollars as before, $1.21. Thus, valued in dollars, the SDR consisted of 40 cents plus other currencies worth 81 cents in July 1974.

If the market values of the other currencies rise, on average, above those on this base date, the dollar value of the foreign currency portion of the SDR is increased to

more than 81 cents. Actually, since the beginning of the new valuation procedure, just the opposite has happened. The dollar value of the SDR is now a cent lower.

Concrete reforms in the areas of exchange rate adjustment and the convertibility of currencies to reserve assets are likely to be slow in coming. But there have already been some important developments with regard to gold. In August 1975, the IMF Interim Committee on the International Monetary System agreed to move toward a complete set of amendments on gold to the Fund's *Articles of Agreement*. These include abolishing the official price of gold, establishing freedom for national monetary authorities to enter into gold transactions at market-related prices, and terminating the use of gold in transactions with the Fund. In addition, the committee agreed that a sixth of the Fund's gold would be sold, with profits being used to benefit developing countries, and that another sixth would be returned to member countries.

Since it will be at least two years before such amendments can become effective, the major countries have agreed on rules governing gold transactions that are consistent with the proposed reforms. First, to avoid *de facto* creation of a new monetary price for gold, no action will be taken to peg the price of gold. Second, countries will be allowed to buy and sell gold at any price, provided such actions do not increase the stock of monetary gold in the hands of the participating countries and the IMF.

Though the stock of monetary gold is, therefore, not likely to grow, neither is it likely to be reduced very much by sales of official gold holdings to the private market. The U.S. Treasury recently sold some gold to help satisfy the demands of American citizens, who regained the legal right to own the metal in January 1975. But gold still has some attributes that other reserve assets do not have.

Gold has intrinsic value, and its acceptability is not dependent on international agreement–as is true of SDR's. Also, reserves held in gold do not lose their value if reserve currencies depreciate. Consequently, gold reserves will continue to serve as one component of global liquidity for the foreseeable future, even though the price of gold is no longer fixed by governments. However, countries will probably be inhibited from using gold for routine and frequent settlements because of the risks created by a variable price. Gold will more likely be used for the settlement of payments imbalances in exceptional cases–and then only as collateral for balance-of-payments loans between central banks.

Conclusion

The discipline of gold, of course, was simply a means to the objective of achieving relatively stable prices. As history indicates, however, the mechanism was somewhat faulty at best. The gold standard can achieve price stability if three conditions are met: (1) the cost of producing gold is constant relative to the cost of producing other commodities, (2) the monetary price of gold is chosen correctly, and (3) institutional arrangements are such that monetary gold bears a fixed ratio to the money supply. Historically, these conditions have never been fulfilled simultaneously although the departures from them have sometimes offset one another.

That the international gold standard of the 19th century produced relatively stable prices over the long run was actually a historical accident. Had the decline in the relative use of gold as money not happened to compensate for the shortage of gold, general deflation would have occurred. After World War II, gold was reestablished as money in the international sphere alone because of the limited supplies. But just as the supply of gold had proved too inelastic to be used as a base for domestic money, it failed to allow sufficient growth of international monetary reserves in the postwar period.

Hopefully, the disintegration of the gold standard will redirect attention to economic fundamentals. Whether under the legal cover of gold or not, a country's price performance over a period of years is determined primarily by the growth of its money supply. Although money has a significant impact on production and employment in the short run, its major effect over a longer period is on prices.

With the disappearance of the last elements of the gold standard, the money supply of the United States has ceased to be linked to gold in any way. And the country's destiny in the monetary realm is truly in its own hands.

–Adrian W. Throop

Federal Reserve Bank of Dallas
January 1976

Eleventh District Business Highlights

The year-long recovery in department store sales in the Eleventh District was capped by a surge in Christmas buying. Many merchants found December sales were much stronger than they had expected as customers crowded to make purchases.

Although sales volume rose sharply throughout the year, retailing policy in the first quarter differed markedly from that used during the remainder of 1975. As the recession deepened in the first quarter, promotional activity—particularly price cutting—was unusually heavy as retailers liquidated inventories.

In the second quarter, however, the economy began recovering and personal income was bolstered by tax rebates. With increased purchasing power and greater confidence, consumers stepped up their demand for department store goods. The trend continued throughout the remainder of the year, reaching a crescendo during the Christmas buying period.

Overall, department store sales for the District were up 12 percent for the year. The biggest percentage gains in sales were reported in El Paso and Houston. Sales in Austin grew at the same rate as for the District, while the growth in sales in San Antonio and Dallas lagged slightly.

After adjusting for the effects of inflation, department store sales for the year registered a significant gain. The consumer price index for all commodities except food rose about 7 percent—suggesting unit sales increased about 5 percent.

Contracts for residential building in Texas in 1975 followed a normal pattern, leading the recovery in the general economy. But, unexpectedly, nonresidential building failed to rebound before the upturn in the economy as a whole.

Home building in Texas turned upward in early 1975. Outlays for residential construction began to rise in January, at least three months before the turnaround in the overall economy in the state.

As is usually the case, an easing in mortgage lending terms triggered the recovery in home building. Mortgage rates, for example, began to edge downward in late 1974, as savings and loan associations experienced unusually heavy inflows of savings.

Home sales rose substantially during the year and, by October, were running at more than double the pace at the end of 1974. As the inventory of unsold new homes fell, builders stepped up housing starts. During the first 10 months of 1975, contracts for residential construction in the state rose 50 percent.

Nonresidential construction, on the other hand, fell throughout 1975, contrary to the normal cyclical pattern. By October, contracts for commercial and industrial building were down over a third from the level in late 1974.

A major reason for the continued decline was the unusually large amount of unused productive capacity in the state last year. The index of capacity utilization for Texas manufacturers fell 12 percent from mid-1974 through the first quarter of 1975. And despite a modest increase since then, the index has been slow to recover. Last year, in fact, producers in the state had more unused capacity than at any other time since 1966, the earliest period for which data are available. With excess productive capacity, manufacturers have had little incentive to build new plants or expand existing facilities.

Other highlights:

- Labor markets in states of the Eleventh District continued to improve in November. The unemployment rate dipped to 6.8 percent as the growth in total employment outpaced a small rise in unemployment.

  The increase in total nonagricultural wage and salary employment was less than a month earlier, but continued recovery in the manufacturing sector was evident. The slowing rise in nonmanufacturing employment was widespread, and the number of jobholders in transportation and public utilities edged downward.
- Cattle on feed in Texas and Arizona on December 1 totaled slightly above 2.3 million head, up a third over both the previous month and the level a year earlier. Placements in November were up 42 percent over a year earlier, but marketings of slaughter cattle declined 9 percent.

  The larger number of cattle on feed and the increased number of placements reflected improved feeding margins. Although marketings continued to lag behind a year earlier, an increase in the number of fed cattle marketed is expected in 1976.
- Cash receipts from farm and ranch marketings in states of the Eleventh District through October were 3 percent below a year earlier, the same as through September. Receipts for the United States in the first 10 months of 1975 were also down 3 percent from a year earlier, after lagging 4 percent

(Continued on back page)

CONDITION STATISTICS OF WEEKLY REPORTING COMMERCIAL BANKS

Eleventh Federal Reserve District

(Thousand dollars)

ASSETS	Dec. 17, 1975	Oct. 15, 1975	Dec. 18, 1974
Federal funds sold and securities purchased under agreements to resell	1,542,599	1,600,663	1,668,062
Other loans and discounts, gross	10,821,391	10,603,502	10,576,264
Commercial and industrial loans	5,344,880	5,122,340	5,057,427
Agricultural loans, excluding CCC certificates of interest	218,195	207,079	236,964
Loans to brokers and dealers for purchasing or carrying:			
U.S. Government securities	200	200	1,234
Other securities	71,390	66,222	37,358
Other loans for purchasing or carrying:			
U.S. Government securities	670	869	2,818
Other securities	376,761	370,889	423,952
Loans to nonbank financial institutions:			
Sales finance, personal finance, factors, and other business credit companies	155,359	201,652	156,549
Other	613,004	595,344	605,477
Real estate loans	1,414,449	1,494,279	1,495,343
Loans to domestic commercial banks	70,966	53,595	55,661
Loans to foreign banks	74,221	87,883	77,204
Consumer instalment loans	1,144,690	1,122,261	1,110,213
Loans to foreign governments, official institutions, central banks, and international institutions	2,832	2,053	13
Other loans	1,333,774	1,278,836	1,316,051
Total investments	5,379,073	5,115,462	4,441,971
Total U.S. Government securities	1,796,950	1,545,788	1,028,978
Treasury bills	410,438	273,779	185,020
Treasury certificates of indebtedness	148	0	0
Treasury notes and U.S. Government bonds maturing:			
Within 1 year	290,259	267,288	159,800
1 year to 5 years	907,108	836,094	492,729
After 5 years	188,997	168,627	191,429
Obligations of states and political subdivisions:			
Tax warrants and short-term notes and bills	266,861	298,365	128,728
All other	2,973,853	2,964,604	2,930,250
Other bonds, corporate stocks, and securities:			
Certificates representing participations in federal agency loans	13,509	9,745	28,558
All other (including corporate stocks)	327,900	296,960	325,457
Cash items in process of collection	1,725,099	2,191,031	1,633,647
Reserves with Federal Reserve Bank	1,031,578	920,207	1,063,075
Currency and coin	141,536	130,787	134,303
Balances with banks in the United States	549,563	584,958	507,293
Balances with banks in foreign countries	144,368	106,564	25,464
Other assets (including investments in subsidiaries not consolidated)	1,391,315	1,223,453	957,332
TOTAL ASSETS	22,726,522	22,476,627	21,007,411

LIABILITIES	Dec. 17, 1975	Oct. 15, 1975	Dec. 18, 1974
Total deposits	17,068,741	16,941,598	15,937,75
Total demand deposits	8,030,569	8,188,941	7,548,88
Individuals, partnerships, and corporations	5,875,009	6,029,635	5,401,97
States and political subdivisions	430,903	389,485	503,82
U.S. Government	169,051	97,877	123,76
Banks in the United States	1,376,770	1,237,096	1,339,17
Foreign:			
Governments, official institutions, central banks, and international institutions	2,422	5,854	1,96
Commercial banks	75,948	324,203	68,17
Certified and officers' checks etc.	100,466	104,791	110,00
Total time and savings deposits	9,038,172	8,752,657	8,388,86
Total savings deposits	1,422,766	1,362,045	1,164,37
Total time deposits	7,615,406	7,390,612	7,224,49
Individuals, partnerships, and corporations	4,965,874	4,898,946	4,729,91
States and political subdivisions	2,146,460	2,094,893	2,285,46
U.S. Government (including postal savings)	26,606	28,047	9,92
Banks in the United States	442,658	347,842	173,09
Foreign:			
Governments, official institutions, central banks, and international institutions	20,965	18,260	17,06
Commercial banks	12,843	2,624	9,06
Federal funds purchased and securities sold under agreements to repurchase	3,099,522	3,055,406	2,649,07
Other liabilities for borrowed money	30,929	19,641	139,34
Other liabilities	737,254	704,336	670,21
Reserves on loans	208,680	202,890	187,10
Reserves on securities	24,070	27,651	21,43
Total capital accounts	1,557,326	1,525,105	1,402,47
TOTAL LIABILITIES, RESERVES, AND CAPITAL ACCOUNTS	22,726,522	22,476,627	21,007,41

CONDITION STATISTICS OF ALL MEMBER BANKS

Eleventh Federal Reserve District

(Million dollars)

Item	Nov. 26, 1975	Oct. 29, 1975	Nov. 27, 1974
ASSETS			
Loans and discounts, gross	22,343	21,851	21,623
U.S. Government obligations	3,288	3,173	2,079
Other securities	7,493	7,449	6,903
Reserves with Federal Reserve Bank	1,777	1,662	1,638
Cash in vault	378	417	354
Balances with banks in the United States	1,537	1,474	1,350
Balances with banks in foreign countries[e]	144	133	34
Cash items in process of collection	2,234	1,834	2,051
Other assets[e]	2,426	2,277	1,788
TOTAL ASSETS[e]	41,620	40,270	37,820
LIABILITIES AND CAPITAL ACCOUNTS			
Demand deposits of banks	1,886	1,865	1,660
Other demand deposits	13,600	12,845	12,323
Time deposits	18,274	17,954	16,198
Total deposits	33,760	32,664	30,181
Borrowings	3,301	3,144	3,274
Other liabilities[e]	1,763	1,685	1,736
Total capital accounts[e]	2,796	2,777	2,629
TOTAL LIABILITIES AND CAPITAL ACCOUNTS[e]	41,620	40,270	37,820

e—Estimated

DEMAND AND TIME DEPOSITS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Million dollars)

Date	DEMAND DEPOSITS			TIME DEPOSITS	
	Total	Adjusted[1]	U.S. Government	Total	Savings
1973: November	13,455	9,816	167	13,953	2,871
1974: November	13,843	10,148	138	16,016	3,009
December	14,351	10,355	208	16,177	3,049
1975: January	14,180	10,353	166	16,842	3,079
February	13,956	10,245	150	17,052	3,124
March	14,114	10,349	165	17,177	3,226
April	14,247	10,572	213	17,196	3,325
May	14,106	10,374	195	17,303	3,348
June	14,333	10,529	199	17,273	3,409
July	14,501	10,698	164	17,315	3,480
August	14,514	10,745	129	17,452	3,493
September	14,748	10,608	196	17,563	3,513
October	14,725	10,752	171	17,715	3,561
November	15,072	10,947	165	18,031	3,608

1. Other than those of U.S. Government and domestic commercial banks, less cash items in process of collection

RESERVE POSITIONS OF MEMBER BANKS

Eleventh Federal Reserve District

(Averages of daily figures. Thousand dollars)

Item	4 weeks ended Dec. 3, 1975	5 weeks ended Nov. 5, 1975	4 weeks ended Dec. 4, 1974
Total reserves held	2,047,309	2,225,903	1,988,353
With Federal Reserve Bank	1,681,519	1,876,200	1,651,976
Currency and coin	365,790	349,703	336,377
Required reserves	2,035,603	1,996,198	1,996,808
Excess reserves	11,706	229,705	8,455
Borrowings	3,625	8,666	76,089
Free reserves	8,081	221,039	−67,634

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]			
	Nov. 1975 (Annual-rate basis)	Percent change: Nov. 1975 from Oct. 1975	Percent change: Nov. 1975 from Nov. 1974	Percent change: 11 months, 1975 from 1974	Nov. 30, 1975	Annual rate of turnover: Nov. 1975	Annual rate of turnover: Oct. 1975	Annual rate of turnover: Nov. 1974
ARIZONA: Tucson	$30,615,083	11%	81%	37%	$357,843	81.6	70.3	43.4
LOUISIANA: Monroe	7,036,708	13	22	9	132,511	53.3	47.6	47.1
Shreveport	21,603,865	−11	−5	16	363,669	58.5	64.3	66.2
NEW MEXICO: Roswell[2]	1,491,414	−12	3	10	60,633	25.3	28.7	27.9
TEXAS: Abilene	4,712,150	8	20	12	159,382	29.8	27.5	27.5
Amarillo	12,136,111	2	8	4	270,658	45.5	44.4	49.2
Austin	26,914,636	−6	37	17	523,247	51.7	52.1	46.2
Beaumont-Port Arthur-Orange	11,485,255	3	2	4	360,314	31.5	29.7	35.7
Brownsville-Harlingen-San Benito	4,794,896	14	33	8	136,717	36.2	32.4	30.7
Bryan-College Station	2,026,714	−1	14	12	69,895	29.2	29.7	30.2
Corpus Christi	13,351,968	9	22	8	340,670	40.1	36.9	36.0
Corsicana[2]	808,920	6	13	7	44,516	18.5	17.3	18.7
Dallas	261,077,107	5	−15	−3	3,279,545	79.8	76.9	98.2
El Paso	15,273,208	5	2	8	360,222	41.3	39.4	47.8
Fort Worth	40,820,801	−4	−6	5	1,011,123	40.2	41.7	48.0
Galveston-Texas City	5,185,333	−1	1	14	161,866	32.5	33.0	36.4
Houston	298,753,420	9	16	19	4,354,363	70.2	65.2	67.0
Killeen-Temple	3,027,644	−1	16	12	139,268	22.1	22.3	21.6
Laredo	2,126,994	−7	15	14	76,432	27.9	29.1	28.2
Lubbock	9,563,932	−11	19	1	246,516	38.6	43.2	36.3
McAllen-Pharr-Edinburg	5,110,020	1	22	25	181,093	28.3	28.4	26.7
Midland	6,032,834	−2	36	33	241,081	25.3	25.7	21.0
Odessa	6,087,899	1	96	53	144,284	41.8	41.8	24.6
San Angelo	3,376,811	−4	21	16	107,501	32.2	34.0	30.2
San Antonio	38,295,244	2	27	15	1,005,264	38.3	37.8	33.7
Sherman-Denison	1,883,363	−4	22	7	91,385	20.9	21.5	17.8
Texarkana (Texas-Arkansas)	2,542,727	0	14	14	106,401	24.4	24.8	23.4
Tyler	4,109,783	−4	15	13	160,453	25.3	25.8	25.7
Waco	6,039,580	−9	24	20	191,003	32.5	36.6	31.0
Wichita Falls	4,925,366	−5	−6	4	193,557	25.7	27.6	30.1
Total—30 centers	$851,209,886	4%	5%	9%	$14,871,412	57.7	55.4	60.6

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

CONDITION OF THE FEDERAL RESERVE BANK OF DALLAS

(Thousand dollars)

Item	Dec. 17, 1975	Nov. 19, 1975	Dec. 18, 1974
Total gold certificate reserves	422,062	422,062	581,470
Loans to member banks	9,075	1,876	46,114
Other loans	0	0	0
Federal agency obligations	310,412	310,420	207,867
U.S. Government securities	4,284,617	4,309,527	3,579,781
Total earning assets	4,604,104	4,621,823	3,833,762
Member bank reserve deposits	1,675,200	1,865,225	1,734,297
Federal reserve notes in actual circulation	2,944,226	2,890,651	2,675,776

VALUE OF CONSTRUCTION CONTRACTS

(Million dollars)

Area and type	Nov. 1975	Oct. 1975	Sept. 1975	January—November 1975	January—November 1974r
FIVE SOUTHWESTERN STATES[1]	716	913	841	10,976	11,294
Residential building	315	409	369	3,777	4,024
Nonresidential building	224	315	267	3,990	4,615
Nonbuilding construction	177	190	205	3,208	2,654
UNITED STATES	5,573	7,767	7,692	84,604	86,625
Residential building	2,404	3,189	2,966	29,019	31,915
Nonresidential building	1,859	2,629	2,526	28,505	30,830
Nonbuilding construction	1,309	1,949	2,200	27,080	23,880

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

BUILDING PERMITS

Area	NUMBER: Nov. 1975	NUMBER: 11 mos. 1975	VALUATION (Dollar amounts in thousands): Nov. 1975	VALUATION (Dollar amounts in thousands): 11 mos. 1975	Percent change: Nov. 1975 from Oct. 1975	Percent change: Nov. 1975 from Nov. 1974	Percent change: 11 months, 1975 from 1974
ARIZONA							
Tucson	260	5,030	$6,448	$80,259	50%	58%	7%
LOUISIANA							
Monroe-West Monroe	69	807	726	14,885	−72	64	−13
Shreveport	481	7,776	7,820	65,842	52	90	−30
TEXAS							
Abilene	91	1,190	1,997	26,508	6	52	78
Amarillo	203	2,988	4,286	70,974	−27	37	23
Austin	375	5,012	10,888	141,732	21	−22	−39
Beaumont	232	2,416	3,254	39,388	−13	36	3
Brownsville	82	1,252	1,292	17,080	−22	66	−33
Corpus Christi	223	2,643	2,913	48,873	52	54	−8
Dallas	1,278	16,996	16,469	238,827	−28	45	−15
Denison	8	386	25	2,898	−95	19	80
El Paso	442	5,259	7,974	103,670	2	−24	−34
Fort Worth	314	4,053	5,211	161,630	−48	−27	17
Galveston	61	617	953	8,686	−7	12	−73
Houston	1,461	20,580	35,154	539,404	−51	−20	−10
Laredo	78	753	794	13,018	4	373	57
Lubbock	172	2,013	5,237	108,529	−60	87	−6
Midland	79	1,227	3,307	27,440	3	−49	−18
Odessa	115	1,309	2,814	30,484	−24	−45	40
Port Arthur	67	1,020	690	4,780	35	209	12
San Angelo	59	768	702	18,850	−48	−57	41
San Antonio	786	14,897	12,914	136,616	73	6	−19
Sherman	29	347	243	4,090	44	2	−31
Texarkana	54	709	273	5,342	−18	16	−26
Waco	170	2,313	592	17,744	−56	−66	−48
Wichita Falls	94	1,109	1,496	15,470	−12	183	22
Total—26 cities	7,283	103,470	$134,472	$1,943,019	−27%	−2%	−13%

DAILY AVERAGE PRODUCTION OF CRUDE OIL

(Thousand barrels)

Area	Nov. 1975	Oct. 1975	Nov. 1974r	Percent change from Oct. 1975	Percent change from Nov. 1974
FOUR SOUTHWESTERN STATES	5,744.6	5,783.7	6,093.8	−0.7%	−5.7%
Louisiana	1,731.0	1,776.0	1,946.1	−2.5	−11.1
New Mexico	258.0	255.0	270.4	1.2	−4.6
Oklahoma	445.5	449.3	467.2	−.8	−4.6
Texas	3,310.1	3,303.5	3,410.1	.2	−2.9
Gulf Coast	638.5	636.7	661.8	.3	−3.5
West Texas	1,792.1	1,784.8	1,826.1	.4	−1.9
East Texas (proper)	211.7	211.5	225.1	.1	−6.0
Panhandle	53.9	54.4	57.1	−.9	−5.6
Rest of state	613.9	616.1	640.0	−.4	−4.1
UNITED STATES	8,275.9	8,326.3	8,596.0	−.6%	−3.7%

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

INDUSTRIAL PRODUCTION AND TEXAS MANUFACTURING CAPACITY UTILIZATION

(Seasonally adjusted indexes, 1967 = 100 for production)

Area and type of index	Nov. 1975p	Oct. 1975	Sept. 1975r	Nov. 1974r
TEXAS				
Total industrial production	125.6	124.9	124.9	127.7
Manufacturing	131.1	130.3	129.9	132.4
Durable	132.1	129.8	130.4	134.9
Nondurable	130.4	130.6	129.5	130.4
Mining	108.1	107.7	108.7	111.4
Utilities	160.5	160.5	160.5	169.5
Capacity utilization in manufacturing (1972 = 100)	95.6	95.3	95.4	100.7
UNITED STATES				
Total industrial production	116.8	116.6	116.1	121.7
Manufacturing	115.5	115.2	114.6	120.9
Durable	107.5	107.1	106.9	117.9
Nondurable	127.3	126.9	125.6	125.4
Mining	106.3	106.2	106.2	105.0
Utilities	155.9	156.6	156.2	152.3

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 Nov. 1975p	Oct. 1975	Nov. 1974r	Percent change Nov. 1975 from Oct. 1975	Nov. 1974
Civilian labor force	9,392.7	9,328.4	9,051.8	0.7%	3.8%
Total employment	8,749.5	8,686.9	8,536.2	.7	2.5
Total unemployment	643.3	641.5	515.6	.3	24.8
Unemployment rate	6.8%	6.9%	5.7%	[2] −.1	[2] 1.1
Total nonagricultural wage and salary employment	7,707.4	7,688.7	7,623.0	.2	1.1
Manufacturing	1,300.4	1,295.7	1,340.3	.4	−3.0
Durable	734.8	732.5	769.1	.3	−4.5
Nondurable	565.6	563.3	571.2	.4	−1.0
Nonmanufacturing	6,407.0	6,393.0	6,282.7	.2	2.0
Mining	272.1	271.1	263.4	.3	3.3
Construction	489.6	486.7	503.1	.6	−2.7
Transportation and public utilities	500.8	501.2	511.2	−.1	−2.0
Trade	1,839.5	1,838.7	1,806.7	.0	1.8
Finance	424.2	423.5	415.5	.2	2.1
Service	1,321.0	1,313.6	1,289.9	.6	2.4
Government	1,559.8	1,558.1	1,492.9	.1%	4.5%

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)

CITRUS FRUIT PRODUCTION

(Thousand bushels)

State and crop	Indicated 1975	1974	1973
ARIZONA			
Oranges	3,900	4,970	3,410
Grapefruit	3,100	2,770	2,050
TEXAS			
Oranges	5,800	4,540	6,600
Grapefruit	11,000	7,300	10,700

SOURCE: U.S. Department of Agriculture

through September. With sharply higher average prices, year-end cash receipts from livestock and livestock products probably offset the slight decline in crop receipts. Therefore, total cash receipts for 1975 probably were about the same as a year earlier.

• Total credit at weekly reporting banks in the Eleventh District expanded rapidly in the four weeks ended December 17. These banks continued to acquire U.S. Government securities at a much more rapid pace than usual. Moreover, business loans registered a substantial increase. As has been the case since early 1974, loan demands from the mining and petroleum refining industries were the biggest sources of strength. Loan demand from the retail trade sector, however, expanded sharply, as merchants apparently used bank credit lines to finance a sizable accumulation of inventories.

• The number of rotary rigs active in Texas in December was some 16 percent above the level a year earlier. Drilling in the state was strong throughout 1975, despite the reduction in the depletion allowance early in the year. The Laredo area, in particular, with potentially large gas reserves was the site of increased drilling activity. But in spite of more drilling, oil production continued to decline, falling more than 3 percent in 1975.