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MONEY MARKET IN MAY

The principal influences in the money market and Government bond market during the past month were related to two developments in the spheres of Federal Reserve credit policy and Treasury debt management. The first was the lowering of the reserve requirements of member banks, announced by the Board of Governors of the Federal Reserve System on April 29. The second was the announcement on May 13 of the Treasury's decision to refund both an issue of $1\frac{1}{8}$ per cent certificates maturing June 1 and an issue of 2 per cent bonds called for redemption on June 15 with a new issue of $1\frac{1}{4}$ per cent certificates, rather than with intermediate-term notes offering a somewhat higher interest rate, which had been widely expected in the market, at least in exchange for the called bonds.

DEVELOPMENTS IN THE GOVERNMENT BOND MARKET

The effect of these actions on the Government bond market was to stimulate commercial bank demand for the medium and longer-term issues which the banks are eligible to hold and, indirectly, through nonbank investors' reinvestment of the proceeds of their sales of eligible bonds to the banks, to stimulate the demand for ineligible issues. Commercial bank purchases were made principally by the larger central reserve and reserve city banks. Country banks remained relatively inactive, at least in the early part of the month.

After an initial spurt during the trading on April 29, following the announcement of the lowering of member bank reserve requirements, and to a lesser extent on May 2, prices of Treasury bonds moved irregularly upward until the middle of the month. They then received further stimulus from the Treasury's announcement of the terms of its June refinancing. In terms of prices this second stimulus was short-lived, but in terms of continuing pressure of demand for medium and longer-term bank-eligible securities it is likely to be a continuing force. After the Treasury announcement, prices of the 2 per cent bonds called for redemption on June 15 declined sharply, as a sequel to the sizable advance which they had made when a refunding issue more attractive to the market was expected.

Over the entire period from April 29, when the reduction of reserve requirements was announced, through May 16, when the repercussions of the announcement of the refunding terms took effect, the advance in the prices of the various medium-term bank eligible bonds ranged from $3/32$ for the nearer maturities to one-half point for the $2\frac{1}{4}$'s of September 1956-59. Bank demand for the latter was particularly pronounced, and (as illustrated in the chart) the advance in the price of this issue was greater than that of the longest-term bank eligible bonds (the $2\frac{1}{2}$'s of September 1967-72). Apparently the commercial banks, at least the larger banks which did the bulk of the buying in this period, were unwilling to reach out for the longest issue. Presumably it was felt that the spread in yield between a 7-year and an 18-year maturity (roughly one half of 1 per cent) did not warrant so great a lengthening of maturities.

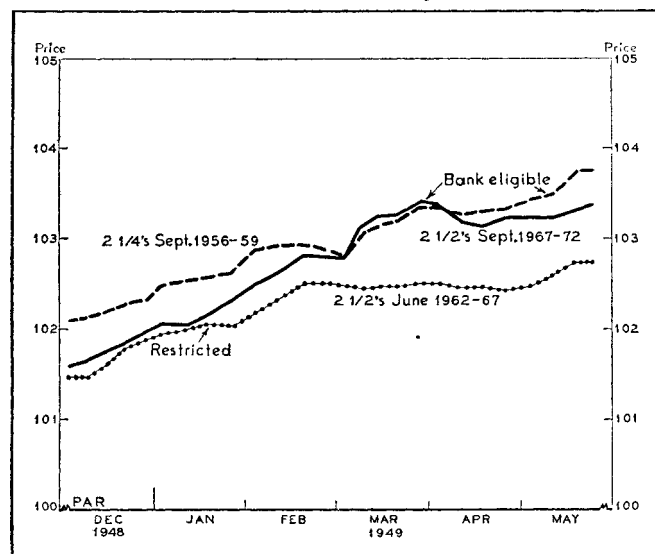
Restricted bonds in this period made somewhat more moderate price advances, ranging from $1/32$ to $9/32$. Demand for the restricted bonds originated mainly from savings banks seeking to reinvest the proceeds of sales of bank-eligible bonds. The most popular issues were those which will become eligible for commercial bank investment earliest and which thus will first reflect the scarcity value characteristic of eligible bonds. Consequently, those restricted issues which are callable from 1959 through 1962, and particularly the $2\frac{1}{2}$'s of June 15, 1962-67, showed more sizable increases than the hitherto more popular Victory and other longer-term "tap" issues.

As a result of the demand for Treasury bonds created by the developments in the first half of the month, the Federal Reserve

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Prices of Selected Treasury Bonds*



* Closing bid prices, Wednesday dates; latest figures are for May 25, 1949.

System sold 465 million dollars of Government bonds in the three weeks ended May 18. More than half of this amount was sold in the first week of especially strong bank buying.

Commercial bank purchases of Treasury bonds were reduced as prices rose in the middle of the month and the higher prices for eligible bonds brought out fresh supplies of such issues from nonbank investors. Consequently, the rise in prices of most medium-term eligible issues leveled off in the latter part of the month. Except in a few cases including the two longest issues, however, quotations on restricted bonds continued to rise modestly, despite further sales out of Federal Reserve portfolios.

MEMBER BANK RESERVE POSITIONS

Money market conditions during the past month were dominated by the decline in reserve requirements and by the operations of member banks incident to their investing the "free" reserves made available. The investment process was not entirely a smooth one; it led to considerable cross currents in the flow of funds through the money market, producing at one time the rather anomalous situation of a falling rate on new Treasury bill issues and a rising rate for "Federal funds" in New York. At times there was considerable ease in the market and at other times considerable strain, particularly in New York City. For the most part, this pattern of turbulence was related to the Government security operations of the larger central reserve and reserve city banks which, in pursuit of a policy of fully investing all surplus funds, increased their holdings of Government obligations in anticipation of the lowering of their required reserves on May 5, and of Government security dealers who apparently overstocked in Treasury bills around the middle of the month in expectation of further demands

from the banks. In both instances, considerable strain on the banks' reserve positions resulted.

The country member banks, on the other hand, tended to add to their excess reserves a substantial portion of the funds released by the reduction of their legal reserve requirements (effective May 1). This prevented, temporarily at least, the easing of their reserve positions from being transmitted to the rest of the banking system and so contributing to the reduction of pressures that developed elsewhere.

The net effect of the lowering of member bank legal reserve requirements was to bring about a sharp reduction of Federal Reserve credit. In the aggregate the member banks had about 1.9 billion dollars of free reserves to invest during the four weeks ended May 25. Of this amount, 1.3 billion became available through the reduction in required reserves, while the rest represented net gains of reserves, mostly from net Treasury disbursements. With these funds, the member banks sharply increased their holdings of Government securities (principally bills and bonds), reduced their borrowings from the Federal Reserve Banks by 100 million dollars, net, and added about 300 million dollars to their excess reserves, which had been abnormally low toward the end of April. The Reserve System's holdings of Government securities declined about 1½ billion dollars in this period.

The aggregate figures, of course, conceal the alternation between pressure and ease which developed in the market from week to week, principally among the larger banks, and particularly among the New York City institutions. In the week ended May 4, the larger banks tended to anticipate the decline in their required reserves and made substantial additions to their holdings of Treasury securities. Such purchases were made, through the market, partly from the Reserve System and partly from nonbank investors. The latter in turn bought substantial amounts of other types of Government issues, especially restricted bonds, a large portion of which came out of Federal Reserve portfolios. The New York City banks were also called upon to finance a considerable volume of purchases by Government security dealers. Their reserve positions consequently were under considerable pressure, and it became necessary for them to borrow substantial amounts, temporarily, from the Reserve Bank. The rate on immediately available Federal funds ruled at 1 7/16 per cent during most of the week.

The reduction of their reserve requirements, together with smaller gains of funds from other sources during the week ended May 11, enabled the central reserve and reserve city banks to reduce their borrowings from the Reserve System considerably and to acquire large amounts of Treasury securities. Excess reserves were practically unchanged in the week, despite the drop of about 900 million dollars in required reserves.

The anticipation of a large release of bank reserves stimulated bidding on May 2 for the new Treasury bills to be issued

on May 5. As a result, the commercial banks, particularly the New York City banks, and the Government security dealers obtained a substantial part of the new issue. The average rate on new bills consequently fell to 1.147 per cent on May 5, from 1.156 per cent on April 28.

In view of the favorable market for Treasury bills and other short-term securities, the Government security dealers were able to dispose of most of their allotments of the new bills as well as previous accumulations of short-term Treasury obligations. Consequently, the dealers reduced their borrowings from the banks rather sharply in the week ended May 11—285 million dollars in New York City, as indicated by the weekly reporting member bank figures.

Through the Reserve System's sales and redemptions of securities, a large part of the funds released by the reduction in reserve requirements of the central reserve and reserve city banks was channeled into the Federal Reserve Banks, thus limiting the impact of such funds on Treasury bond prices. In the week ended May 11 the System redeemed or made net sales of almost 710 million dollars of Government securities, consisting of 427 million of bills, 175 million of certificates, 89 million of bonds, and a small amount of notes.

The decline in the Treasury bill rate and the ease with which the previous issue of bills had been absorbed led the larger banks and the Government security dealers to outbid the rest of the market for the next bill issue, dated May 12. Since the larger banks had already fully invested the "free" funds gained through the reduction in their reserve requirements, their subscriptions to the new bill issue presumably were made in anticipation of further gains of funds. But these gains failed to materialize, mainly because the current receipts of the Treasury exceeded its disbursements in the week ended May 18. The reserve positions of the larger institutions, especially in New York City, were therefore under considerable strain temporarily.

The burden on reserve positions was made even heavier by the inability of the Government security dealers to dispose of a sizable proportion of their new bills. Dealers were compelled to borrow from the commercial banks to pay for their allotments, and their loans from the New York City weekly reporting member banks rose 371 million dollars in the week ended May 18. The result was a loss of a substantial amount of bank reserves, since a large portion of the funds loaned were turned over to the Treasury in payment for the bills.

In order to adjust their reserve positions, therefore, member banks had to expand their use of Federal Reserve credit. They sold substantial amounts of Treasury bills, most of which were absorbed by the Federal Reserve System, and borrowed 570 million dollars from the Reserve Banks. Total member borrowings reached 773 million dollars on May 18, the highest figure for any weekly report date since November 1945.

More than two thirds of the increase in borrowing originated in New York City, where the money market stringency was particularly pronounced.

Excess reserves of all member banks increased 220 million dollars to 1,080 million on May 18 as the New York banks built up surplus reserves toward the end of the week for the purpose of averaging out their reserves against requirements over a week's period. In the circumstances, however, the rise in excess reserves reflected a tight money market situation, rather than the opposite, and the rate on Federal funds again rose to $1\frac{7}{16}$ per cent.

In view of the heavy supply of outstanding issues, bids for the bill issue dated May 19 by the banks and dealers were lowered. As a result, there was a better balanced participation by the market as a whole, and the average rate rose from 1.148 per cent in the previous week to 1.157 per cent, approximately the level prevailing late in the previous month.

In the week ended May 25, the initial high level of excess reserves, together with further gains of funds, mainly through Treasury operations, permitted the member banks to repay the greater part of their borrowings from the Reserve Banks and to add further to their holdings of Government obligations. A considerable part of the addition to Government security holdings was supplied by dealers, who were thus able to reduce their heavy accumulation of Treasury bills in the previous week and to cut down their bank loans.

Toward the end of May, the money market was approximately in balance, transactions tending to contract reserves being offset by those tending to expand them.

EMPLOYMENT, UNEMPLOYMENT, AND THE LABOR FORCE

Recent declines in production, prices, and employment have high-lighted the problem of adequately measuring the extent of changes in employment and unemployment. The widespread reports of layoffs and increased claims for unemployment insurance would be difficult to evaluate without some comprehensive measure of over-all employment to indicate the extent to which these factors have been offset by rehiring or plant expansion in other areas. The two principal employment indicators in common use are those of the U. S. Bureau of the Census and the U. S. Bureau of Labor Statistics. The Census Bureau series gives data on the labor force, employment, and unemployment, while the B.L.S. series reports the number of nonagricultural employees.

The Census Bureau makes monthly estimates of changes in the employment status of the population of working age, based on personal interviews with a scientifically selected national sample of households during a week in the early part of each month. In April 1949, these estimates indicated total employment of 57.8 million persons, somewhat more than during the first quarter of 1949, but about half a million less

than in April of last year. Total employment, as defined by the Census Bureau, includes all those who worked either full or part time for pay or profit, unpaid family workers on farms or in businesses who worked 15 hours or more during the week surveyed, and persons with a job but temporarily away from it. Unemployment in April was about 3 million persons, down somewhat from February's postwar peak of 3.2 million. Unemployed persons include those without jobs who are actively seeking work, plus a few categories of individuals normally regarded as in the labor market but who, because of illness, indefinite layoff, or unavailability of suitable work in their community, are not looking for work. These two categories, the employed and the unemployed, make up what is known as the civilian labor force. When the armed forces are also included, the total labor force is accounted for.

The labor force measured by currently published figures is not a constant figure, nor does it expand solely with population growth. Instead, the number of persons at work or seeking jobs varies seasonally and with changes in the business situation. Seasonal workers, particularly in agriculture, often do not seek work after their season of employment, and many students tend to look for work only during the summer and (in some cases) other vacation periods. During the war numerous women, youngsters, and older persons who would not normally have been part of the labor force, took jobs in order to help the war effort by offsetting the drain of men to the armed services. After the war, while jobs remained plentiful and wages high, many of these persons remained at work. When gainful employment became less remunerative, however, they tended to drop out of the labor force and keep house, resume schooling, or retire. In such times, though, there is also a tendency for additional secondary wage earners—wives and older children—to seek part-time or full-time employment as family heads lose their jobs or suffer substantial cuts in earnings. Altogether, it should be emphasized that the volume of unemployment is not solely dependent upon fluctuations in employment; in fact, it has often happened that unemployment and total employment both rose or both declined during a given period.

Part of the increase of 1.4 million persons in unemployment since last October (the month of lowest unemployment in 1948) and of the drop of 2.3 million in total employment has been seasonal, particularly where the farm labor force is concerned. The accompanying chart illustrates the seasonal fluctuations of both employment and unemployment in recent years.

To some extent, the rise in unemployment compared with last year's levels may be attributed not only to a decline in the number of jobs but to the failure of employment opportunities to continue to expand as rapidly as the labor force. The accompanying table shows to what extent this was true between the first part of 1948 and the corresponding period of

Changes in the Composition of the Labor Force*
(First four months of 1949 compared with the first four months of 1948, in thousands of persons)

Employment status	Average Jan.-April 1949	Average change Jan.-April 1948 to Jan.-April 1949		
		Total	Men	Women
Total noninstitutional population, 14 years of age and over.....	109,244	+1,162	+537	+625
Outside the labor force.....	47,225	+ 199	- 51	+250
Total labor force.....	62,019	+ 963	+589	+374
Armed services.....	1,490	+ 255	+256	- 1
Unemployed.....	3,017	+ 683	+568	+115
Total employed.....	57,512	+ 25	-235	+260
Nonagricultural industries.....	50,270	- 186	-315	+129
Agriculture.....	7,242	+ 211	+ 81	+130

* Because of rounding, items may not add to the totals shown.
Source: U. S. Bureau of the Census.

1949. (The average of the first four months was chosen in order to eliminate any distortion which weather, holidays, labor conflicts, and similar factors might induce in a comparison of data for a single month in the two years.) The population of working age has been increasing recently at an annual rate of nearly 1.2 million. Between 1948 and 1949 there was a net decrease of 250,000 in the number of veterans in school or otherwise outside the labor force and a corresponding rise in the civilian labor force. These changes in the veteran population were more than offset, however, by increases in the numbers of nonveterans remaining in school, of older persons retiring, and of women dropping out of the labor force to keep house. The net increase of 963,000 persons in the total labor force between the first four months of 1948 and the similar period of 1949 reflects these shifts plus the addition to the labor force that resulted from population growth. This gain was only partly offset by the addition of 255,000 to the armed forces and a net increase of 25,000 in total civilian employment; as a result, unemployment rose by 683,000, or more than two thirds of the net increase in the labor force. In similar fashion, unemployment could continue to rise substantially during the coming year even if total employment remained at present levels or increased somewhat. (These figures, of course, all represent *net* changes; the persons who join the labor force are not necessarily the same ones who become unemployed. A substantial labor turnover may be concealed by a small net change; for example, the Census Bureau estimates that while between February and March 1949 nonagricultural employment increased 80,000, net, 2,566,000 workers found new jobs while 2,486,000 workers were dismissed or left their old jobs voluntarily.)

Although the total numbers of those employed or unemployed are generally more widely publicized, the nature of employment, as indicated by the Census Bureau's data, is likewise a factor of prime importance. Thus, during the past year there seems to have been some shift from employment in nonagricultural industries to agricultural employment. Even more noteworthy is the sharp growth in part-time work in nonagricultural industries. In the early part of 1949, the number of

nonagricultural workers on a short work week (less than 35 hours per week) was nearly 1.2 million more than a year previous, and the number of full-time workers was correspondingly reduced. In fact, the decrease in the number of women working 35 hours or more per week was more than offset by the increase in the number of women holding part-time jobs. For men, there was an over-all decline in nonagricultural jobs (although the number of veterans at work increased) and an increase in part-time work. Cuts in the average work week, in effect, amount to concealed unemployment through spreading a reduced amount of work among approximately the same number of workers. The data also indicate that there may very well have been a shift by persons who lost jobs in industry to part-time trade or service jobs or to agriculture, with a consequent drop in income and purchasing power.

It should be noted that, since the Census Bureau's labor force figures are based on sample surveys, they necessarily contain errors of estimation which would have been avoided in a complete census. These variations may amount to as much as 2 or 3 per cent in the larger aggregates and somewhat more for the component figures. The reliability of month-to-month changes, or percentage distributions of the data is, however, much greater.

The other major source of current information on employment trends is the U. S. Bureau of Labor Statistics. The estimates of total nonagricultural employment released by the B.L.S. each month cover all wage and salary workers in private and public establishments other than farms and are based primarily upon reports from more than 110,000 business establishments, employing over 11 million workers. The estimates cover civilian *employees* only; proprietors, self-employed persons, domestic servants, and unpaid family workers are excluded from the B.L.S. estimates, although they are covered by the Census Bureau data. If a person worked in more than one establishment during the reporting period, he would be counted by the B.L.S. more than once, but by the Census Bureau only once. The Census Bureau, however, counts as employed those persons who have a job but who are temporarily absent from it because of illness, vacations, labor disputes, or short-term layoffs; B.L.S. figures ordinarily exclude such persons except where they are kept on the payrolls during vacations or illness. The B.L.S. estimating methods permit a much more detailed breakdown by industry and locality than the Census Bureau surveys and are particularly useful for following the employment, payroll, and wage trends in particular industries.

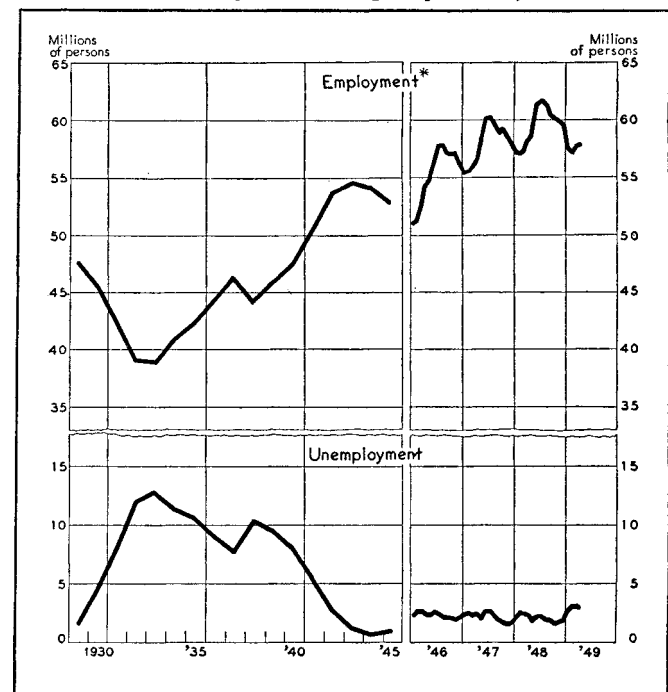
In April 1949, the B.L.S. estimated nonagricultural employment at 43.9 million persons, about the same as in March and about 400,000 less than in April of last year. After allowance for seasonal variation (as computed by the Board of Governors), this series declined in April for the sixth consecutive month and was 3½ per cent below its October peak.

Practically all of this decline was accounted for by manufacturing, which (on a seasonally adjusted basis) employed fewer workers in April than at any time since September 1946. Despite the general decline, employment in construction, trade, finance, and government still showed year-to-year increases. The tendency toward shortened work weeks is also apparent in the B.L.S. data; in April the average number of hours worked per week in factories was only 38.3, almost two hours per week less than a year earlier, and the shortest work week since July 1940.

The data on unemployment published by the Census Bureau are not directly comparable with figures on claims for unemployment insurance published by the Federal Security Agency, since the unemployment insurance program does not cover all branches of economic activity or all types of workers, and there are differences in the two agencies' definitions of what constitutes unemployment. Nevertheless, the unemployment insurance data serve as a useful check on the level and direction of changes in the unemployment estimates.

The layoffs at factories and railroads and the net over-all increases in unemployment have caused much discussion in recent months. In most areas, however, the growing number of job seekers has been so far much more in the nature of a danger signal than an acute social problem such as it was during the thirties. The accompanying chart shows that, despite recent declines, civilian employment is still well above even

Employment and Unemployment in the United States
(Annually from 1929 through 1945, monthly from January 1946 through April 1949)



* Excluding the armed services.
Source: 1919-39 estimated by U. S. Bureau of Labor Statistics; 1940 to date, U. S. Bureau of the Census.

the wartime peaks, while unemployment is below the levels prevailing in the defense production boom of the early forties, not to mention the depressed thirties.

PRESENT STATUS OF THE ITO PROPOSALS

In March 1948 at Havana, Cuba, fifty-four national delegations to the United Nations Conference on Trade and Employment accepted for submission to their respective governments the so-called Havana Charter for an International Trade Organization. That Charter is the final revision of the draft proposals which were originally made by the United States Government in December 1945. It incorporates, of course, many changes which had to be made in the course of several international conferences for the purpose of achieving agreement among the negotiating governments.¹ Actual establishment of the ITO now waits upon ratification of the Charter by at least twenty of the signatories of the Havana Agreement. In this country, early action is sought by the Administration, which submitted the Charter to Congress on April 28, 1949 in the form of a joint resolution requiring the majority approval of both houses. Of the foreign signatories, only Australia has ratified the Charter to date; most of the others are expected to defer action until the United States position becomes known.

The Charter is a complex document of sixty-six closely printed pages which sets forth the projected role of the ITO as an agency of international collaboration in the foreign trade field. The major provisions of the Charter may be briefly summarized as follows:

Full employment and rising "effective" demand are accepted as necessary conditions for the expansion of international trade. Each member country recognizes its responsibility for fulfilment of such conditions by measures "appropriate to its political, economic, and social institutions". The Charter further recognizes that the development of economically retarded countries will effectively contribute to international prosperity and accepts the possibility that tariff and other protection of promising infant industries may usefully serve such economic development. Members of the Organization agree to assist in the development of the economically retarded countries, which in turn agree to subject their protectionist measures to a considerable measure of ITO control.

All ITO members undertake to negotiate most-favored-nation tariff reductions, which are to operate automatically to reduce existing margins of tariff preferences. Quantitative trade restrictions are barred, subject to numerous exceptions among which balance-of-payments difficulties on the part of individual member countries (as appraised by such individual members) provide the broadest loophole. Discriminatory

¹ The original draft proposals and the subsequent international negotiations were discussed in the January 1946, April 1947, and May 1948 issues of this *Review*.

administration of quota restrictions is prohibited unless required in order to support exchange controls permitted by the International Monetary Fund, or other regulatory measures authorized by the ITO. Export subsidies are to be banned after two years, except that member governments retain broad discretionary authority to subsidize exports of primary commodities. State trading enterprises are to be required to conduct their operations in accordance with "commercial considerations", and to negotiate reductions of any artificial margins—comparable in effect to export or import duties—between the foreign and domestic prices of commodities traded by them. Emergency provisions permit the withdrawal of tariff reductions or other concessions that prove damaging.

Members further agree to take appropriate action to eliminate business practices on the part of their nationals (e.g., cartel arrangements) that, after investigation by the ITO, are proved to have a restrictive effect upon international trade. The Organization is empowered to convene intergovernmental conferences for the regulation of certain primary commodity markets when natural economic forces fail, or threaten to fail, to produce a satisfactory equilibrium. In all such agreements, the consuming countries are to have a voice equal to that of the producing countries.

The principal organs of the ITO are to be a Conference; an Executive Board; Commissions as may be required; and a Secretariat. Unit voting by countries is to prevail within all of these administrative organs. The Executive Board of eighteen members will include eight members of "chief economic importance", in the determination of which particular regard is to be paid to their shares in international trade. With respect to trade disputes, members failing to reach agreement by mutual consultation are to refer their differences to the Executive Board. Decisions or other actions of the Executive Board may be appealed to the Conference and thereafter, under certain circumstances, to the International Court of Justice.

Although nothing in the Charter excludes any member from maintaining economic relations with nonmembers, the Charter prohibits agreements between members and nonmembers that discriminate against other members of the Organization. Members assume no obligation whatsoever to extend most-favored-nation treatment to nonmember countries.

* * *

A certain measure of practical application of the Charter has already been secured in the form of the General Agreement on Tariffs and Trade, signed at Geneva in 1947, which incorporates the bulk of the commercial-policy provisions of the Charter. Tariff concessions subsequently granted by the twenty-three governments² provisionally accepting the Gen-

² Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, China, Cuba, Czechoslovakia, France, India, Lebanon, Luxembourg, the Netherlands, New Zealand, Norway, Pakistan, Southern Rhodesia, Syria, the Union of South Africa, the United Kingdom, and the United States.

eral Agreement have reportedly covered approximately 50 per cent of world trade.³ The United States tariff concessions, granted under the Reciprocal Trade Agreements Act, are calculated to have reduced the average rate of duty on all dutiable imports into the United States from 32 per cent to 25.⁴ Representatives of the General Agreement countries are now engaged at Annecy, France, in the further negotiation of multilateral concessions with eleven other countries seeking to participate in the Agreement.

The General Agreement thus has already rendered conspicuous service in reducing the tariff barriers to world trade, and may well continue to exert this beneficial influence even if the ITO Charter fails of general acceptance. Provisions of the General Agreement which permit the signatories to withhold tariff concessions from nonparticipating countries after two years should exert considerable pressure upon nonmembers to enter the pact. Failing widespread defection from the General Agreement upon its formal termination in January 1951, the Agreement is to be extended indefinitely.

Considerably more crucial to the expansion of world trade, however, is international action to curtail the use of quantitative restrictions. In this endeavor, the ITO is intended to constitute the logical complement of the International Monetary Fund, which is empowered to regulate the use of exchange controls. Since exchange controls and quantitative restrictions are largely alternative methods of regulating foreign trade, it is evident that international action to remove exchange controls should be accompanied by similar action to remove trade restrictions; otherwise, relaxation of exchange controls may well be nullified by a corresponding intensification of trade restrictions.

In striking contrast to the Fund Agreement, however, the Havana Charter fails to subject the use of quota restrictions in all cases to the prior approval of the ITO. Thus, ITO members retain extensive discretionary authority to maintain or reimpose quota restrictions in order: (a) to forestall the imminent threat of, or to stop, a serious decline in the level of monetary reserves; or (b) in the case of a member with very low monetary reserves, to achieve a reasonable rate of increase in its reserves. Opportunity for a highly elastic interpretation of such "imminent threats" is afforded by another Charter provision recognizing the need of members to safeguard their economies against deflationary pressure in the event of a serious decline of the effective demand of other countries. Moreover, the Charter recognizes that such threats to monetary reserves may legitimately arise not only from market forces, such as the curtailment of exports by depression abroad, but also from member countries' deliberate expansion of imports for the

purposes of furthering economic development, full employment, and other governmental projects.

Import quotas for the protection of infant industries may be imposed only with the approval of the ITO. Under special circumstances, however, such as the protection of infant industries established between January 1939 and the date of the Charter, the ITO's prior approval is rendered virtually automatic. Furthermore, ITO approval may be sought after, rather than before, the introduction of protective measures if the process of negotiation with the ITO threatens to create undue speculation in the market concerned. Moreover, the prospective preponderance of undeveloped countries in the ITO membership may prove conducive to a liberal interpretation of the Charter provisions.

Although the Charter prohibition of quantitative restrictions is thus qualified by exemptions sufficient to permit their maintenance and even growth, authorized deviations from the rule of nondiscrimination have been more closely limited. While a broad range of existing tariff preferences is temporarily recognized, reductions in general tariff rates are to operate automatically to reduce preference margins. Furthermore, no preference margin may be increased. On the other hand, the Charter's acceptance, under specified circumstances, of quota restrictions may well prove tantamount to acceptance of their discriminatory administration. Foreign governments intent upon discriminating would not be seriously constrained by the provision that import and export quotas must be allocated solely on the basis of the geographical distribution of the same exports or imports in an earlier representative period (subject to any special factors affecting the market). It is evident that choice of the "representative period" and appraisal of "special factors" will afford ample opportunity for more or less disguised discrimination. State trading monopolies, subject only to the vague rule of "commercial considerations", will retain an even greater degree of freedom to pursue discriminatory policies.

* * *

As an instrument of international supervision of the use of trade restrictions, the ITO blueprinted by the Havana Charter obviously leaves much to be desired. The Charter has encountered widespread criticism on the grounds that it is so riddled with exceptions as to render it almost valueless as a means of restoring multilateral and nondiscriminatory trade.

In so far as such current criticism rests on the assumption that the primary solution to the world trade problem lies in a thoroughgoing elimination of exchange and trade restrictions, and that our immediate need is for an international agency endowed with sufficient authority to compel the removal of such trade barriers, it oversimplifies the problem. In recent years, it has become increasingly clear that the disequilibrium of world trade, particularly the dollar scarcity, is attributable

³ State Department Bulletin, Vol. XIX, No. 483, Oct. 3, 1948, p. 445.

⁴ Clair Wilcox, "A Charter for World Trade," p. 65.

in large part to other and deeper causes such as wartime losses of invisible earnings, the lag of European productivity behind that of the United States, discrepancies in international cost and price levels, and other basic difficulties.

So long as these root causes of disequilibrium remain uncorrected, many foreign countries may well find themselves unable to dispense with quantitative and discriminatory restriction of their foreign trade. Restrictive measures currently in force cannot be suddenly swept away without causing painful transitional effects and quite possibly retarding, rather than advancing, progress toward trade equilibrium.

As part of an over-all effort to restore a balanced pattern of international trade, however, reduction of trade barriers can contribute significantly to a successful solution. Thus, lack of foreign markets rather than inadequate output may soon appear as a limiting factor in the recovery of Western Europe. Action to secure a closer integration of national economies will require careful planning, however, and, inevitably, protracted consultation and negotiation among the various nations concerned.

In general, therefore, it would seem that our immediate need is for an international instrument of planning and *negotiating* reductions of trade barriers rather than an instrument for compelling their elimination. The serious divergencies of national trade policies that emerged during the drafting of the Charter would inevitably have dominated the future trade negotiations of most countries, implicitly if not openly. By clarifying these issues, the Charter has contributed substantially to mutual understanding of the obstacles to be overcome in future negotiations. The International Trade Organization itself could provide the international machinery for such negotiations.

DEPARTMENT STORE TRADE

During May, consumer purchasing at Second District department stores, after adjustment for the usual post-Easter dip, remained close to the April level, according to a preliminary estimate. A comparison with the exceptionally good business of last May, however, indicates a year-to-year decline of perhaps 8 or 9 per cent in dollar volume. In view of generally lower prices than last year's, the decrease in physical terms was undoubtedly less than that showed by the dollar amounts.

Partly because of the relatively unfavorable level of business as compared with last year, and partly because of lower valuations, the retail value of inventories at the end of April was 6 per cent lower than a year previous. The value of outstanding orders declined seasonally during April and was one-third less in value than in the year before. The stores have maintained this year-to-year ratio rather consistently since the first of the year. The dollar volume of new orders placed during April, however, about equaled that of April 1948.

SALES TRENDS IN MAJOR DEPARTMENTS

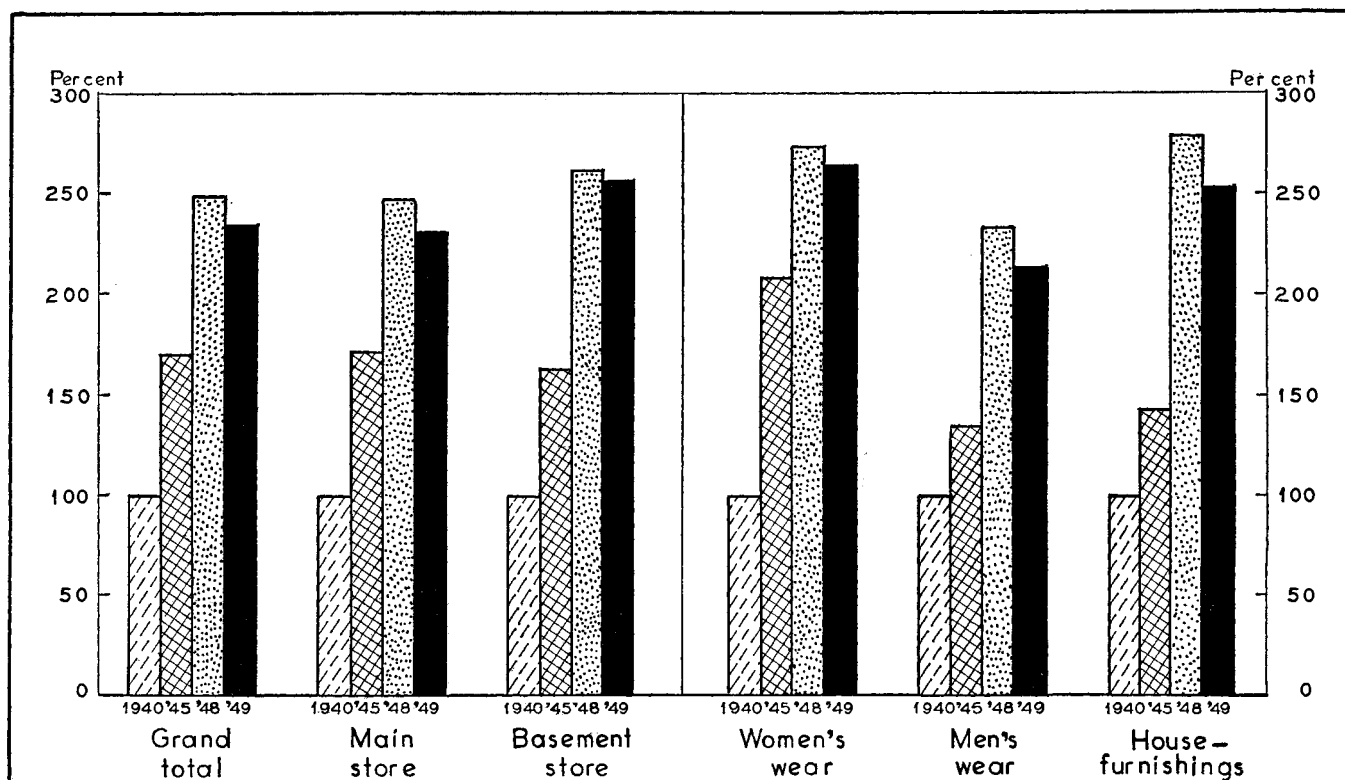
The most significant recent development in department store trade—the contraction in sales of housefurnishings and appliances—conforms, in a sense, to a familiar pattern. In the prewar years, when aggregate consumer demand rose, sales of durable goods usually rose faster than sales in most other lines and, conversely, during a period of generally lessening demand they declined more sharply. The relatively sharper changes in durable goods sales occurred partly because the high unit price of durables renders them especially sensitive to changes in income and in consumer expectations, and partly because durable goods, by their very character, need not be purchased with the same regularity as the more perishable lines of merchandise or those which are more subject to short-run changes in style. During the past year or so, moreover, department stores have probably lost some business to neighborhood stores which have given discounts on standard brand appliances (frequently by making overgenerous trade-in allowances). However, the numerous price reductions at the manufacturers' level and the rapid introduction of lower priced, less elaborate models in many durable goods lines are symptomatic of an over-all easing of consumer demand.

During the first fiscal quarter of 1949 (February, March, and April), consumer dollar outlay for housefurnishings in Second District department stores was about one-tenth smaller than in the corresponding period of 1948. But, as the accompanying chart shows, housefurnishings sales had been exceptionally large during the first fiscal quarter of 1948 and, indeed, had shown a greater increase over the corresponding quarter of 1940 (also a period of very good housefurnishings business) than any other major category of department store trade. While a part of the dollar volume decline from 1948 resulted from lower prices, some part reflected reduced unit volume. Despite the year-to-year decrease, dollar sales of housefurnishings in the first fiscal quarter of 1949 were still somewhat more than two and one-half times those of 1940.

In a few housefurnishings departments, because of special circumstances, sales increased contrary to the general downward trend. For example, the Oriental rug department actually gained almost 50 per cent from last year's first quarter, an improvement probably not matched by any other department. This gain, however, was made against a period when, owing to consumer price resistance, sales of Oriental rugs were lagging markedly. Although specific data are not available, first quarter sales of television sets, stimulated by aggressive special sales and price reductions, were apparently good.

The sharpest declines occurred in refrigerators and other appliances, the drop in refrigerator sales amounting to more than 50 per cent. These declines, following the lag in sales which began late in the fall season, have caused not only competitive price reductions but also shifts in production schedules in favor of lower-priced models. It is noteworthy that

Department Store Sales, Second Federal Reserve District, First Fiscal Quarter* of Selected Years
(Index numbers, first fiscal quarter of 1940=100 per cent)



* February, March, April.

appliance sales were lower in each month of the quarter than in the corresponding month of 1948. In practically all other housefurnishings lines, year-to-year gains were made in at least one month, even though for the quarter as a whole sales showed a drop. In fact, a few departments did so well in March that the year-to-year decline for that month in the housefurnishings group was the narrowest in the entire store (one per cent, against 11 per cent for the store as a whole).

Furniture sales were about 4 per cent below the dollar volume of the first fiscal quarter of 1948. There is some likelihood, however, that the physical volume of upholstered furniture sales was at least as large as last year's. Sales of upholstered lines have held up better than other types of furniture, particularly bedding, in part because in the initial postwar period, when customers had had to postpone all but the most urgent demands for other furniture, bedding had been readily available. The domestic rugs, carpets, and linoleum department, partly because of neighborhood store competition, sold about 14 per cent less than in February-April of 1948. In other housefurnishings departments, declines were less marked; sales of lamps and shades, for instance, were only one per cent below the 1948 dollar volume.

In ready-to-wear departments, the outstanding development during the first quarter of the store year was a year-to-year

decline in sales of women's and misses' apparel. In the Second District, a larger share of apparel sales is handled by specialty stores than in the rest of the United States. For the first four calendar months of 1949, a group of the larger District apparel stores, located chiefly in New York City and specializing in women's lines, also reported a sales decline (6 per cent) from 1948.

Women's suits have continued to be very popular in 1949. Dollar sales in that department during the first quarter were 16 per cent greater than one year previous. The gain was particularly large in April, in part because of the later Easter this year, but even in March it was very substantial. Other women's apparel departments declined sufficiently to more than offset the increased buying of suits. In dress lines, all of which showed decreases, the decline was greater for the higher priced lines than for the inexpensive ones, in a way paralleling the 1948 experience when gains had been sharper for the inexpensive lines. Furs showed a further decline.

Sales of almost every type of accessory, in dollar terms, failed to improve from 1948. Even hosiery, which a year ago was among the stores' best selling items, showed no improvement. The impact on hosiery of new styles and colors has apparently waned with the filling of consumers' stocks.

As the chart shows, sales of all types of women's wear taken

together had reached an exceptionally large dollar volume by the first quarter of 1945, more than double that of 1940; the relative growth up to that time was far greater than for the store as a whole. Between 1945 and 1948, despite the retirement of many women from the labor market and the renewed availability of many other kinds of merchandise which had been practically unobtainable during the war, women continued to increase their purchases of ready-to-wear considerably. In the first fiscal quarter of this year, the decline in sales of women's wear from the 1948 first quarter was on the whole fairly moderate. First quarter sales in 1949 stand best of the three major groups of department store merchandise relative to 1940.

Basement stores also showed a sales decline from the first quarter of last year, but it was smaller than in the main store. Hardly any individual basement department made better sales than a year ago. It is not surprising that basement sales declined along with the aggregate. The chart shows that in the first quarter of 1948 basement sales, relative to those of 1940, had had a greater growth than the main store sales (which account by far for the bulk of total transactions). The growth of basement sales since 1945, particularly in 1947, is especially noteworthy.

Department Store Sales and Stocks
Second Federal Reserve District
(Percentage change from preceding year)

Departmental group	Sales		Stocks April 30, 1949
	February- April 1948	February- April 1949	
<i>Main store</i>	+ 5	- 7	- 4
Housefurnishings.....	+12	- 9	- 1
Women's apparel.....	+ 8	- 2	- 3
Women's accessories.....	+ 4	- 4	- 4
Piece goods and household textiles.....	+ 2	-11	-13
Small wares.....	0	- 7	- 1
Men's wear.....	- 3	- 9	- 1
Miscellaneous merchandise.....	- 7	-10	-23
<i>Basement store</i>	+10	- 2	- 2

The accompanying table illustrates the cuts in stocks which merchants have made as sales prospects weakened. Stocks in all major departmental groups at the end of April were lower than a year previous. This was notably true of piece goods and household textiles and of miscellaneous merchandise: in these two departmental groups, first quarter sales showed the sharp-

Indexes of Department Store Sales and Stocks
Second Federal Reserve District
(1935-39 average=100 per cent)

Item	1948	1949		
	April	February	March	April
Sales (average daily), unadjusted.....	238r	192	209	237
Sales (average daily), seasonally adjusted....	256r	229	220	242
Stocks, unadjusted.....	252r	218	238	237
Stocks, seasonally adjusted.....	245r	224	232	230

r Revised.

Department and Apparel Store Sales and Stocks, Second Federal Reserve District, Percentage Change from the Preceding Year

Locality	Net sales		Stocks on hand April 30, 1949
	April 1949	Jan. through April 1949	
Department stores, Second District.....	0	- 5	- 6
New York City.....	- 3	- 6	- 6
Northern New Jersey.....	+ 1	- 5	- 3
Newark.....	+ 1	- 6	- 2
Westchester County.....	+23	+10	- 6
Fairfield County.....	- 1	- 5	-10
Bridgeport.....	- 4	- 7	-12
Lower Hudson River Valley.....	+ 4	- 4	- 9
Poughkeepsie.....	+ 5	- 1	- 9
Upper Hudson River Valley.....	+ 8	+ 3	-14
Albany.....	+ 6	+ 5	-16
Schenectady.....	+11	+ 2	-10
Central New York State.....	+ 4	- 7	- 8
Mohawk River Valley.....	+ 2	- 6	-10
Utica.....	+ 6	- 3	- 7
Syracuse.....	+ 4	- 7	- 7
Northern New York State.....	+ 5	- 9	-13
Southern New York State.....	+ 1	- 7	-10
Binghamton.....	+ 3	- 5	- 9
Elmira.....	0	- 9	-13
Western New York State.....	+ 6	- 1	- 6
Buffalo.....	+ 7	+ 1	- 8
Niagara Falls.....	- 5	- 3	-11
Rochester.....	+ 6	- 5	- 2
Apparel stores (chiefly New York City).....	+ 7	- 6	- 8

est declines from 1948. Stocks of women's accessories were reduced somewhat more than stocks of apparel. A large part of the reduction in stocks reflects revaluation at lower prices, but some part of it results from the drastic cuts in outstanding orders initiated towards the end of 1948.

Indexes of Business

Index	1948	1949		
	April	February	March	April
Industrial production*, 1935-39 = 100..... (Board of Governors, Federal Reserve System)	188	189	184	179p
Electric power output*, 1935-39 = 100..... (Federal Reserve Bank of New York)	244	262	256	254p
Ton-miles of railway freight*, 1935-39 = 100..... (Federal Reserve Bank of New York)	182	177	163p	
Sales of all retail stores*, 1935-39 = 100..... (Department of Commerce)	338r	329r	329	332p
Factory employment United States, 1939 = 100..... (Bureau of Labor Statistics)	156	153	151	148p
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	125	120p	118p	113p
Factory payrolls United States, 1939 = 100..... (Bureau of Labor Statistics)	347	358	349p	
New York State, 1935-39 = 100..... (NYS Div. of Placement and Unemp. Ins.)	280	286p	279p	258p
Personal income*, 1935-39 = 100..... (Department of Commerce)	304r	315	312p	
Composite index of wages and salaries*†, 1939 = 100..... (Federal Reserve Bank of New York)	186	196	197p	
Consumers' prices, 1935-39 = 100..... (Bureau of Labor Statistics)	169	169	170	170
Velocity of demand deposits*, 1935-39 = 100..... (Federal Reserve Bank of New York)				
New York City.....	99	98	95	103
Outside New York City.....	88	87	88	88

* Adjusted for seasonal variation.

p Preliminary.

r Revised.

† A monthly release showing the 15 component indexes of hourly and weekly earnings in nonagricultural industries computed by this bank will be sent upon request. Tabulations of the monthly indexes, 1938 to date, may also be procured from the Research Department, Domestic Research Division.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, May 26, 1949)

Industrial output declined further in April and the early part of May. Prices of industrial commodities were reduced further, while prices of farm and food products continued to show little change. Construction awards showed a marked seasonal expansion. Value of department store sales increased to close to the advanced level prevailing a year ago.

INDUSTRIAL PRODUCTION

Industrial production, as measured by the Board's seasonally adjusted index, declined further in April to 179 per cent of the 1935-39 average as compared with 184 per cent in March and 195 per cent in November 1948. Present indications are that in May manufacturing has continued downward and that there has also been some decline in output of minerals, which had increased in April.

Open hearth steel production declined 3 per cent in April from the record March level and output at electric furnaces, which accounts for only a small part of total steel output, was curtailed by 23 per cent to the lowest rate since January 1948. Activity at steel mills has continued to decline in May. Assembly of passenger automobiles increased sharply in April to the highest rate of the postwar period; a strike at plants of one major producer, however, has curtailed activity in May. Output of most types of machinery in April declined considerably further. Deliveries of nonferrous metals to fabricators were sharply reduced, as prices and private purchases dropped; refinery output of most nonferrous metals, however, was maintained at a high level, reflecting in part Government demands for stockpiling. Output of most building materials, after allowance for usual seasonal changes, decreased somewhat further.

Nondurable goods output declined about 4 per cent in April reflecting mainly further marked reductions in the textile, paper, and chemical industries, as a result in part of seasonal influences not currently allowed for in the Board's adjusted indexes. Rayon production and deliveries to textile mills decreased sharply, and, according to trade reports, activity in the wool textile industry was reduced further. Cot-

ton consumption declined 8 per cent in April. Activity at paper mills decreased about 5 per cent, while paperboard production was maintained at the reduced March level. Newsprint consumption increased slightly, and output of manufactured foods was maintained at the March level.

Minerals production advanced about 8 per cent in April, reflecting chiefly the ending of the work stoppages at coal mines. Iron ore production was in exceptionally large volume for this season. Crude petroleum output, however, was curtailed further by about 4 per cent.

CONSTRUCTION

Value of construction contracts awarded in April, according to the F. W. Dodge Corporation, was one-eighth larger than in March, reflecting increases for private residential building and public works and utilities. Private awards continued considerably smaller than a year ago, while public awards were about one-third larger. The number of permanent residential units started in April, as estimated by the Bureau of Labor Statistics, rose from 62,000 to 86,000 but was still considerably below the postwar peak of 100,000 units in April and May 1948.

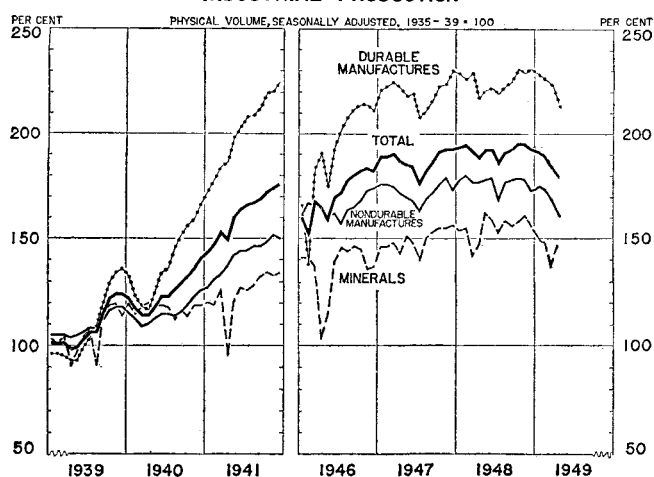
EMPLOYMENT

Employment in nonagricultural establishments continued to decline in April, after allowance for seasonal changes, owing mainly to further reductions in most manufacturing industries. The average work week in manufacturing was also reduced further. Construction employment, which had lagged in March, rose somewhat more than seasonally in April. Employment in most other nonagricultural lines showed little change.

DISTRIBUTION

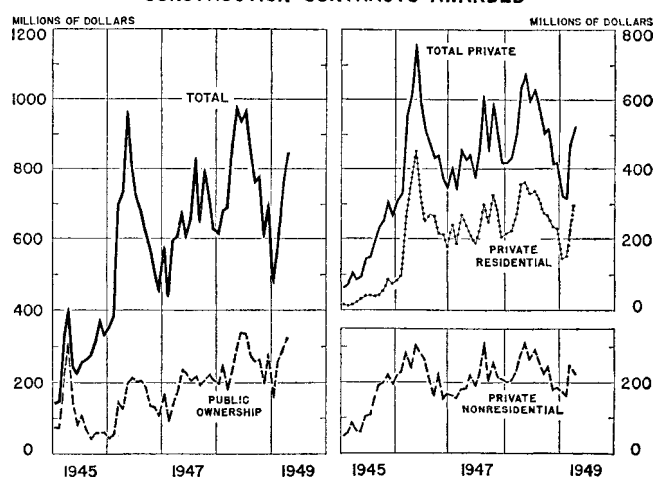
Value of department store sales increased more than seasonally in April and the first half of May. Allowing for the later date of Easter this year, sales in this period were only about 3 per cent below the high level in the corresponding period last year. Since retail prices

INDUSTRIAL PRODUCTION



Federal Reserve indexes. Monthly figures; latest shown are for April.

CONSTRUCTION CONTRACTS AWARDED



F. W. Dodge Corporation data for 37 Eastern States. Monthly figures; latest shown are for April.

were moderately lower than a year earlier, little change in over-all unit sales at department stores was indicated.

Carloadings of railroad freight were in larger volume in April and the early part of May, mainly because of the recovery in coal shipments from the reduced March rate. Loadings of most other classes of freight declined somewhat further, after allowance for seasonal changes.

COMMODITY PRICES

Prices of agricultural commodities continued to show little change from mid-April to the third week of May, while prices of industrial commodities generally declined further. Prices of scrap metals continued to weaken and refined copper was cut from 23.5 cents per pound to below 18 cents. Prices of some other industrial materials, however, like burlap, hides, and wool tops, were quite stable in this period.

The consumers' price index showed little change in April as further small advances in rents and in prices of meats and miscellaneous items were largely offset by declines in prices of most other groups of goods and services.

BANK CREDIT

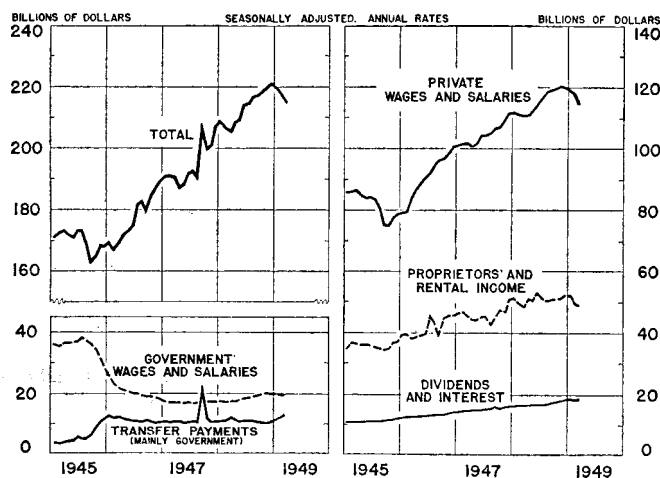
Required reserves of all member banks were decreased by about 1.2 billion dollars in early May when the reduction in reserve requirements announced by the Board of Governors in late April became effective. Banks used most of the released funds to purchase both short-term and longer-term Government securities. Reserve Bank holdings of Government securities declined by about 1.5 billion dollars during the first three weeks of May. The market for Treasury bonds continued active and System sales of these issues amounted to about 500 million dollars.

Business loans declined by 1 billion dollars at banks in leading cities during April and the first half of May; somewhat over half the decline occurred at banks in New York and Chicago. Real estate and consumer loans showed little change.

SECURITY MARKETS

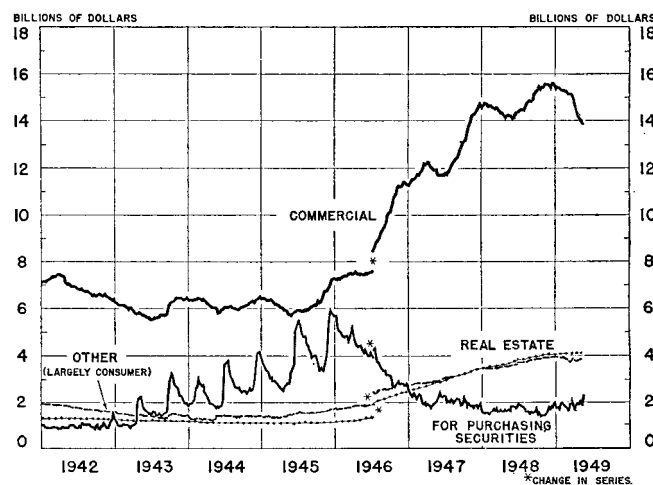
Prices of common stocks fluctuated within a narrow range and high-grade corporate bonds changed little in the first three weeks of May.

PERSONAL INCOME



Department of Commerce estimates. Monthly figures; latest shown are for March. Total includes "other labor income", such as employer contributions to private pension funds, not shown separately. Employee contributions for social insurance are included in wage and salary disbursements but not in total.

LOANS AT MEMBER BANKS IN LEADING CITIES



Excludes loans to banks. Wednesday figures; latest shown are for May 18.