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MONEY MARKET IN MARCH

The money market continued relatively tight in March, although the pressure on bank reserves was relieved temporarily after the middle of the month largely as the result of net Treasury outlays. Reserve funds accruing from this source, in the absence of any other substantial drains upon bank reserves, enabled member banks to maintain an average level of borrowing from the Reserve Banks during March somewhat lower than in either of the two previous months this year. Despite the relative easing in the availability of bank reserves, however, rates on Federal funds in New York held within a range of $1\frac{15}{16}$ to 2 per cent on every day during the month.

Yields on short-term Treasury securities receded slightly from the levels prevailing in late February and early March, however, and Treasury bills in the last three weeks of the month traded at yields in the neighborhood of 2 per cent. The slightly lower short-term yields may have reflected the fact that nonbank liquidation of short-term Government securities to secure funds for tax purposes early in the month was somewhat smaller than some market quarters had anticipated, and was absorbed by investors seeking short-term issues. Prices of taxable intermediate and longer-term Treasury bonds moved lower in the last half of March as offers to sell increased slightly in a thin professional market characterized by only small and intermittent demand. New low prices for these issues were recorded throughout the list during the last week in the month although there was some recovery in the final days of the month.

Business loans of the weekly reporting member banks in leading cities increased by 528 million dollars during the three statement weeks ended March 18, by contrast with the smaller increase of 312 million dollars in the similar three weeks last year. The comparison with last year is not precisely accurate since the number of member banks included in the weekly reporting series was increased slightly beginning with the week ended March 4, 1953, but it is unlikely that the expanded coverage accounts for more than a small part of the larger loan expansion this year. For the first three months of 1953, through March 18, as in the similar period last year, business loans of the reporting banks showed little net change.

MEMBER BANK RESERVE POSITIONS

At the end of the last statement week in February, member bank borrowing from the Federal Reserve Banks had totaled just over 800 million dollars, and excess reserves had amounted to 165 million dollars, indicating an aggregate net indebtedness of some 640 million. By March 18, this figure had been reduced to about 135 million dollars, with borrowings of slightly more than 1.0 billion and excess reserves of 875 million dollars. The accompanying table shows that the improvement in bank reserve positions during this three-week span resulted from the expansion of Federal Reserve "float" that regularly occurs around the middle of each month and from net expenditures by the Treasury in excess of its cash tax collections and its calls on Tax and Loan balances in the commercial banks. The amount of tax anticipation bills due on March 18 which were redeemed for cash proved to be in excess of the amount called for payment on that day from Tax and Loan Account depositaries and accounted for a large portion of the Treasury's net disbursements. Reserves released to the market by the Treasury through expenditures for interest payments, security redemptions, and other operations are actually understated in the table, since a part of these expenditures after the middle of the month were financed by the sale of short-term special certificates of indebtedness to the Federal Reserve Bank of New York and appear as System acquisitions of Government

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Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, March 1953
(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Statement weeks ended				Four weeks ended March 25
	March 4	March 11	March 18	March 25	
Operating transactions					
Treasury operations*	−100	+153	+317	0	+370
Federal Reserve float	+317	−291	+433	−393	+ 66
Currency in circulation	− 37	− 8	+ 72	+108	+135
Gold and foreign account	− 58	−120	+ 86	− 65	−157
Other deposits, etc	− 26	−102	− 60	+ 30	−158
Total	+ 97	−369	+849	−318	+259
Direct Federal Reserve credit transactions					
Government securities	0	0	+110	− 94	+ 16
Discounts and advances	+ 18	+491	−306	−305	−102
Total	+ 18	+491	−196	−399	− 86
Total reserves	+115	+122	+653	−717	+173
Effect of change in required reserves	− 80	+ 40	−141	+122	− 59
Excess reserves	+ 35	+162	+512	−595	+114

Note: Because of rounding, figures do not necessarily add to totals.
* Includes changes in Treasury currency and cash.

securities. During the three weeks ended March 18, a part of the reserves derived from the rise in float and Treasury disbursements were absorbed by other factors, including a sizable increase in required reserves, but the largest part of these funds was added to member banks' excess reserves.

In the final statement week in the month, ended March 25, the banks lost a sizable amount of reserves through a contraction of float, and in addition reduced their borrowings from the Reserves Banks so that excess reserves declined sharply. Over the remainder of the month, float continued to decline and the drain upon reserves was accelerated by net Treasury withdrawals from the market to redeem outstanding special certificates and to rebuild Treasury balances at the Reserve Banks. As a result, by the end of March the declining pressure on bank reserves that had developed after the tax date had been reversed.

A noteworthy, though possibly temporary, development during March was the slackening in the rate of outflow of reserve funds on gold and foreign account transactions. In large part, the smaller loss of domestic banking reserves through this source in the month just past reflected sizable investments of foreign official balances in United States Government securities. For the four statement weeks in March, the decrease in the gold stock totaled 100 million dollars, compared with decreases of 150 million and 374 million dollars in January and February, respectively.

The influence of Treasury expenditures during March, particularly the outlays for interest payments and for cash redemptions of the March tax anticipation bills, enabled the central reserve New York City banks during the last half of the month to reduce their borrowings from the Reserve Bank and, at the same time, to make up for a reserve deficiency carried over from the week ended March 11. Flows of commercial and banking funds into and out of the New York banks were not unusually large for a tax month. Although reserves were in somewhat more liberal supply in New York in the last two weeks than they have been in the recent past, the largest part of the reported transactions in Federal funds were at a rate equal to the Federal Reserve discount rate, indicating no real easing in the tight money market conditions that have prevailed over the past several months.

The Market for Government Securities

Yields on Treasury bills were under some upward pressure toward the end of February and in early March, mainly reflecting the market's anticipation of sizable liquidation by investors raising cash to meet their March 15 tax liabilities. When selling prior to the middle of the month failed to develop in the volume that had been anticipated, the tone in the market tended to improve, and dealers became less reluctant to acquire Treasury bills and certificates of indebtedness. The offerings of short-term securities that reached the market during the month from commercial banks, for their own and customers' account, and from nonbank corporations raising funds for tax and other purposes were readily absorbed by other investors (including foreign accounts) seeking short-term employment of their funds. As a result of the improved tone in the market and the generally balanced supply and demand situation, short-term yields receded from the levels reached early in the month. Awards of the new bills dated March 19 and March 26 were made at average rates of 2.029 and 2.036 per cent, respectively, by contrast with the average issuing rate of 2.164 per cent on the issue dated March 5.

Trading in intermediate and long-term taxable Treasury bonds has continued to be influenced by uncertainty concerning Treasury financing plans. In the month just ended, prices of Treasury bonds reflected continuing precautionary adjustments arising from widespread discussions in the market concerning the possible imminence of Treasury financing in the long-term area. Bond prices recovered somewhat in early March from the lows reached at the end of February, but, after stabilizing in inactive trading over the middle of March, they were again marked lower, in largely professional trading, until the last days of the month. As prices continued to sag, selling interest increased slightly and, in the absence of investment demand, the pressure on prices was amplified. On March 26, prices of intermediate and long-term taxable Treasury bonds maturing after 1955, both bank eligible and restricted, reached new lows for these issues. Subsequently, bond prices recovered part of the earlier losses. For the month through March 30, price declines ranged roughly from ⅛ of a point on the nearer maturities to nearly ¾ of a point on the longer-term issues.

Member Bank Credit

Total loans and investments of the weekly reporting member banks, after declining steadily since mid-December, increased by 305 million dollars in the three weeks ended March 18. However, for the calendar year 1953 through March 18, total loans and investments of this group of banks contracted by more than 1,450 million dollars as against a decline of less than 300 million dollars in the similar period last year. The greatest part of the increase in earning assets of the reporting banks during March was concentrated in business loans, which expanded by nearly 530 million dollars. An increase in this category of lending at this time is customary and is probably related at least in part to the heavy tax payments due on March 15. Government security holdings of the reporting banks continued to decline in the three weeks through March 18; since December 31, 1952, the weekly reporting banks have disposed of 1,915 million dollars in Government securities, a figure substantially in excess of the decline in their total loans and investments over this period.

The pattern of changes in business loans of reporting banks during the first quarter of 1953 indicates that loan repayments are concentrated in most of the industries where a seasonal loan contraction had been anticipated. Loans to commodity dealers have fallen by 250 million dollars and those to food, liquor, and tobacco processors by 217 million dollars. Credit to finance wholesale and retail trade declined through the earlier part of the year, but in recent weeks, possibly influenced by the Easter trade, credit to these borrowers has increased. The metals and metal-products industries had increased their borrowing by 311 million dollars during 1953 through March 18.

Weekly reporting banks in New York City added 136 million dollars to their total loans and investments in the four statement weeks ended March 25. Since December 31, 1952 (through March 18) the earning assets of these banks have declined by 904 million dollars, about two thirds of the total decline for all reporting banks. During the four statement weeks in March, total loans of the New York banks increased by 228 million dollars, including a net increase in business loans of 130 million dollars and in security loans of 63 million dollars. The City banks disposed of an additional 130 million dollars of Government securities in the four weeks ended March 25, bringing to 969 million the total reduction in Government security portfolios of the New York banks since December 31, 1952.

OUR BOARD OF DIRECTORS

Last month, for the first time since this bank was founded in 1914, all groups of member banks of the Second Federal Reserve District voted simultaneously in elections of new members for the board of directors of the Federal Reserve Bank of New York. This unusual situation was a consequence of the need to replace three men who recently have been called to positions of responsibility in the United States Government. The Board of Governors of the Federal Reserve System soon will appoint a fourth director to fill the vacancy created (in one of the Class C directorships, all of which are filled by Board appointment) by the departure of another director for an important post in Washington. Thus, within a period of a few months, this bank will have four new members on its nine-man board of directors.

As a result of the elections completed on March 20, Mr. N. Baxter Jackson, Chairman of the Chemical Bank and Trust Company, New York, Mr. Lansing P. Shield, President of the Grand Union Company, East Paterson, New Jersey, and Mr. John E. Bierwirth, President of the National Distillers Products Corporation, New York, have become directors of the bank. They have filled the vacancies that resulted when Mr. Robert T. Stevens, Class C director and chairman of the board of the bank since May 1948, resigned in January to accept appointment as Secretary of the Army; Mr. Marion B. Folsom, former Class B director, resigned to become Under Secretary of the Treasury; and Mr. W. Randolph Burgess was unable to assume office as a Class A director on January 1, in view of his appointment as Deputy to the Secretary of the Treasury. Subsequently, Mr. Jay E. Crane, Vice President of the Standard Oil Company (New Jersey), was appointed by the Board of Governors a Class C director and designated chairman of the board of directors to succeed Mr. Stevens, and resigned as Class B director. Mr. Bierwirth has been elected to fill the remainder of Mr. Crane's previous term as a Class B director, while Mr. Jackson, in effect, succeeds Mr. Burgess, and Mr. Shield succeeds Mr. Folsom. Mr. Jackson was elected by Group 1 member banks (the largest banks of the District), Mr. Shield by Group 2 banks (the medium-sized banks), and Mr. Bierwirth by Group 3 banks (the smaller banks).

The resignation on March 18 of Mr. Philip Young, Dean of the Graduate School of Business, Columbia University, New York, and Class C director, in anticipation of his appointment as Chairman of the United States Civil Service Commission, has created the fourth vacancy; his successor will be appointed by the Board of Governors. Two other directors who have accepted temporary or special appointments in the new administration have retained their memberships on this bank's board of directors. Mr. Clarence Francis, Class B director, and Chairman of the Board, General Foods Corporation, has been serving as an adviser to the Mutual Security Agency in charge of a re-examination of that agency's overseas operations. Mr. William I. Myers, deputy chairman and Class C director, who is Dean of the New York State College of Agriculture, Cornell University, has been appointed chairman of an interim agricultural advisory commission to assist the Secretary of Agriculture.

The statutory procedure authorized by the Federal Reserve Act for selecting the board of directors of a Federal Reserve Bank is designed to obtain men of outstanding administrative capabilities and to secure a wide diversification of experience in order to provide ample assurance that the broad public interest will be well represented. The nine directors, each serving for a term of three years, are divided into three classes of equal size known as A, B, and C. The Class A and Class B directors are elected directly by the member banks of the District. For purposes of conducting these elections, the Board of Governors from time to time classifies the member banks of the District into three groups, with the objective that the banks within each group should be roughly similar in capitalization.[1] For several years, the classification in this District has been on the following basis: Group 1 banks are those with a capital and surplus of 10 million dollars or over (currently this includes 18 of the larger New York City banks and eight other banks in Albany, Buffalo, Newark, and Rochester); Group 2 includes 284 banks each with a combined capital and surplus of over $400,000 but less than 10 million dollars; and Group 3 includes 401 banks each having a capital and surplus of $400,000 or less.

The banks in each of the three groups may elect one Class A director, who shall be, in the words of the Federal Reserve Act, "representative of the stock-holding banks" (directors of this class almost without exception have been directors or officers of member banks in the electing group), and one of the Class B directors "who at the time of their election shall be actively engaged in their district in commerce, agriculture or some other industrial pursuit" and who may not be an officer, director, or employee of any bank.[2] The three-year terms of the directors are so arranged that the "A" and "B" directors selected by each of the three groups normally are elected in the autumn of successive years; they take office on January 1 of each year. Thus normally, there is an election each year of one Class A and one Class B director by one of the groups of banks. Special elections at other times may be required in order to fill unexpired terms opened by resignations or other reasons, and it was such special elections that were responsible for the voting by all three groups of member banks in this District last month.

Shortly before the actual election, any member bank in the appropriate group may nominate an eligible person for each vacancy on which that group will be voting; nominating forms are supplied by this bank. Several methods have been developed in the different Federal Reserve Districts for suggesting candidates for nomination. In the Second District, the usual method has been for representatives of the State bankers' associations of New York, New Jersey, and Connecticut to confer and agree upon one candidate to be suggested for each position. This procedure in no way abrogates the privilege of any member bank to make its own nomination, but there has not been a contested election in this District since 1938.

After nominations are received, each member bank (or group of affiliated banks) in the voting group may cast one vote through a duly authorized representative. If there should be more than one nominee, the nominees must be listed by order of choice on a preferential ballot. For election, a candidate must receive a majority of the votes (counting proceeds beyond the first choice if necessary). The larger banks of the District have been more active in exercising this electoral function than the smaller banks. While valid ballots sometimes have been received from all banks in Group 1, only about one half of the smaller banks (Group 3) usually respond, and roughly two thirds of the medium-sized (Group 2) banks. In the election just conducted, 45.6 per cent of the smaller banks, 65.7 per cent of the medium-sized banks, and all but two of the larger banks participated even though there were no contests.

The three Class C directors are chosen by an entirely different procedure; that is, they are selected by the Board of Governors of the Federal Reserve System. While these directors cannot be officers, employees, directors, or stockholders of any bank and must have been residents of the District for at least two years, there are no other statutory restrictions that apply specifically to Class C appointments. The Board of Governors has often used this opportunity to appoint educators, professional men, or others who have been able to bring viewpoints and counsel to the board of directors somewhat different from the contributions of bankers and businessmen.

The chairman (who must be "a person of tested banking experience") and deputy chairman of the board of directors are chosen by the Board of Governors from among the Class C directors. In addition to presiding at the weekly meetings of the board and its executive committee (the board and the committee meet on Thursday afternoon of alternate weeks), the chairman, as Federal Reserve Agent, is still designated by law as the official representative of the Board of Governors at the bank. Until 1936, this was a full-time position involving many administrative responsibilities. Except for approving issues of currency to the Federal Reserve Banks upon the deposit of requisite collateral, the chairman of the board and Federal Reserve Agent now serves on a basis more

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1 In addition to this requirement for similar capitalization, the original Federal Reserve Act required that each of the three groups contain, as nearly as possible, an equal number of banks. This latter requirement was dropped in 1918.

2 The Federal Reserve Act also provides that no member of Congress may be a director of a Federal Reserve Bank. As early as 1915, the Board of Governors by resolution ruled further that a person holding any public office or serving as a member of any political party committee may not be a director. Subsequent opinions of the Board of Governors have been to the effect that holding certain offices in some types of financial institutions would be an impediment to serving as a Class B director.

nearly comparable with the other directors; he is the first among equals.

The net result of this amalgam of elected and appointed directors is that, although representation of those versed in the techniques and problems of banking is assured, professional bankers can never constitute a majority of the board. Furthermore, the member banks have been divided in such a way that neither the minority of banks with very large amounts of capital nor the great majority of smaller banks can dominate in the selection of directors. The record discloses that half of the 68 different directors who have served since the founding of this bank in 1914 have been bankers; that is because Class A directors have generally served for shorter periods than the Class B and C directors. The smaller number of those Class B and C directors who have been engaged directly in a wide range of industrial and commercial businesses have served substantially more "man-years" in total because each has tended to remain on the board longer. Some educators and lawyers with independent professional backgrounds have also been chosen as directors.

The optimum length of service for directors often has been a matter of discussion by interested observers within and outside the System. What is required in this District is a balancing of the desire to benefit from the fruits of extended experience with Federal Reserve problems against the desire to gain fresh insights and wider participation in the work of the board of directors. In general, and especially in recent years, the service of directors in the Second District has been characterized by one-term incumbencies for Class A directors, with longer terms of office for others. Class C directors have tended to serve for the longest period (averaging seven years).

The directors of the Federal Reserve Banks are concerned with many phases of the operations of the Federal Reserve System. The Federal Reserve Act vests them with responsibility for the supervision and control of the operations of the Federal Reserve Banks and for performing the duties usually appertaining to the office of directors of banking associations. In carrying out these duties, the directors prescribe the bylaws that define the general conduct of the banks' operations and they establish and review the internal management policies. In addition, the boards of directors, acting within the broad public responsibility of the Federal Reserve System to contribute to the maintenance of economic stability and progress, contribute to the development of the credit policy of the System in a number of ways.

Perhaps the most significant of the specific responsibilities of the directors is the duty to obtain and keep management personnel of high quality. The directors appoint the president and first vice president (both subject to the approval of the Board of Governors) and all other officers of the bank, and may dismiss them, in the words of the statute, "at pleasure". Related to this power of appointment is the responsibility to fix the salaries of all officers and staff (a power which is also subject to the approval of the Board of Governors). The directors are also responsible for the maintenance and supervision of an internal auditing system. They appoint an auditor who, independently of any other officers of the bank, conducts a continuing survey of all financial operations and reports directly to the board through a special committee of the directors.

In carrying out these responsibilities, the board of directors of the Federal Reserve Bank of New York holds regular meetings on the first and third Thursdays of each month. An executive committee, made up of five directors including the chairman, normally meets on alternate Thursdays and may take action in the intervals between meetings of the full board. Other committees are concerned with problems of auditing, staff, foreign relations, supervision of member banks, and research and public information. These committees advise and consult with various officers of the bank concerning problems arising within their fields, and they submit their recommendations to the full board when action is necessary.

The directors of this bank also are responsible for the operations of the Buffalo Branch of the Federal Reserve Bank of New York. To assist them in this task, the branch has its own board of directors of seven members. Four of these branch directors are appointed by the board of this bank, and three, one of whom this bank designates as chairman, are chosen by the Board of Governors.[3] In addition to exercising direct supervision over the operations of the Buffalo Branch, the branch directors are valued participants in the operations of the System through frequent contacts with the officers assigned to the Buffalo Branch and through contacts with the directors and officers of the bank's head office in New York.

In the field of Federal Reserve credit policy, the primary responsibility of the directors is to initiate changes in the discount rates at which the bank will make loans and advances to member banks and others. These rates, which by law must be established "every fourteen days, or oftener if deemed necessary by the Board [of Governors]", are subject to "review and determination" by that latter body. In practice, prospective changes in rates are usually the subject of informal discussion among the directors, the officers of the Reserve Banks, and the Board of Governors before final action is taken.

There are several other avenues through which the directors may contribute to the formulation of credit policy. The board regularly reviews all the discount and lending operations of the Reserve Bank; all such operations are subject to their ratification. Each Reserve Bank has the duty of determining whether or not a member bank is extending an excessive amount of

[3] While there are no statutory restrictions on the choice of branch directors, the appointees of this bank have, with one exception, been bankers from the area served by that branch. Since 1934, the Board of Governors has usually selected local businessmen or farmers.

credit for speculative purposes "or any other purpose inconsistent with the maintenance of sound credit conditions".

While the directors do not participate directly in the deliberations of the important Federal Open Market Committee, they provide useful background information and views concerning business and credit conditions to the president of the Reserve Bank. The president of the New York Bank is a continuing member of the Federal Open Market Committee. (The presidents of each of the other eleven Reserve Banks serve in rotation to fill four memberships on the Committee.) All of the Reserve Bank presidents are also members of the Conference of Presidents which reviews the policy and operations of the System at several meetings each year. (It should be noted, however, that the Reserve Bank presidents, whether serving as members of the Open Market Committee or as members of the Conference of Presidents, act upon their own individual responsibility rather than upon instruction from their boards of directors.) In addition, the directorate of each Federal Reserve Bank appoints one member, in practice a prominent banker from the district, to the Federal Advisory Council. This body has the statutory responsibility to confer with, and make representations and recommendations to, the Board of Governors on the affairs of the System. Finally, there is from time to time formal and informal communication directly between the board of directors and the Board of Governors on general questions of credit policy or bank operations. A conference of the chairmen of the Federal Reserve Banks is held at least once a year, and at that time they meet with the Board of Governors.

All the powers of the directors, including those which are concerned primarily with operating matters as well as those exercised with regard to general credit conditions, are directed solely toward the public interest rather than with a view to maximizing the profits of the Federal Reserve Bank. In accord with this philosophy, the Federal Reserve Act requires that the affairs of each Federal Reserve Bank be administered "fairly and impartially and without discrimination in favor of or against any member bank or banks", and with regard to "the maintenance of sound credit conditions, and the accommodation of commerce, industry, and agriculture".

Broadly speaking, two valuable types of service stand out as contributions of the directors to the effective functioning of the unique organization embodied in the Federal Reserve System—an organization that is neither wholly public nor wholly private, and neither fully centralized nor fully regionalized. First, the directors bring qualifications of leadership and background to the counsels of the System that could not readily be provided in any other way. The quality of the management of each bank rests, in the first instance, with its board of directors. The directors, by virtue of their long and successful experience in business and professional life, are able to bring a fresh outlook and healthy influence to bear on the selection of top management and the surveillance of operating, budgetary, and personnel problems. Their constant scrutiny of all the operations of the bank promotes progressive, economical, and efficient operation. Furthermore, although the direct responsibility of the directors for the formulation of credit policy is limited, part of the strength of the System flows from their active participation in policy discussions. Through their intimate contacts with a cross section of informed opinion in the district and the nation, as well as through their familiarity with local credit, business, and banking conditions, they supplement the experience of the Reserve Bank officers.

Secondly, and perhaps of equal importance, is the service of these men in helping to develop an informed understanding of Federal Reserve policy and operations throughout the business and financial community. The more than 250 directors of the twelve Federal Reserve Banks and their twenty-four branches provide an important communicating link between the System and the community it serves; these directors have played a vital role in extending an awareness and understanding of monetary and credit policy to all sections of the country.

The Federal Reserve System, which as Senator Reed commented in 1913 attempts to combine "the advantages of governmental control with some of the advantages of private business management", has been most fortunate in attracting able and experienced men of broad background to serve on the directorates of the banks.

THE PROBLEM OF CONSUMER CREDIT

The volume of consumer credit outstanding has risen very rapidly in recent months. Many conflicting opinions have been expressed concerning the economic implications of this swift growth. Comments on the liberalization of credit terms following the suspension of Regulation W last May, and the subsequent rise in the amount of credit in use, have varied from alarm and apprehension to complacency or approval. Widespread use of consumer credit is a fairly recent phenomenon in our economy. It has done much to facilitate improvement in the living standards of our people. The danger is that if used without caution, or to excess, it may produce harmful economic effects by accentuating cyclical swings in consumer spending and in the production of consumer goods.

Historical Background

The use of consumer credit was not very general in this country until after World War I, and statistical data on its growth and use prior to the 1930's are scanty. It is estimated, however, that at the end of 1929 approximately 6.3 billion dollars of consumer credit was outstanding. (Consumer credit is generally defined to mean short-term credits extended to individuals for consumer purposes by either merchants or financing agencies. Such credits may take the form of instalment credits, charge accounts, or single-payment loans.) The amount of consumer credit in use dropped off sharply in the early 1930's, but later rose to a new peak of approximately 9.1 billion dollars in the fall of 1941. Once the United States entered World War II, the types of goods which consumers most often bought on credit, such as automobiles and major household appliances, largely disappeared from the market, and at the same time the Board of Governors of the Federal Reserve System, acting under a Presidential order, placed restrictions on the use of credit for almost all consumer purposes.[1] The amount of credit in use once again dropped sharply and reached a low point shortly after the end of 1943, when nearly 50 per cent (net) of the amount of credit outstanding at the end of December 1941 had been repaid (see Table I).

From early 1944 to the end of the war the use of consumer credit increased moderately. Although credit restrictions (Regulation W) continued in effect throughout the war, incomes and prices were both rising and some rise in consumer credit could hardly have been avoided without completely prohibiting its use. As soon as the war was over, however, the amount of such credit in use rose sharply. Producers of consumers' durable goods were able to get back into volume production fairly quickly. The demand for their products was large and pressing, stimulated not only by the backlog of wartime accumulated demands, but also by the large numbers of new families that were setting up housekeeping. Many consumers soon used up the liquid assets set aside during the war, perhaps specifically for purchasing durable goods; others purchased on credit in preference to spending their savings or because they had no savings. Rising prices added to the demand for credit.

Congress allowed Regulation W to expire in November 1947. But the subsequent rate of increase in the use of credit was so great that by the end of July 1948, with other inflationary pressures also strong in the economy, President Truman asked that the Federal Reserve System be given the authority to restore instalment credit controls (charge accounts and single-payment loans were not re-controlled). This time the Regulation was in operation from the fall of 1948 until June 1949 when inflationary pressures seemed to have eased and the Congressional authorization for its use expired. The Regulation was reactivated for a third time in September 1950 (as part of the Defense Production Act) after the outbreak of the Korean war in an attempt to restrain some part of the inflationary pressure generated by the rearmament program.

Table I

Total Amount of Consumer Credit Outstanding by Major Types on December 31 for Selected Years

(In millions of dollars)

Type of credit	1941	1943	1945	1950	1951	1952*p*
Total instalment credit	5,887	2,001	2,364	13,459	13,510	16,513
Sale credit	3,744	882	942	7,904	7,546	9,405
Auto	*1,942*	*175*	*227*	*4,126*	*4,039*	*5,205*
Other	*1,802*	*707*	*715*	*3,778*	*3,507*	*4,200*
Loans	2,143	1,119	1,422	5,555	5,964	7,108
Total noninstalment credit	2,939	2,599	3,263	6,638	7,134	7,460
Single-payment loans	565	414	510	1,332	1,436	1,549
Charge accounts	1,764	1,498	1,981	4,239	4,587	4,759
Service credit	610	687	772	1,067	1,111	1,152
Total consumer credit	8,826	4,600	5,627	20,097	20,644	23,973

p Preliminary.

The restoration of instalment controls in the fall of 1950 (along with other economic measures of restraint) was effective in holding relatively stable the total amount of consumer credit in use. There were seasonal fluctuations in the succeeding months, to be sure, but the total amount of all forms of consumer credit outstanding increased by only about 500 million dollars from 20.1 billion to 20.6 billion dollars in the twelve months ended December 31, 1951.

In May 1952 controls were once again lifted, and the authority for their use expired at the end of June of that year. The subsequent rise in the amount of consumer credit outstanding was the most rapid in the history of the series of data. By the end of 1952 the amount of such credit outstanding was more than 4 billion dollars above the level (19.8 billion dollars) immediately preceding the lifting of controls and 3⅓ billion above the level at the end of 1951. As indicated by the data in Table I, most of the year-to-year increase was concentrated in consumer instalment credit. With the exception of August 1952, when the steel strike limited the supply of goods, 2 billion dollars or more of new instalment credits were extended each month from the time controls were lifted in May through the end of the year—about ½ billion more, on the average, than the amount of outstanding credits repaid.

The Burden of Consumer Credit for the Consumer

There are no absolute standards by which the burden of consumer credit can be measured. As long as consumer incomes are high enough to service the volume of debt outstanding, the debt appears to be "sound" to borrower and lender. As has frequently been pointed out, the ratio of consumer short-term debt to consumer disposable income was no higher in 1952 than it was just prior to World War II, at which time consumers appeared to be able to meet their debt service (interest, amortization, and other charges) without undue difficulty. The ratio of the average amount of short-term credit outstanding during the year to the year's disposable income was 9.7

[1] These restrictions, promulgated as Regulation W, set the maximum number of months within which instalment credits had to be repaid, the minimum down payment for instalment credits, and the maximum amount of time which charge-account credits and single-payment loans could be outstanding.

Table II
Consumer Debt Early in 1952
(In per cent of all consumer spending units)

Spending units with no consumer debt	49
Amount of consumer debt	
$ 1— 99	13
$ 100—199	8
$ 200—499	14
$ 500—999	9
$1,000 and over	6
Consumer debt as percentage of money income before taxes	
1— 9 per cent	29
10—19 per cent	11
20—39 per cent	7
40 per cent and over	3

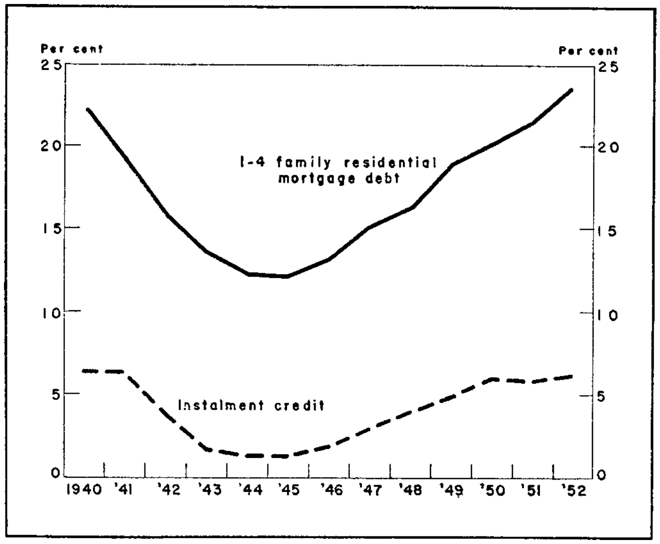
Note: The percentages shown do not total 100 per cent because of a small group of spending units whose debts were not ascertained.

per cent in 1940 and about 9.0 per cent in 1952. If, however, the amount of credit in use continues to increase faster than incomes, as it did in 1952, the ratio for 1953 may be higher than in any previous year.

The actual burden of consumer debt and its significance for individual families can best be studied by using the available figures on the distribution of that debt among individuals or family spending units. The most recent information of this type is provided by the Survey of Consumer Finances which was made for the Board of Governors of the Federal Reserve System in the early part of 1952. At that time (on the evidence of the sample used) approximately 50 per cent of all consumer spending units had some short-term debt outstanding. An indication of the size of the debts owed by various spending units, and the relation of the size of debt to the size of the unit's income is shown in Table II. (Owing to the wording of the questionnaire used in making the survey, these debt figures may be slightly understated.) The survey found, as might have been expected, that the amount of debt tended to vary directly with income; the largest percentage of spending units with debts of less than $100 had money incomes of less than $1,000 per annum, and the largest group with debts of $1,000 and over was the group with incomes of $7,500 per annum and over. The income groups which appeared to be relatively most heavily in debt were those with money incomes of $3,000 to $7,499 a year. Of these groups, young married couples with children and those that spent $500 or more during 1951 for durable goods were the most heavily laden; a significant number of them owed an amount equal to more than 20 per cent of their annual incomes before taxes.

Since consumer debt rose more than twice as fast during 1952 as consumer disposable income, the debt position of many families almost certainly must have deteriorated since this survey was made; and since a substantial portion of the new debts incurred during the year were for automobiles, it is perhaps reasonable to assume that the group consisting of those who have "mortgaged" 20 per cent or more of their incomes has grown. Last year at this time the survey estimates indicated that approximately 10 per cent of all family spending

Ratio of Instalment Credit and Residential Mortgage Debt to Disposable Personal Income*



* The instalment debt figures are yearly averages of end-of-month amounts outstanding; the mortgage debt figures are averages of beginning and end-of-year amounts outstanding.
Sources: U. S. Department of Commerce, Federal Savings and Loan Insurance Corporation, and Board of Governors of the Federal Reserve System.

units in the country owed, on consumer credit alone, 20 per cent or more of their money incomes before taxes.

In addition to short-term debts, of course, many families also have a substantial amount of long-term mortgage debt outstanding. The ratio of this type of debt to consumer disposable income has also risen sharply in recent years, and, as shown in the accompanying chart, this ratio is now slightly higher than it was before the war. In 1940, mortgages on 1-to-4 family houses, which include most consumer residential mortgage debt, amounted to about 22 per cent of disposable income; in 1952 it was about 23 per cent. Interest charges on the mortgage debt are lower currently than in 1940, but only slightly, and they too are tending to rise. In both years the majority of residential mortgages outstanding were amortized (being repaid in regular instalments).

Consumer Credit and the Economy

While the lender and the borrower are most immediately interested in how a consumer's debts compare with his ability to pay, the broader concern to them and the public in general lies primarily in the effects upon the economy of the use, or changes in the rate of use, of consumer credit. We are now in a period of accelerated upswing in consumer credit, along with rising incomes growing out of combined defense and civilian production. But as defense expenditures level off, and especially when they decline, the behavior of consumer expenditures will become even more important as an influence upon business activity. With a growing proportion of consumer expenditures now being financed by credit, questions arise concerning the potentialities for instability in consumer spending that this increasing dependence upon credit implies.

Complete and nation-wide data for all retail sales, by type of sale, for 1952 are not available, but probably around a third were credit sales (possibly 14 or 15 per cent on instalment credit and the remainder in charge accounts). In 1951 instalment and charge sales were estimated to have accounted for 12 and 19 per cent, respectively, of total retail sales. Approximately 55 per cent of the total number of consumer purchases of automobiles in the United States in 1951 involved the use of instalment credit, and around 52 per cent of total purchases of furniture and other major household appliances was so financed. Preliminary data would seem to indicate that a substantially larger percentage of the total number of sales of automobiles to consumers in 1952 involved credit to some degree. The durable-goods industries are clearly the principal beneficiaries of credit purchases. Moreover, by their nature, durable goods can be used somewhat longer when economic conditions become adverse, and new purchases can be more readily postponed. Consequently, the durable goods sector of the economy is inherently subject to much wider swings in demand than the nondurable sectors, and this instability may be amplified when credit purchases constitute so large a proportion of the durable sales totals. The result may be to create "feast or famine" conditions in these industries.

Eventually, the effect of net repayments of consumer credit, continuing over a fairly long period, is also likely to exert a depressing influence on consumer spending for other types of goods and services. Particularly when consumer incomes decline, the impact of continuing repayments produces a material lessening of other types of spending. Moreover, once the peak of a cyclical movement has passed, the length of time it takes for consumers "to get out from under" (that is, to meet their obligations and be able once again to restore or increase their expenditures for currently produced goods to previous levels) depends not only on the total amount of consumer debt outstanding, but also on the average length of time the outstanding instalment contracts have to run. Since controls over instalment credit were lifted last May, the average maturity has been steadily increasing. Maturities of instalment contracts now being extended generally range from 3 months for "revolving credit" programs used for the purchase of clothing and other nondurable items up to 30 or 36 months for home repairs and, in many cases, for purchases of automobiles and the more expensive home appliances.

Consumer Credit and General Credit Controls

While all forms of credit extension tend to be affected sooner or later by restrictions on the amount of reserves available to the banks, consumer financing appears, at least under some conditions, to be less susceptible to general credit restraints than other types of credit. Consumer loans, especially if the volume is substantial so that overhead costs can be thinly spread and repossessions merchandized, are usually quite profitable business for the lender. Moderate changes in the cost of credit to the borrower have relatively little effect on the consumer. That is because the burden of higher interest costs may be diffused, so far as any effects upon the consumer's considerations are concerned, by a further lengthening of the term—which keeps the amount of his monthly payments within the limits of his capacity to pay. He apparently gives less consideration to the extension over a longer period of the claims built up against his income and to the related risks of any future decline in his income, than to the size of his current instalments. Consequently, in periods of restrictive general credit controls, lenders find that consumer loans can still be made on relatively profitable terms in comparison with other types of loans or investments, and the tendency is to cut back first on their less profitable lending operations. For general credit restrictions to become tight enough to put a prompt and real damper on an excessive growth of consumer lending, the costs of business and other credit might also have to rise considerably. The net effect might, at least at some times, be more deflationary than would be considered generally appropriate for the economy as a whole.

During 1952, a period of mildly restrictive general credit policy, the money supply, private (other than Federal Government) demand deposits adjusted and currency outside banks, rose by slightly more than 4 billion. The total amount of consumer credit outstanding rose about 3.3 billion dollars, but not all of this rise came from bank credit. However, the commercial banks did put about 1.6 billion dollars (net) of new consumer loans on their books during 1952 and lent a further substantial amount of money to retailers and others to enable them to carry a larger volume of consumer receivables. Data on loans made to sales finance companies by a selected group of weekly reporting member banks illustrate the magnitudes involved; in the six months from the end of June 1952 through the end of December 1952 those banks lent approximately 500 million dollars (net) to sales finance companies. Thus it appears that consumer financing was one of the major factors in the the growth in bank credit and in the money supply, especially during the latter part of the year.

In terms of sustained economic health, a measure of restraint in the further expansion of consumer credit (and in the relaxation of the terms of such credit) would seem to be a desirable accompaniment of the restraint on general credit expansion which is the current objective of credit policy.

SURVEY OF OWNERSHIP OF BUSINESS AND PERSONAL DEMAND DEPOSITS

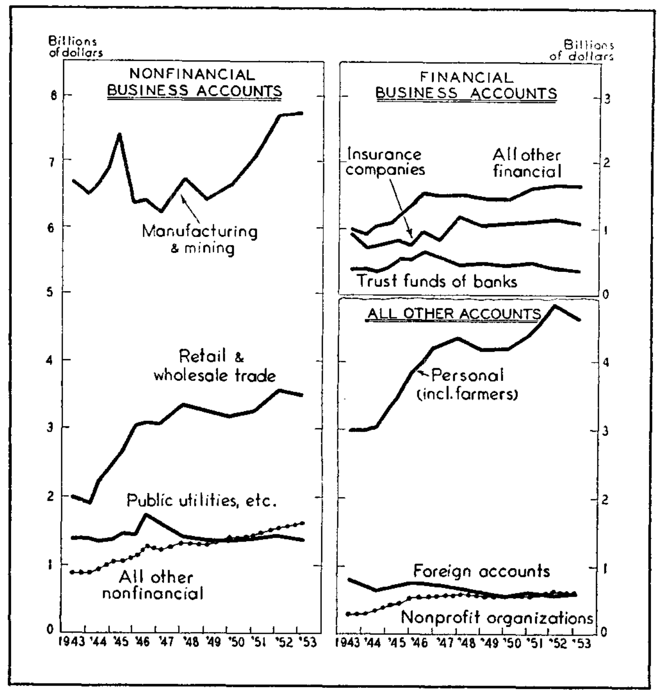
For the second time since the periodic surveys of the ownership of private demand deposits began in 1943, private deposits at Second District commercial banks have shown an annual decline. The only other decline shown by these surveys in the total demand deposits of individuals, partnerships, and corporations in this District occurred in the year ended January 31, 1949. The decline for the year ended January 31, 1953 appears to have been mainly the result of two sets of factors. For one, the direct effectiveness of the Federal Reserve policy of credit restraint has probably been somewhat greater and more immediate in New York City, the nation's money market center, than elsewhere. Thus, the New York City banks have, in relative terms, had a somewhat narrower scope for creating additional deposits through expansion of their total loans and investments. Second, the tightness in New York has been accentuated by a continuing shift of deposits from banks in the main money market center to banks located in other areas. To some extent, this shift may reflect a continuing long-range redistribution in the proportion of the nation's business that is conducted in New York as compared with the remainder of the country. This possible explanation seems to be supported by the data presented below, showing that the decline in private demand deposits in this District over the past year was concentrated mainly in the larger banks. The smaller banks generally had increases in such deposits during the year. The over-all decline for the District as a whole was relatively moderate, only 1.5 per cent, but it did extend through most of the major categories of deposit ownership.

The combined deposits of the largest banks, those which held private deposits of 500 million dollars or more when the present uniform size-classes were established at the end of 1945, fell off by 624 million dollars, or nearly 4 per cent. All of these banks are located in New York City. Banks in the 100 to 500 million dollar group showed an aggregate reduction of 40 million dollars, or 2 per cent. Banks with private deposits under 100 million dollars experienced an estimated aggregate increase of 308 million dollars in private demand deposits for the year ended last January 31. Thus, taking the declines in the larger banks and the increases in the smaller banks together, there appears to have been a net reduction for the Second District of 356 million dollars. Comparable data for the preceding year indicated a total rise of 1,541 million dollars, or 7 per cent, and increases occurred in the private demand deposits held at all of the size-groups of commercial banks in this District.

These estimates are based on reports from a sample of 107 banks, which have submitted detailed summaries of the ownership of their larger accounts. Reports are received from virtually all the banks in the largest-sized group, and from a majority of the banks in the 100-500 million dollar group. Similar reports are received from a sample of 90 banks distributed among the banks with business and personal deposits under 100 million dollars. These data are then used, in accordance with tested statistical procedures, to develop estimates for the ownership composition of the private demand deposits held at all 846 commercial banks in the Second District.

The magnitude of the deposit declines in the larger banks exerted a dominating effect upon the aggregate changes shown by type of owner for the District as a whole. The data summarized in the accompanying table indicate that appreciable percentage increases occurred in only two ownership classes: all other nonfinancial business and foreign. The deposits of all other nonfinancial business—a class which includes most of the service industries such as construction contractors, theaters and other places of amusement, hotels, laundries, and garages—increased in all size-groups of banks. Deposits held by private individuals and businesses located abroad (foreign accounts) are only reported by banks with private deposits of 10 million dollars or more, but there was a general increase in deposits of this type at all reporting banks regardless of size, reflecting the improvement in the over-all gold and dollar positions of foreign countries that began in April 1952. These two were

Estimated Ownership of Business and Personal Demand Deposits at All Commercial Banks in the Second Federal Reserve District*



* Figures are semiannual from July 1943 to February 1947 and annual as of each January thereafter.

Estimated Changes in Ownership of Demand Deposits of Individuals, Partnerships, and Corporations in Different-Sized Commercial Banks in the Second Federal Reserve District from January 1952 to January 1953

(Dollar amounts in millions)

Type of owner	Size of bank measured by amount of business and personal deposits as of December 31, 1945						All commercial banks (including private and industrial banks)		
	Under $100 million		$100-500 million		Over $500 million				
	Dollar change	Per cent change	Dollar change	Per cent change	Dollar change*	Per cent change*	Dollar balance Jan. 1953	Dollar change*	Per cent change*
Manufacturing and mining	+145.7	+ 15.6	−51.2	− 6.9	− 74.7	−1.2	7,722.1	+ 19.8	+0.3
Public utilities, transportation, and communications	− 2.6	− 1.5	+ 5.5	+ 6.1	− 62.3	−5.3	1,392.0	− 59.4	−4.1
Retail and wholesale trade and dealers in commodities	+ 51.4	+ 5.5	+ 1.4	+ 0.4	−133.3	−5.9	3,488.4	− 80.5	−2.3
All other nonfinancial business, including construction and services	+ 41.8	+ 11.7	+ 6.6	+ 5.4	+ 7.4	+0.7	1,614.1	+ 55.8	+3.6
Total nonfinancial	+236.3	+ 9.8	−37.7	− 2.8	−262.9	−2.5	14,216.6	− 64.3	−0.5
Insurance companies	− 10.6	− 7.4	− 0.5	− 0.6	− 55.5	−6.0	1,075.1	− 66.6	−5.8
Trust funds of banks	− 0.9	− 2.1	− 1.5	− 5.2	− 3.8	−1.2	383.8	− 6.2	−1.6
All other financial business†	+ 46.4	+ 15.9	− 0.3	− 0.2	− 89.5	−7.1	1,643.4	− 43.4	−2.6
Total financial	+ 34.9	+ 7.3	− 2.3	− 1.0	−148.8	−6.0	3,102.3	−116.2	−3.6
Nonprofit organizations	+ 5.7	+ 2.5	− 3.3	− 6.0	− 1.5	−0.4	641.4	+ 0.9	+0.1
Personal (including farmers)	+ 30.4	+ 1.7	+ 2.9	+ 0.6	−223.4	−8.9	4,614.7	−190.1	−4.0
Foreign accounts	+ 0.8	+270.8	+ 0.5	+21.2	+ 12.7	+2.2	595.6	+ 14.0	+2.4
Total demand deposits of individuals, partnerships, and corporations	+308.1	+ 6.3	−39.9	− 1.9	−623.9	−3.8	23,170.6	−355.7	−1.5

* These changes have been calculated from revised January 1952 balances.

† Including investment, finance, real estate concerns, and insurance agencies, etc.

the only classes of deposits which showed increases in the largest-sized group of banks. There was no systematic pattern of changes by classes of deposits among the other size-groups of banks; but with limited exceptions, the smaller the size of bank, the greater the number of deposit classes showing increases.

All groups of banks, on the basis of other data assembled by this bank, increased their loans to business and individuals during the year. The estimated increase in the demand deposits of business and individuals resulting from these loans was 1.4 billion dollars for the year ended January 31, compared with 1.6 billion in the preceding year. But particularly in New York City, the aggregate effect of the potential increase in demand deposits was offset by a net outflow of commercial funds to other areas which was an important factor in causing the banks to liquidate a substantial volume of Government securities. This outflow of funds arose, in part, from the fact that the larger banks as usual made a substantial proportion of their business loans to concerns operating on a nation-wide scale. Thus, these banks tend to lose deposits when the proceeds of loans are dispersed throughout the operating units of these large concerns. The smaller banks, on the other hand, in addition to being the recipients of some of these transferred funds, generally lose a smaller part of the deposits created by their own loan expansion because they usually serve a higher proportion of small concerns that tend to spend a greater part of their funds locally.

One other influence has undoubtedly been important in offsetting a potential increase of demand deposits. That is the considerable further growth over the past year in time and savings deposits. Thus, for the District as a whole the personal demand deposits of individuals declined by 4 per cent, as contrasted with an over-all decline in private (including business) demand deposits of 1.5 per cent. Detailed breakdowns of personal deposits as between farmers and others are provided only by banks with deposits of less than 10 million dollars. These indicate that the accounts of farmers increased by 1.9 per cent for the reporting banks. This improvement may be a result, at least in part, of the relatively favorable income experience of farmers in this District over the past year, as contrasted with that of farmers in other parts of the country.

The long-term movement in the balances of the various depositor groups in this District is shown in the accompanying chart for the period since July 1943, the date these surveys were first undertaken. It indicates that the relative positions of the depositor groups have changed very little over the past year.[1] Compared with previous fluctuations, the past year's stability in virtually all types of accounts is noteworthy.

[1] For a discussion of the highlights over earlier years in the movement of business and personal demand deposits, see the April 1952 *Review* of this bank.

INDIA: RETROSPECT AND PROSPECT

More than five years have passed since the partition of British India and the establishment of present-day India and Pakistan. In the new India, these have been years of stress and strain and achievement. The most intractable problem facing the country has been the old Indian predicament—the pressure of a great population on limited resources. In addition, the government has had to cope with the serious inflationary pressures inherited from World War II and later increased by the Korean hostilities, as well as such grave problems as those arising from an unfortunate succession of severe droughts, acute shortages of supplies for the export industries, and the resettlement and rehabilitation of migrants from Pakistan. That India has managed as well as it has is a tribute to the wisdom and skill of its leaders; that it has not done even more is a measure of the difficulties that have confronted the new nation.

From the outset there has been an acute awareness in India of the need for positive, even heroic, efforts if the country is ever to become a viable organism. Accordingly, the central and many of the state governments early undertook a number of large basic projects that they considered essential for development. The fact that these projects were worked out by the various governments independently, however, resulted in a total demand for financial resources well above what was available. An attempt is now being made to reconcile these competing demands within the framework of a comprehensive plan for all of India that has pruned many of the projects rather drastically. This Five-Year Plan, which was adopted by the Indian Parliament in December, received broad support, with opposition only from the communists and socialists. Its approach is one not of rapid, forced development, but rather of comparatively few strategic controls, cooperation with private enterprise, and economic development sufficiently gradual not to require excessive sacrifices from the people.

Economic Developments Since the Partition

The area that was incorporated into Pakistan upon the partition of British India had yielded much more than a proportionate share of the subcontinent's agricultural crops—not only food but also the cotton and jute needed for India's two principal export industries. The problem was unfortunately aggravated by the inability of the two countries to establish close economic relations. Faced with this situation, the Indian Government attempted to expand the production of food, cotton, and jute simultaneously. To increase food production the government conducted a nation-wide Grow More Food Campaign, primarily an exhortatory campaign, although some funds were spent to provide better seeds and more fertilizer. To increase the production of cotton and jute, the government raised the price ceilings on those two crops. Since low price ceilings and procurement controls were retained on food, however, in order to assure minimum supplies at reasonable prices, the net result of the government's measures was a shift in production from food to the two industrial crops. By 1951-52 the output of cotton had increased 50 per cent over the 1947-48 level, and that of jute almost 175 per cent; the output of food grains, however, had declined by almost one sixth.

In 1952 the government decided to try to rectify this imbalance by also decontrolling food grains in areas that were not normally in short supply and where the state governments had sufficient stocks on hand to restrain excessive price increases. It was expected that removal of the onerous procurement controls would provide an incentive to cultivators to switch some of their production from the industrial crops to food, and that the resulting increase in output would keep food prices down. The government has had, moreover, to recognize the impossibility for some years to come of reaching the desired levels in food, jute, and cotton simultaneously, since any large growth of agricultural output in India depends primarily upon two long-term undertakings—the expansion of irrigation and the increased production and use of fertilizers. It is therefore now regarded as necessary to plan for the annual importation of at least three million tons of food grains, about 5 per cent of India's present food needs.

In industry, production improved substantially in 1951 and 1952 after experiencing a minor decline in 1949 and 1950; the index of industrial production (1948=100) had dropped to 97 in 1950, but by 1952 it had risen to 118. The rise was made possible by two important developments. One was the increased supply of jute, cotton, and other goods needed by industry, which permitted fuller utilization of existing industrial capacity. The other was the increased import of capital equipment that permitted badly needed rehabilitation of industrial plants and the railways; deterioration of capital equipment during the war and early postwar years had undoubtedly been a significant factor in the estimated decline in productivity of 20-30 per cent below the 1939 level.

There has been a broadening of the industrial base, over and beyond the significant replacement of worn-out equipment, by the addition of two new plants that will be of great importance for future economic expansion. One of these, the Sindri fertilizer plant, which was opened early in 1952, will shortly be able to produce sufficient sulphate of ammonia to increase food output by a million tons a year, representing an annual foreign-exchange saving of more than 80 million dollars at present prices; in addition, this plant will eventually play an important role in the manufacture of cement, plastics, and high explosives. The second project, the Bokaro steam power plant which began operating in February of this year with a capacity of 150,000 kilowatts, is reputedly the largest in Asia. These two plants are the first important units of the huge Damodar Valley development program which is being modeled after this country's Tennessee Valley Authority. The Damodar area contains about 85 per cent of the world's known reserves of high-grade mica, most of India's coal and iron ore deposits, and large quantities of manganese, aluminum, and other important minerals. The exploitation of certain of these minerals could eventually result in sizable exports to the dollar area.

The Balance of Payments

India's heavy expenditures on imports of food and industrial goods during the past five years could not have been financed by exports alone, despite the fact that the purchasing power of her export earnings was magnified during most of that period by very favorable terms of trade. A substantial deficit was incurred in every year except 1950, when the trade balance was aided both by the foreign demand for goods for stockpiling after the invasion of Korea and by a fall in Indian imports. Approximately one third of the deficits was financed by foreign loans and grants—by the utilization of some 50 million dollars (for railway rehabilitation and the Damodar Valley program) out of the 110 million of total loans provided by the International Bank, by drawings on the International Monetary Fund totaling 100 million dollars, by a two million ton wheat loan from the United States, and by grants from the United States under the Point Four program and from Australia, Canada, and New Zealand under the Colombo Plan.

Primarily, however, the deficits were covered by drawing on India's own sterling balances. Between 1939 and March 1946 the sterling balances of British India had risen from about 100 million pounds to a total of approximately 1.7 billion, chiefly as a result of British military expenditures in India. Most of these funds were blocked under a payments agreement worked out with the United Kingdom in 1947. However, provision was later made for the release of almost one fourth of the balances for the settlement of contractual payments connected with independence and partition, viz., the funding of sterling pensions for former civil servants, the taking-over of British military stores and installations located in India, and the payment to Pakistan of the latter's share of the balances. Britain also permitted substantial releases for current expenditures, and in 1952 a final revision of the agreement provided for annual releases that will free the balances completely by 1957. India can thus continue to count on these sterling claims for the financing of at least part of the imports needed for development.

Inflationary Pressures

The anti-inflationary effects of the sizable import surpluses offset the inflationary pressures from other sources only to a degree, and the country experienced a severe inflation that did not come to an end until the closing months of 1951. The wartime boom had brought an excessive liquidity to many sectors of the economy which, notwithstanding the various economic and financial controls, permitted heavy investments in the postwar period that put a strain upon available resources. The inflation was further stimulated by the high level of government spending, the temporary lifting of controls in 1947-48, the sharp rise of both import and export prices, and much speculation. The interaction of these various developments led to a rise, between 1947 and 1951, of almost 50 per cent in the index of wholesale prices and of almost 20 per cent in the urban cost-of-living index.

The height of the inflationary pressures appears to have been reached in mid-1951. Thereafter there was an easing of these pressures due to the coincidence of several important events: over-all surpluses for both the current-account and capital budgets, largely as a result of heavy revenues from increased export taxes; heavy import surpluses, brought about partly by the relaxation of import controls but added to by the American wheat loan; and a decline of international commodity prices from the inflated levels of earlier months.

The disinflationary trend was reinforced by the introduction of two important restrictive monetary measures in November 1951, the month that usually marks the beginning of a sharp seasonal rise in the demand for bank credit. For the first time since 1935 the Reserve Bank of India raised its discount rate, from 3 to 3½ per cent. Simultaneously, in order to make the rate effective the bank announced it would not undertake to relieve seasonal stringency in the money market in the usual manner of preceding years by purchasing government securities, but would stand ready to make advances against such securities. These steps had the desired effects. The increase in the bank rate resulted in very substantial rises in other loan rates; and although most of the banks, which were already in a tighter position than was usual at the onset of a busy season, began to follow a more cautious lending policy, they nonetheless had to have heavy recourse to the Reserve Bank.

In January 1952 the Reserve Bank introduced a new commercial bill system, a step designed to give the bank greater freedom to utilize open market operations in government securities as an instrument of credit policy without undue restraints upon seasonal credit needs. Commercial paper of a type eligible for rediscounting by the Reserve Bank has heretofore been of little importance in the Indian money market, but the bank is hopeful that it can create an organized bill market that will result in increased reliance upon rediscounting as a source of funds for temporary and seasonal credit needs.

The Five-Year Plan

In July 1951 the government submitted a preliminary draft of its Five-Year Plan "for the widest possible public discussion". This public airing resulted in a number of constructive alterations which were incorporated in the final draft adopted by Parliament in December 1952. The Plan runs from 1951 to 1956 and involves a total governmental expenditure of 20,690 million rupees; annually, expenditures will average about 6 per cent of the national income. Of the total, 27 per cent is to be devoted to irrigation and power projects, 17 per cent to agriculture and local community development, 24 per cent to transport and communications, and 8 per cent to industry; social services are accorded 16 per cent, and the remainder is to be used for the rehabilitation of displaced persons from Pakistan and for miscellaneous purposes.

As can be seen from these figures, the Plan gives overwhelming priority to the development of agriculture, including the multipurpose irrigation and power projects. This emphasis reflects the Planning Commission's opinion that the most reasonable way for India to embark upon her long-range development program is to strive first for a rise in agricultural productivity, since it is the agricultural sphere that offers the greatest opportunity for immediate results. The Plan aims for an increase of about 14 per cent in food grains, 42 per cent in cotton, and 63 per cent in jute; such gains would decrease the need for food imports and increase the supplies of cotton and jute for the export industries. The final effect of these developments would be the provision of more foreign exchange for the import of capital equipment and the expansion of industry, thus broadening the opportunities for the productive employment of the surplus rural population.

This same desire for quick results accounts for the emphasis in the industrial sphere on the fuller utilization of existing capacity in consumer and producer-goods industries, rather than on the broad expansion of capacity in the capital-equipment industries that is essential for large-scale development. The Plan does, however, provide for some increases in the output of capital-goods industries, including a one-fourth expansion in pig iron production, almost one-third in steel, and two-thirds in cement.

The long-range goal is to double within the next twenty-five years the Indian people's per capita income, now one of the world's lowest. This will require that, after the expiration of the present Five-Year Plan, capital formation be stepped up each year at the rate of 50 per cent of the year's addition to the national income. During the period of the present Plan, however, investment is to be increased at the rate of 20 per cent of such increments. Despite the large increases planned for the output of food and other consumer essentials, the government estimates that because of the rapidly increasing population the first Five-Year Plan will barely restore prewar standards.

The preference for investments that will yield consumer goods quickly, as contrasted with long-term capital formation which could, after a while, yield a greater quantity of consumer goods, is fundamentally based upon the government's determination to enlist the fullest measure of public support for its development program. Just as it sought public approval for the Plan before the latter was formally adopted, so it wishes to have the willing cooperation of the people in the actual execution of the Plan.

The concern for the immediate social welfare shows itself not only in the emphasis on food and other consumer goods, but also in the sizable allocation for services, 16 per cent of the Plan's expenditures being earmarked for education, health, housing, and other social services. While it is true that these services will also contribute to the country's long-term development by raising labor's productive powers through improved health and technical skill, this will be at least partly offset by the growth in population resulting from better health, a more important factor in recent years than the birth rate. This same motivation underlay the decision to forego the possibility of diverting supplies of raw cotton from the handloom industry to the more efficient textile plants. This was a conscious sacrifice of greater production for the sake of fuller employment. However, it was not possible always to put the immediate welfare of the people first, since every such concession would, because of the rapid rise in population, make future development increasingly difficult. Consequently, there are numerous evidences in the Plan of a continual search for a proper balance between sacrifices and incentives for the various economic sectors.

Private Enterprise under the Plan

The Plan does not call for the nationalization of existing private enterprises; in fact, the Plan is predicated in part upon private investment that in large-scale industries alone is to total 3,830 million rupees during the five years. The government believes that it can direct private capital to the extent considered necessary for achieving the Plan's targets primarily by the imposition of controls at strategic points, such as regulation of the volume and direction of investment and the establishment of import priorities. These controls, however, are to be supplemented by such incentive measures as higher prices and tax concessions.

In line with its policy of encouraging domestic industry, the government has adopted an increasingly liberal policy toward foreign private capital. It desires to attract foreign investment into high-priority fields for which domestic enterprise lacks either the specific experience or skills, or the capital. In order to achieve the desired channeling of foreign capital, the approval of the government is required for all new investments of foreign funds, as in the case of domestic investments. Once foreign companies begin operating in India, they are ordinarily subject to certain regulations under the Indian Companies Act. However, last year the government amended the act so as to permit individual agreements to be made with foreign companies, when desirable, guaranteeing them complete freedom to run their businesses without governmental interference. The regulations for the transfer of profits, and especially for the repatriation of capital, are now relatively liberal, the provisions for the latter having recently been relaxed to permit repatriation at the market value, rather than at book value, where there has been capital appreciation. On the other hand, the fact that the Five-Year Plan itself now contemplates an eventual widening of the public or governmental sector of the economy leaves, at least for the time being, a range of uncertainty for some private investors.

Conclusion

The Five-Year Plan reflects the fact that India is a federal union of many states. As already noted, a large part of the Plan is based upon projects started by the state governments in previous years, which are being finished under the Plan even though they may not represent the highest priorities implied by the general principles of the national plan; expenditures by the state governments will account for 40 per cent of the outlay. The federal approach will be continued in the National Development Council established last August, which includes the Prime Minister of India and the Chief Ministers of all twenty-seven states. There consequently appears to be little likelihood of overly centralized direction. Furthermore, the Planning Commission does not conceive of the Plan as an unalterable blueprint—"the framing of social and economic policies in different fields is a continuous process and, within the framework of priorities and objectives now formulated, such changes as may be necessary in the interest of national development will no doubt be made as experience is gained and ideas are tested in practice".

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1953		1952		Percentage change	
		February	January	December	February	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	239*p*	236	235	222	+ 1	+ 8
Electric power output*‡	1947-49 = 100	155	150	149	140	+ 3	+11
Ton-miles of railway freight*‡	1947-49 = 100	—	101*p*	100	108	#	− 6
Manufacturers' sales*	billions of $	—	24.3*p*	24.3	23.5	#	+ 8
Manufacturers' inventories*	billions of $	—	43.7*p*	43.8	43.2	#	+ 1
Manufacturers' new orders, total*	billions of $	—	24.0*p*	24.4	23.5	− 2	+ 6
Manufacturers' new orders, durable goods*	billions of $	—	12.1*p*	11.9	11.4	+ 2	+ 9
Retail sales*	billions of $	14.8*p*	14.3	14.4*r*	13.4	+ 3	+10
Residential construction contracts*	1947-49 = 100	184*p*	173	183	163	+ 6	+13
Nonresidential construction contracts*	1947-49 = 100	166*p*	201	219	152	−17	+ 9
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	88.7	89.7	90.4	104.0	− 1	−15
Wholesale prices†	1947-49 = 100	109.6*p*	109.9	109.6	112.5	#	− 3
Consumer prices†**	1947-49 = 100	113.4	113.9	114.1	112.4	#	+ 1
Personal income (annual rate)*	billions of $	—	280.5*p*	280.0	263.5	#	+ 6
Composite index of wages and salaries*	1939 = 100	—	244*p*	243	232	#	+ 5
Nonagricultural employment*	thousands	47,850*p*	47,741	47,844*r*	46,594*r*	#	+ 3
Manufacturing employment*	thousands	16,775*p*	16,704	16,621*r*	15,877*r*	#	+ 6
Average hours worked per week, manufacturing†	hours	41.0*p*	41.1	41.7*r*	40.7	#	+ 1
Unemployment	thousands	1,788	1,892	1,412	2,086	− 5	−14
Banking and finance							
Total investments of all commercial banks	millions of $	75,890*p*	76,790*p*	77,310*p*	74,650	− 1	+ 2
Total loans of all commercial banks	millions of $	64,200*p*	63,970*p*	64,290*p*	57,590	#	+11
Total demand deposits adjusted	millions of $	98,310*p*	100,510*p*	101,200*p*	95,710	− 2	+ 3
Currency outside the Treasury and Federal Reserve Banks*	millions of $	29,866*p*	29,831	29,896	28,549	#	+ 5
Bank debits (U. S. outside New York City)*	millions of $	95,952	93,672	93,046	93,071	+ 2	+ 3
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	119.4	118.3	116.1	115.1	+ 1	+ 4
Consumer instalment credit outstanding†	millions of $	—	16,555*p*	16,513	13,185	#	+24
United States Government finance (other than borrowing)							
Cash income	millions of $	6,267*p*	5,251	6,320*r*	6,275	+19	#
Cash outgo	millions of $	5,757*p*	5,459	7,364*r*	5,328	+ 5	+ 8
National defense expenditures	millions of $	4,012*p*	4,082	4,538	3,551	− 2	+13
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*‡	1947-49 = 100	137	137	135	125	#	+10
Residential construction contracts*‡	1947-49 = 100	—	147*p*	158	155	− 7	+33
Nonresidential construction contracts*‡	1947-49 = 100	—	189*p*	183	157	+ 3	+30
Consumer prices (New York City)†**	1947-49 = 100	111.1	111.7	112.0	110.6	− 1	#
Nonagricultural employment*	thousands	—	7,615.2*p*	7,623.0	7,475.6	#	+ 3
Manufacturing employment*	thousands	2,781.7*p*	2,766.3	2,765.4	2,686.1	+ 1	+ 4
Bank debits (New York City)*	millions of $	56,448	50,772	54,291	50,417	+11	+12
Bank debits (Second District excluding N. Y. C. and Albany)*	millions of $	4,248	4,136	4,054	4,108*r*	+ 3	+ 3
Velocity of demand deposits (New York City)*	1947-49 = 100	136.2	134.0	135.1	123.8	+ 2	+10

Note: Latest data available as of noon, March 30.
p Preliminary. *r* Revised. ‡ The seasonal adjustment factors for this series have been revised.
* Adjusted for seasonal variation. # Change of less than 0.5 per cent. ** Revised series. Back data available from the U. S. Bureau of Labor Statistics.
† Seasonal variations believed to be minor; no adjustment made.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

DEPARTMENT STORE TRADE

Although early sales of the 1953 Easter season at District department stores had indicated that trade might exceed that of the 1952 season, consumer interest lagged notably in New York City stores in the latter part of March, perhaps owing to inclement weather. Increases for the two weeks ended March 21 had been larger than those expected, even in view of the fact that Easter will fall a week earlier this year than last (April 5, 1953 and April 13, 1952). However, these gains were largely nullified in the following week, judging from sales of New York City stores which suffered a 2 per cent year-to-year decline when an increase was expected because of the earlier Easter. The final comparison of the 1953 Easter season with last year will not be known until sales figures are available for the entire six-week period (the four before and the two after Easter) usually affected by the shifting date of the holiday. The earlier date of Easter was probably largely responsible for the estimated 4 per cent increase of March sales this year over those in March 1952.

The increase in sales during March followed a year-to-year decline of 7 per cent in department store sales in the Second Federal Reserve District in February which largely reflected lower sales in New York City (sales in the rest of the District were equal to those in February 1952). Sales of men's clothing and women's coats and suits were little changed from a year earlier, but the demand for women's dresses which had been fairly strong last February showed a substantial comparative drop this year. Incomplete results also indicated that sales in the major appliance and radio and television departments had dropped 18 and 37 per cent, respectively. These comparisons do not, however, accurately reflect trends in consumer interest in this merchandise. The competition of specialty stores that offer a better net price to the customer (through trade-ins or discounts) has cut deeply into the department store market for these goods. As a result, some department stores are discontinuing or de-emphasizing some of these lines.

Although the value of District stocks on hand on February 28, 1953 had risen less than seasonally from January, combined stocks and outstanding orders at the end of February represented enough merchandise to last 5.1 months at the February rate of sales, compared with 4.7 months' supply a year earlier. February's somewhat disappointing sales results undoubtedly influenced the placing of new orders during the month, which were 5 per cent below those in February 1952.

Indexes of Department Store Sales and Stocks Second Federal Reserve District

(1947-49 average=100 per cent)

Item	1953		1952	
	Feb.	Jan.	Dec.	Feb.
Sales (average daily), unadjusted	79	78	175	82
Sales (average daily), seasonally adjusted	96	97	101	100
Stocks, unadjusted	107	101	102	103r
Stocks, seasonally adjusted	110	114	111	106r

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 Feb. 28, 1953
	Feb. 1953	Jan. through Feb. 1953	
Department stores, Second District	− 7	− 5	+ 3
New York—Northeastern New Jersey Metropolitan Area	− 9	− 7	+ 2
New York City*	−12 (−6)	− 9 (−5)	+ 1
Nassau County	n.a.	n.a.	n.a.
Westchester County	+ 2	+ 1	+ 4
Northern New Jersey	+ 1	+ 1	+ 7
Newark	− 2	− 2	+ 7
Fairfield County	+ 1	− 2	+13
Bridgeport	+ 1	− 1	—
Lower Hudson River Valley	+ 2	+ 3	+ 2
Poughkeepsie	+ 2	+ 3	+ 5
Upper Hudson River Valley	0	− 1	+ 4
Albany	+ 1	− 1	+ 4
Schenectady	+ 1	0	+ 6
Central New York State	+ 1	+ 6	+ 4
Mohawk River Valley	− 2	+ 3	+ 2
Utica	− 3	+ 1	− 2
Syracuse Metropolitan Area	+ 2	+ 8	+ 6
Northern New York State	+ 3	+10	—
Southern New York State	− 3	0	0
Binghamton Metropolitan Area	− 3	− 1	− 2
Elmira	− 2	+ 2	+ 2
Western New York State	0	+ 3	+ 3
Buffalo Metropolitan Area	0	+ 2	+ 2
Buffalo	− 1	+ 1	+ 2
Niagara Falls	+ 6	+ 7	—
Rochester Metropolitan Area	− 2	+ 4	+ 5
Apparel stores (chiefly New York City)	− 1	− 1	+ 6

n.a. Not available.

* The year-to-year comparisons given in parentheses exclude the data of a Brooklyn department store that closed early in 1952.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Summarized by the Board of Governors of the Federal Reserve System, March 30, 1953)

Economic activity rose further in February and March. Industrial output reached new postwar highs, and construction activity increased somewhat from earlier advanced levels. Retail trade expanded, as auto sales showed considerable strength and other lines generally gained somewhat. Wholesale prices continued at about the January level, while consumer prices were somewhat lower.

Industrial Production

The Board's industrial production index rose further in February to 239 per cent of the 1935-39 average. Output of both durable and nondurable goods increased moderately. The March index is estimated at 241, with the gain reflecting mainly greater activity in the automobile industry.

Production of passenger cars since mid-February has been at an annual rate of about 6.5 million units, close to 50 per cent above the reduced rate of a year ago; output for the entire first quarter was not far below the 1951 record for this period. Output of major household goods in February apparently changed little, following the rapid expansion of last autumn and early winter. Activity in industrial and military equipment lines has continued at advanced levels. Output of metals and building materials was maintained in February in unusually large volume, and in March steel ingot production rose to a new record level.

Activity in the cotton textile, leather, paper, and printing industries rose somewhat further in February. Production of shoes and of paperboard was in exceptionally large volume. Output of manufactured dairy products continued to expand and was considerably greater than a year ago, owing mainly to a sharp increase in butter. Meat production in the first half of March was moderately above a year ago, as substantially larger beef output more than offset a decline in pork.

Bituminous coal mining declined further in February and early March. Crude petroleum output was maintained in February but has been curtailed slightly in March.

Construction

Value of construction contract awards declined slightly in February, reflecting chiefly decreases in awards for public construction. Housing units started advanced to a seasonally adjusted annual rate of 1.23 million from 1.16 million in January. Total new construction activity declined less than seasonally from earlier advanced levels.

Employment

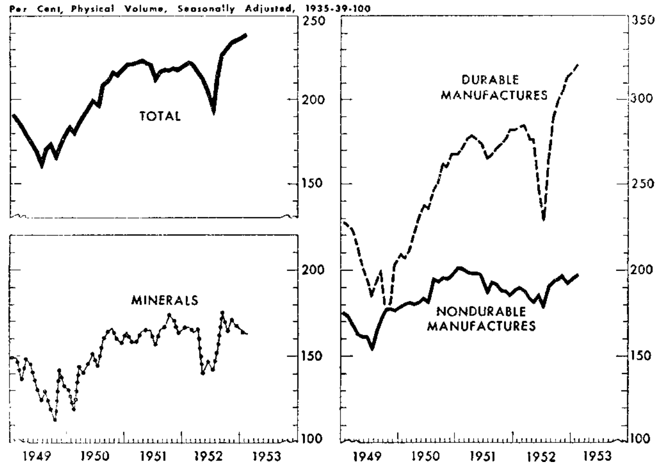
Seasonally adjusted employment in nonagricultural establishments of 47.9 million in February was up moderately from January. Hourly earnings and the average work week at factories remained at about the January level. Unemployment, after a seasonal rise in January, declined to 1.8 million in February, a postwar low for this month.

Distribution

Total retail sales rose in February after seasonal adjustment and as in other recent months were substantially higher than a year ago. Sales by automotive dealers were up considerably, and sales at other durable and most nondurable goods stores showed moderate gains. Seasonally adjusted sales at department stores increased somewhat in February and the first three weeks of March; during the corresponding period last year they had shown some decline. Stocks at department stores are estimated to have changed little in February, after rising in January, and at the end of the month were moderately higher than a year ago.

INDUSTRIAL PRODUCTION

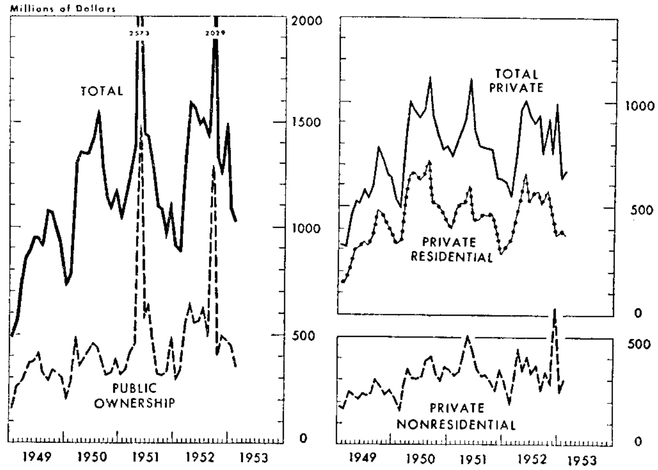
Per Cent, Physical Volume, Seasonally Adjusted, 1935-39=100



Federal Reserve indexes. Monthly figures, latest shown are for February.

CONSTRUCTION CONTRACTS AWARDED

Millions of Dollars



F. W. Dodge Corporation data for 37 Eastern States. Monthly figures, latest shown are for February.

Commodity Prices

The average level of wholesale prices changed little from mid-February to the end of March. Following removal of controls, prices of coffee, cigarettes, and various industrial materials were raised. Grains also advanced, while rubber, hides, and some cotton textiles declined. Prices of passenger automobiles were reduced by a major producer.

The consumer price index declined somewhat further in February, reflecting chiefly further decreases in beef prices. Little change is indicated in March.

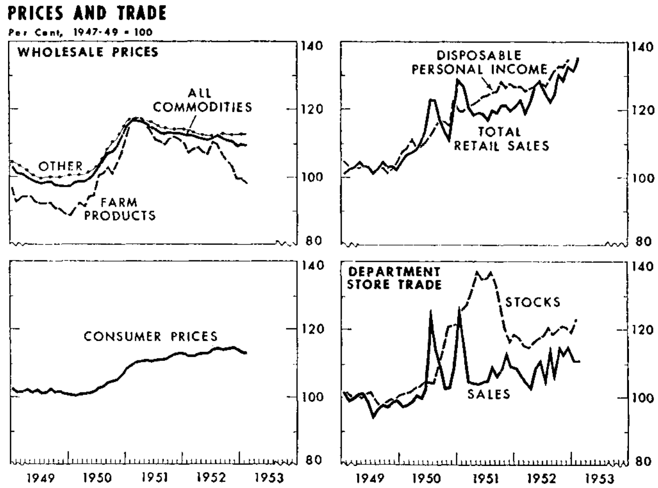
Bank Credit

Loans and investments at banks in leading cities increased somewhat in the first half of March following substantial reductions in January and February. The March rise was due in part to a sharp expansion in borrowing by businesses in a number of lines. Outstanding loans to commodity dealers and food processors, however, continued to decline seasonally. Consumer and real estate loans of banks rose further, and bank holdings of U. S. Government securities continued to decline.

Member bank reserve positions were generally tight in the first half of March, reflecting an increase in currency in circulation and a further outflow of gold. In the week ending March 11, member bank borrowing from the Federal Reserve averaged 1.4 billion dollars, almost 900 million dollars more than excess reserves. After the middle of the month, however, there was some temporary easing in reserve positions due in large part to Treasury operations around the quarterly tax date.

Security Markets

Yields on intermediate and long-term Treasury bonds and on corporate bonds rose to new postwar highs during the first three weeks of March. Yields on Treasury notes and short-term bonds were relatively stable, and bill rates declined somewhat. Common stock yields declined moderately as a result of a continued rise in stock prices.



Seasonally adjusted series except for prices. Wholesale prices and consumer prices, Bureau of Labor Statistics indexes. Total sales and disposable personal income, Federal Reserve indexes based on Department of Commerce data. Department store trade, Federal Reserve indexes.