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MONEY MARKET IN MAY

While bank reserves remained in generally tight supply during May, the money market was relatively easier over most of the last half of the month than it had been for some time. Federal funds in New York, which in preceding months had been quoted almost continuously at or close to the 2 per cent Federal Reserve discount rate, were generally available in the market during the last half of May below that rate, and near the close of the month the effective rate fell as low as ¼ to ½ per cent. However, at the month end, the rate on Federal funds firmed considerably. The market gained reserves on balance during May from moderate purchases of Government securities by the Federal Reserve System, while the level of required reserves was reduced by a further decline in demand deposits at member banks, with the result that the banks were able to reduce the average level of their indebtedness to the Reserve Banks.

Yields on short-term Treasury securities were below end-of-April levels during much of the month, reflecting a large nonbank demand for this form of investment and a reduced volume of commercial bank liquidation. Treasury bills dated May 21 and May 28 were awarded at average rates of 2.092 and 2.084 per cent, respectively, compared with average rates of 2.352 per cent and 2.271 per cent on the issues dated May 7 and 14. The yield decline occurred despite new Treasury borrowing of 600 million dollars through additions to the weekly bill maturities. Treasury bond prices, on the other hand, moved lower (yields higher) during the month, particularly toward the close, extending the price decline that has brought prices on these securities to successive lows during the course of the past few months.

The Treasury completed its spring refunding program during May with an offering of 2⅝ per cent one-year certificates of indebtedness in exchange for the approximately 5.0 billion dollars of 1⅞ per cent certificates maturing on June 1 and the 725 million dollars of partially tax-exempt 2 per cent bonds called for redemption on June 15. Subscription books were open from May 20 through May 22, and holders of 4,411 million dollars of the maturing certificates and 447 million of the bonds elected to exercise their exchange options, indicating an over-all attrition of about 15 per cent. On May 29, the Treasury offered for competitive bids 800 million dollars of tax anticipation bills to be dated June 3 and to mature September 18, 1953. Accepted bids for the issue were at an average rate of discount of 2.383 per cent. During April and May the Treasury borrowed a total of 700 million dollars through additions to some of the weekly bill offerings, and an additional 200 million dollars will be raised on the Treasury bills to be dated June 4.

Member bank credit developments during May followed the pattern established in previous months this year. Business loans at the weekly reporting banks for the three weeks ended May 20 were reduced by 168 million dollars, but the net repayment of loans of this type was more than offset by a further small expansion of consumer and real estate loans and by a 280 million dollar growth in interbank loans, so that net loans of the reporting banks increased by 248 million dollars for the period. During these three weeks, however, the reporting banks disposed of 427 million dollars of Government securities and 105 million of other securities, with the result that total loans and investments of these banks declined by 284 million dollars.

MEMBER BANK RESERVE BALANCES

Total excess reserves of member banks had been only 32 million dollars at the close of the last statement week in April, so that the largest part of the increase in member bank discounting during the two weeks ended May 13, shown in the

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

Factor	Statement weeks ended				Four weeks ended May 27
	May 6	May 13	May 20	May 27	
Operating transactions					
Treasury operations*	+150	−213	+289	−211	+ 15
Federal Reserve float	+ 66	+ 37	+148	−187	+ 64
Currency in circulation	− 76	+ 18	+ 50	− 30	− 38
Gold and foreign account	0	−101	+ 35	+ 54	− 12
Other deposits, etc	+ 31	+ 8	+ 83	+ 48	+170
Total	+172	−249	+603	−325	+201
Direct Federal Reserve credit transactions.					
Government securities	+ 54	+ 19	+ 43	+166	+282
Discounts and advances	+ 96	+331	−734	+ 41	−266
Total	+150	+350	−691	+207	+ 16
Total reserves	+322	+101	− 88	−118	+217
Effect of change in required reserves	+ 24	+141	− 56	− 13	+ 96
Excess reserves	+346	+242	−144	−131	+313
Daily average level of discounts	1,126	1,313	845	617	975
Daily average level of excess reserves	409	623	581	472	521

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

accompanying table, was used to rebuild excess reserves to more nearly normal levels. Reserves were supplied to the member banks during this two-week period by a relatively small increase in float and by net outlays from "other" accounts maintained with the Federal Reserve Banks. At the same time, required reserves declined by 165 million dollars, releasing that volume of reserves. However, the Treasury added to its balances at the Reserve Banks during the first two weeks and currency in circulation increased, tending to reduce member bank reserves. And in the week ended May 13, foreign official deposits at the Reserve Banks were increased, which also appears in the table as a drain on bank reserve balances.

A limited amount of funds was supplied to the market in this period through purchases of short-term Government securities by the Federal Reserve System. Federal Reserve security operations continued throughout May and included both outright purchases for the System Open Market Account and, from time to time, acquisitions of securities under repurchase arrangements with dealers.

Over the middle of May, substantial net disbursements from Treasury balances at the Reserve Banks coincided with the usual midmonth increase in float and a net addition to reserves from other sources. The reserves accruing temporarily to the market were employed to reduce member bank indebtedness to the Reserve Banks, as shown in the table. On May 20, member bank discounts totaled only 530 million dollars. New York City banks were in relatively easy condition toward the close of the third statement week, and Federal funds were readily available in the New York money market at that time at rates well below the 2 per cent rate on discounts at the Reserve Banks.

In the final statement week and the closing days in May, reserves were withdrawn from the market by the customary end-of-the-month contraction of float, an increase in Treasury balances at the Reserve Banks, and an outflow of currency prior to the Memorial Day week end. However, a substantial part of these drains was offset by continued System purchases of Government securities. Member bank borrowing by the end of the fourth week had been increased to slightly higher levels, but the relatively ample supply of reserve balances throughout the week as a whole is indicated by the fact that daily average borrowing by banks was actually somewhat lower than it had been in the previous week. Reflecting the accumulation of excess reserves during the course of that week, surplus funds tended to flow into the New York money market, and Federal funds were in abundant supply at a nominal charge by the end of the week. Over the full four weeks in May, member banks acquired about 480 million dollars in reserve balances (exclusive of changes in borrowing from the Reserve Banks), of which about 280 million represented purchases of short-term securities by the Federal Reserve System. Part of the increase in available reserves will probably be needed to provide for the new Treasury deposits arising from bank purchases of some part of the new tax anticipation bills to be issued by the Treasury on June 3.

Treasury Finance and the Market for Government Securities

The realignment of prices and yields on intermediate to longer-term Government securities that had grown out of the influences impinging upon the market during April was extended in trading during the early part of May, and price declines ranging up to ¾ of a point were recorded. Subsequently, prices advanced to slightly higher levels, where they fluctuated irregularly until the last week in May when a sharp price decline brought prices on outstanding Treasury bonds and notes to new lows for these issues. The price weakness that developed near the end of May appeared to reflect, primarily, continuing uncertainty as to the impact that expected Treasury and private new money financing will have upon the market rate structure. Redistribution of the new 3¼ per cent long-term bonds continued in moderate, two-way trading, and the generally satisfactory performance of this key issue until the last few days of the month helped offset underlying factors of weakness and contributed some balance to the market during most of May. Price quotations on the new bonds fell to almost ½ a point below par early in May, but prices recovered thereafter and the issue traded over most of the balance of the month at about ⅛ to ¼ of a point discount from par on the bid side. At the end of the month, the price receded to more than ¾ of a point discount. Trading in other intermediate and longer-term Government securities, including some switching into the 3¼'s, was desultory throughout May. A few public and private pension funds purchased limited amounts of long-term bonds, which were supplied to the market by dealers and by scattered bank and nonbank investors, and a moderate volume of tax switching in intermediate-term notes was undertaken. Generally, however, this market continued thin, presumably reflecting the above-mentioned uncertainty as to the impact of further borrowing demand upon interest rates on public and private securities.

After firming slightly early in May, yields on short-term Treasury securities tended to decline from the levels reached at that time. During much of the last half of the month, yields on most Treasury bill maturities were quoted on the bid side at a 1.75 to 2.00 per cent range, by contrast with a range of 2.10 to 2.35 per cent early in the month. Yield quotations on the shorter-term certificates of indebtedness also moved to lower levels, while the longer certificates and short notes and bonds were largely unchanged in price until the last week of the month. At that time, the gradually tightening money market and the announcements of the scheduled new Treasury borrowing through regular bills and tax bills resulted in some firming of short-term yields.

The easier tone in the short-term security market during the greater part of May reflected a combination of influences. In part, it resulted from the easier conditions in the money market and a somewhat reduced pressure of bank liquidation. It also was affected by the continuing nonbank demand for short-term Governments, part of which represented temporary employment of funds pending clarification of the outlook for longer-term issues. In addition, dealer positions in short-term Governments had been allowed to run down during the period of rate uncertainty in April and early May, and the dealers were unable to meet the net demand out of their own portfolios. The conditions underlying the market for short-term securities during the greater part of May, therefore, helped provide for absorption of the 600 million dollars of new borrowing undertaken by the Treasury during the month through 200 million dollar additions to the bill issues dated May 7, May 21, and May 28.

Announcement of the Treasury's exchange offering of one-year 2⅝ per cent certificates for the maturing 1⅞ per cent certificates and called 2 per cent bonds was generally well received, and the terms offered by the Treasury were viewed as substantially in line with the market. A small premium was established during the first day of "rights" trading, but a market for the rights failed to develop at this price, and bids were lowered to par or, in some cases, slightly below par. Selling of rights originated principally with holders who considered the one-year term of the new certificate too long to fit their money requirements or who, because they are in an excess-profits-tax bracket, found the after-tax yield on other short-term securities now selling at a discount more attractive. Some buying of the rights developed at or close to par, but trading was not particularly active and many holders who might have sold rights in a broader market presented their securities for cash redemption at maturity. In "when-issued" trading after the subscription books closed on May 22, the new certificates were quoted at approximately par bid until the general rate adjustment near the month end, when the "when-issued" price of the new certificate sagged fractionally below par.

The Treasury announced on May 11 that its Savings note program had been revised, with a new Series B 1953 note replacing the Series A obligations which have been offered for the past two years. The new Savings notes offer a yield of 2.47 per cent if held two years to maturity, by contrast with a yield to maturity (three years) of 1.88 per cent on the Series A notes. Increased yields on marketable securities falling in the maturity range of the Savings notes have, during the past two years, encouraged an increasing volume of redemptions of Savings notes both for cash and for payment of taxes. Between the fall of 1950 and the beginning of May 1953, Treasury Savings notes outstanding declined from about 9.0 billion dollars to 4.8 billion dollars. It is still too early to determine the effect that this latest change in the Savings note program will have upon investor interest in these securities.

Member Bank Credit

In the three weeks between April 29 and May 20 this year, total loans and investments of the member banks in leading cities which report these statistics weekly were reduced by 284 million dollars, while in the similar period last year this total increased by a small amount. For the year through May 20, total earning assets of reporting banks were down by almost 3.5 billion dollars; in the similar period last year the decline was only 840 million dollars.

However, practically the entire contraction in earning assets in 1952 could be accounted for by a net repayment of business loans totaling more than 780 million dollars. This year, business loans at the reporting banks have been reduced by 425 million dollars. Total loans of all types at these banks had actually increased by 581 million through May 20, 1953, in contrast to a decline of 451 million dollars over the comparable period in 1952. The seeming contradiction in these statistics, which show a more rapid decline in total earning assets this year than last, along with a small contraseasonal loan expansion this year, is explained by the much more rapid liquidation of Government security holdings of the reporting banks in the past few months. Government securities held by the weekly reporting banks were reduced by about 650 million dollars in 1952 through May 21; they were reduced by 4,145 million dollars in 1953 through May 20.

Weekly reporting New York City banks accounted for the largest part of the total changes in loans at all reporting banks during the three weeks between April 29 and May 20. As indicated earlier, the increase of nearly 250 million dollars in net loans at all reporting banks reflected primarily the 280 million dollar expansion in interbank loans; of this total, nearly 260 million dollars represented loans by City banks. Also, New York City banks were responsible for more than four fifths of the 168 million dollar contraction in business loans of reporting banks during this period. However, the decline of 43 million dollars in total loans and investments at the New York banks was proportionately less than that for all reporting banks (284 million dollars), reflecting the fact that liquidation of Government securities by the City banks was only one quarter of the total 427 million dollar reduction in this item for all reporting banks.

THE CHANGING IMPACT OF THE BRITISH BUDGET

Chancellor Butler's budget for 1953-54, presented to Parliament on April 14, brought a welcome measure of tax relief both to industry and to individuals. During the postwar years major increases in government expenditure over prewar levels, particularly for the social services and defense, have imposed upon the British public an exceptionally heavy burden of taxation. For much of the postwar period, moreover, the British Government has been compelled to make even heavier taxation demands upon the economy in order to provide a margin of "public" saving via the budget as an offset to the deficiency of private saving. Through this budgetary procedure, revenue surpluses on current account have greatly assisted in offsetting the inflationary implications of the heavy financing of new capital investment, both public and private.

Such disinflationary budgetary policy has been increasingly supplemented by various measures of monetary restraint, particularly since November 1951. This combination of fiscal and monetary measures has helped gradually to reduce the "excess" private liquidity which had developed during the war when a "cheap money" policy was pursued within a framework of price controls, rationing, and other direct controls. By the end of 1952, the potential of excessive money and spending power constituted a much smaller threat to Britain's internal stability and external balance than at any time since the early stages of the war. At the same time, there was a rise in private saving during 1952 which, coupled with the notable decline in import prices that had commenced in 1951, helped to offset the inflationary effects of an increase in defense expenditure and a rise in wage rates. The interaction of these forces, once a restrictive budget policy was reinforced by an increasingly restrictive monetary policy, has resulted in the maintenance of reasonable internal price stability in Britain since mid-1952.

In consequence, with Britain's balance-of-payments position much improved since the dollar crisis of 1951-52 and with productive capacity slightly underutilized, Chancellor Butler decided it was possible to reduce the country's heavy tax burden by a small but significant amount. Hence Britain, in its taxation policy, has been able to turn somewhat from its previous preoccupation with the problem of combating internal inflation to the provision, through tax relief, of a helpful stimulus to production and productivity. The major immediate effect of the tax concessions, particularly those in the purchase tax, may be to stimulate consumption and perhaps to bring about fuller utilization of existing productive capacity. Far more fundamental, however, is the hope that over time such tax relief may tend to strengthen savings incentives as well, and thereby facilitate orderly and noninflationary financing of the investment in technological development upon which Britain's external competitive position so heavily depends.

Table I
Central Government "Revenue Account" Disbursements in Britain
(As a per cent of national income)

Item	1938	1946	1948	1950	1952
Current expenditure on goods and services					
Defense	5.0e	18.6	7.2	7.2	11.0
National Health Service	—	—	1.7	3.7	3.3
Other	4.5e	4.6	4.3	3.2	3.3
Total	9.5	23.2	13.2	14.1	17.6
Government "transfer" payments					
Grants to local authorities*	2.7	2.9	2.9	2.8	2.9
Pensions and grants to individuals†	2.6	6.1	3.4	3.2	3.1
Grants to foreign countries	0.2	1.2	0.3	0.4	0.4
Subsidies	0.7	4.2	5.6	4.3	3.1
National debt interest	4.4	5.5	5.2	4.7	4.7
Transfers to private capital accounts	0.2	6.6	2.2	1.5	0.8
Total	10.8	26.8	19.6	16.9	15.0

e Estimated.
* Excludes loans for capital purposes.
† Excluding National Insurance benefits—covering mainly retirement, unemployment, and sickness—which have been provided for from regular employer-employee contributions.
Source: Central Statistical Office, *Annual Abstract of Statistics (1952); Preliminary Estimates of National Income and Expenditure, 1948 to 1952*, Cmd. 8803.

Reasons for High Taxation

The burden of taxation in Britain is among the highest in the world. Combined central and local government revenue (excluding social insurance contributions) amounted to an equivalent of about 40 per cent of the national income in Britain in 1952, compared with a corresponding ratio of approximately 30 per cent for the United States. The high level of taxation in the postwar period is mainly a result of the substantial increase over prewar in government expenditure on goods and services and in the central government's "transfer" payments to various sections of the community, including local governments (see Table I).

Defense expenditure has, of course, constituted a major burden during most of the postwar period. After a drop from a wartime peak of over 5,000 million pounds to 700 million in 1948, defense spending rose sharply after the Korean outbreak to 1,415 million pounds in 1952, or to 11 per cent of the national income compared with roughly 5 per cent in 1938. Social service expenditures[1] have likewise risen by a sizable amount, compared with prewar. For instance, when taken together, the central government's expenditure on the National Health Service, its current grants to local authorities (used largely to finance social services), and its pensions and grants to individuals amounted to almost 1,200 million pounds in 1952, the equivalent of 9.3 per cent of the national income compared with 5.3 per cent in 1938. The central government's "other" current expenditure—mainly the costs of administration and general services—is relatively low; such expenditure amounted to approximately 3.3 per cent of the national income in 1952, against an equivalent ratio of about 2 per cent for

[1] Excluding government housing expenditure and National Insurance benefits (mainly retirement, sickness, and unemployment benefits, which have thus far been more than covered by employer and employee contributions). These outlays have also risen substantially.

comparable Federal Government expenditure in the United States.

Other sizable central government payments that have added to tax revenue requirements have been subsidies, national debt interest, and "transfer" payments to private capital accounts. Total central government subsidies—including production and housing subsidies as well as food subsidies—reached a high of 542 million pounds in 1948, but later reductions brought this total down to 397 million in 1952, or to the equivalent of 3.1 per cent of the national income. National debt interest payments rose from 213 million pounds in 1938 to 481 million in 1946, the large wartime expansion of the national debt being offset in part by the lower interest charges resulting from the government's cheap money policy. The annual debt burden, after remaining relatively stable in money terms from 1946 through 1950, rose by 100 million pounds to 602 million in 1952. The increase resulted both from the debt service payments, which began in 1951, on the United States and Canadian loans, and from the changes in the market rates of interest which began in the same year following the abandonment of a pegged short-term interest rate structure. In proportion to national income, however, the annual debt burden was only slightly greater than in 1938. Government "transfer" payments to private capital account—chiefly war damage compensation, war gratuities, and postwar refunds of excess profits taxes—have been of considerable, but rapidly diminishing, importance during the postwar period, dropping from the equivalent of 6.6 per cent of the national income in 1946 to 0.8 per cent in 1952.

In formulating its tax policy, the British Government has attempted to do more than raise adequate revenue merely to cover its current disbursements. Since the end of the war, it has become fairly generally accepted that the Chancellor should budget for whatever surplus or deficit would serve to equate the expected gross national saving with the expected gross national investment, with a view toward maintaining total effective demand at a rate sufficient to provide a high level of employment without at the same time producing an inflationary rise in prices. The objective, under the severely inflationary conditions that have prevailed for much of the postwar period, was described by Chancellor Cripps in his budget speech of April 6, 1948 as follows:

> Government expenditure and revenue ought not to be considered in isolation from their effects upon the general economic prospects of the country . . . . The new task of the Chancellor of the Exchequer is not merely to balance the Budget; it is a much wider one—to match our resources against our needs . . . . [At present this requires] . . . a real and substantial surplus, which more than provides for all government expenditure, capital and current, and leaves over a balance, to be used to counter the inflationary pressure . . . .

During the fiscal years 1948-49 through 1950-51, as will be shown below, ordinary current account surpluses were more than sufficient to offset the government's capital expenditures, thereby yielding "over-all" surpluses which were used largely to retire short-term debt held by the banking system. For the past two fiscal years, however, current account surpluses have been adequate to finance only part of the central government's capital expenditures (mainly loans to local government authorities for housebuilding), so that over-all deficits have been realized. Nevertheless, given the postwar deficiency of private saving, these current account surpluses have had a disinflationary impact in the sense that even the partial financing of the government's capital outlays through taxation has averted some inflationary expansion of bank credit. By helping to restrict consumption and thereby to provide, in effect, a larger volume of internal saving, the disinflationary impact of these budgets has facilitated the gradual dismantling of the price, rationing, and allocation controls that were carried over from wartime.

The Need for Saving

Britain was confronted after the war with a more serious problem of containing inflation than the United States; the war began for Britain two years earlier, mobilization was more intensive, and productivity was impaired by a wartime reduction in capital facilities caused in part by war losses and in part by inadequate wartime replacement. In relative terms, the volume of liquid assets that was built up during wartime behind the dam of price controls and rationing was significantly larger in the United Kingdom, and the pent-up demands of individuals and businesses for consumer and investment goods were also much stronger.

After the war, moreover, Britain was faced with the need for large structural shifts in its economy which required a severe restraint upon consumption. In the first place, a very substantial increase in the country's physical volume of exports was needed in order to offset such factors as the sharp deterioration in its terms of trade,[2] the great reduction in its real investment income from abroad, its significantly larger government overseas expenditures, and its impaired capacity for net earnings from shipping. Secondly, a high rate of investment was required if Britain was to maintain a rate of technological progress sufficient to keep its output competitive abroad and to preserve living standards at home. Finally, additional resources had to be made available in the postwar period for very large increases over prewar in military expenditures and for an expanded welfare program.

These postwar conditions, and the attendant danger of severe inflation, were largely responsible for the government's decision after the war to retain essentially intact the principal elements of the wartime stabilization program: price control and cost-of-living subsidies, consumer rationing, raw material

[2] That is, the relation between export and import prices (see chart on page 87).

Table II
Composition of Gross National Expenditure in Britain
(In per cent of total)

Item	1938	1946	1947	1948	1949	1950	1951	1952	1948-52 average
Personal consumption	77.1	72.0	73.8	71.3	70.3	70.5	69.3	67.4	69.8
Government expenditure on current goods and services	13.5	24.2	17.8	15.4	16.1	15.8	17.3	19.1	16.7
Gross domestic capital formation:									
Fixed capital investment	10.5	9.5	11.6	12.5	12.8	13.0	13.0	12.9	12.8
Inventory investment	nil	− 1.4	2.3	1.2	0.3	− 1.7	3.2	− 0.6	0.5
Balance on foreign transactions	− 1.1	− 4.3	− 5.5	− 0.4	0.5	2.4	− 2.8	1.2	0.2
Gross national expenditure at market prices	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Statistical Office, *Annual Abstract of Statistics (1952); Preliminary Estimates of National Income and Expenditure, 1948 to 1952*, Cmd. 8803.

allocation, investment goods and building licensing, capital issues control, import and exchange control, qualitative bank credit controls, and high taxation. Hence, in the postwar period, private liquidity continued to be "excessive" in the sense that both businesses and individual holders of cash balances, savings accounts, and readily negotiable securities were able and anxious to spend more than they were permitted to by allocation, rationing, and licensing controls.

Britain's accomplishment in effecting a shift in the utilization of its available resources away from consumption and into investment, export, and government uses is reflected in Table II. Whether enough actually was done has been widely debated; but, in any event, a very substantial measure of success was in fact achieved.

During the 1946-47 period of postwar adjustment, when production was relatively low, real consumption rose above wartime levels, but remained well below prewar levels as a proportion of gross national expenditure. On the other hand, military and other government expenditure remained very high and was an important factor limiting the amount of private investment that could be undertaken and causing a large balance-of-payments deficit.

The magnitude of Britain's structural adjustment expresses itself more clearly in the trends since 1948. The share of personal consumption in gross national expenditure dropped from 77.1 per cent in 1938 to an average of 69.8 per cent for 1948-52. However, this relative decline was not attended by any marked deterioration in living standards; what happened rather was largely a curbing of improvement in these standards in order to divert output increases to other more pressing needs. As indicated in Table II, government expenditure, new investment in fixed capital and inventories, and net foreign transactions each absorbed a significantly greater share of total resources than before the war. In 1952, the large improvement in the external balance and the increase in government defense expenditure were made possible partly by an actual reduction in investment, especially in inventories, and in consumption.

The Mobilization of Savings by the Budget

In view of Britain's large needs for nonconsumption purposes, the government has viewed "public" saving via the budget as necessary to compensate for an inadequate volume of personal and business savings. The combined current surplus of the central and local governments accounted for some 30 per cent of Britain's gross national savings for the period 1948 through 1952, while savings of public and private corporations comprised approximately 65 per cent, and personal savings were responsible for little more than 5 per cent of the total. The potential for private saving has of course been severely limited by high taxation, but such taxation has been considered necessary in view of the probability that actual private saving, had taxes been lower, would have still been inadequate to meet Britain's total savings requirements. The magnitude of the central government surpluses that have been achieved during the postwar fiscal years is indicated in Table III.

The government, besides giving special attention to the size of the over-all budget surplus or deficit, has adapted the budget in other ways for restraining inflation. For instance, official concern has been evident throughout the postwar period regarding the possible adverse effects of the various kinds of taxes on incentives and productivity. As a result mainly of changes in the tax structure, the yield from indirect taxes, which presumably discourage incentives less than do direct income and profit taxes, was by 1951 the same as from direct taxes, although in 1946 the yield had been only three quarters as great. Similarly, one of the purposes behind the retention of the food subsidies—although these were significantly cut in 1952 because of their heavy cost—has been to help stabilize

Table III
Postwar Budget Trends in Britain
(In millions of pounds)

Fiscal year ended March 31	"Above-the-line" accounts*			"Below-the-line" deficit (−)	Over-all surplus (+) or deficit (−)
	Ordinary revenue	Ordinary expenditures	Surplus (+) or deficit (−)		
1938-39	927	940	− 13	− 13e	− 26e
1946-47	3,341	3,910	−569	−538e	−1,107e
1947-48	3,845	3,210	+635	−650	− 15
1948-49	4,007	3,176	+831	−489	+ 352
1949-50	3,924	3,375	+549	−478	+ 62
1950-51	3,978	3,257	+721	−473	+ 248
1951-52	4,433	4,054	+379	−529	− 150
1952-53	4,439	4,351	+ 88	−524	− 436
1953-54 (estimated)	4,368	4,259	+109	−549	− 440

* The "above-the-line" balance, based on Britain's conventional method of budgetary accounting, refers to "ordinary" or current transactions, while the "below-the-line" items are generally of a capital nature.
e Estimated from official British statistics by the Federal Reserve Bank of New York.
Source: *Financial Statement* of the Treasury, various years.

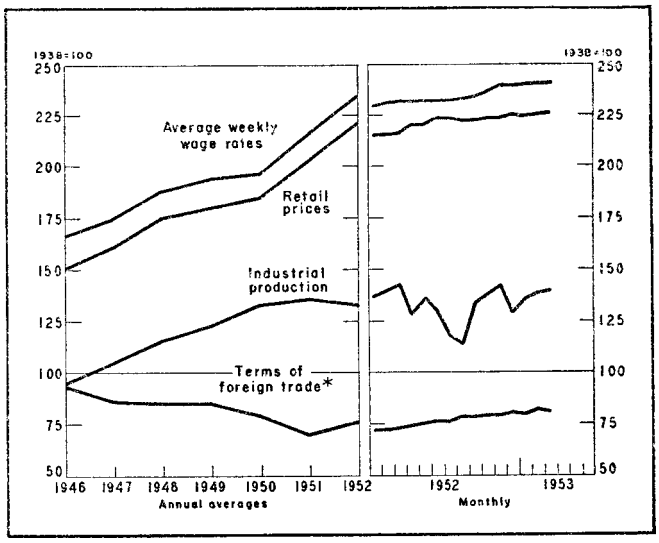
the cost-of-living index, and thus to restrain wage demands and a consequent wage-price inflation.

Following a large reduction in the peacetime carry-over of military expenditure, substantial ordinary surpluses were realized from 1947-48 through 1950-51. Approximate over-all balance was attained in 1947-48, in the sense that the ordinary surplus was almost sufficient to finance the government's capital expenditure without resort to new borrowing from the banks or on the capital market, and actual over-all surpluses were achieved in the following three years. Taken as a whole, the postwar budgets through 1950-51 provided for some relatively small personal-income-tax reductions (mainly affecting the lower and middle-income groups, and designed to stimulate work incentives, especially as regards overtime), an increase in corporate profit taxes (partly as an offset to the elimination of the wartime excess profits tax as of January 1, 1947), an increase in death and estate duties, and an increase in indirect taxes. On the disbursements side, the data in Table III suggest that something of a plateau was reached and maintained between 1947-48 and 1950-51.

By 1950, Britain's progress toward internal stability held the promise that the burden assumed by the budget in combating inflation might soon be reduced and that incentive tax concessions might therefore become possible. The *Economic Survey for 1951* stated: "The evidence seems to show that by the middle of 1950 steady adherence to the policy of disinflation had brought about a fairly satisfactory balance between total demand and total supply. Demand continued to run at a high level, but not at so high a level as to cause any marked symptoms of inflation". It may be noted also that rationing and allocation controls were by this time limited to a relatively small number of goods and commodities; however, price controls remained rather generally in force. By the end of 1950, consumer rationing was confined essentially to basic foodstuffs and coal, although in addition housebuilding was controlled and certain important consumer durables such as automobiles remained subject to "unofficial" rationing. Allocation controls over industrial raw materials were also very few, mainly over coal, softwood, sheet steel, tin plate, cotton yarns, sulphur, jute, and sisal.

This situation was markedly changed by the outbreak of war in Korea. The rearmament program necessitated a sharp increase in government expenditure, which Chancellor Gaitskell (who succeeded Chancellor Cripps) decided to cover to only a moderate extent by increases in taxation, partly because of the already burdensome level of taxes, and partly because Britain's improved internal and external position seemed to permit some relaxation in the government's disinflationary efforts. At the same time, however, a more extensive use was made of direct controls, mainly as regards the allocation of strategic raw materials. The actual budgetary outcome for 1951-52, compared with the anticipated over-all deficit of about 450 million pounds, was a deficit of only 150 million,

United Kingdom Economic Indicators



* Average export prices divided by average import prices.

Sources: *The Times Review of Industry*, "London and Cambridge Economic Service Bulletin"; Central Statistical Office, *Monthly Digest of Statistics*; International Monetary Fund, *International Financial Statistics*.

the result chiefly of revenue in excess of expectations and of a retardation of military expenditures.

Chancellor Butler, who succeeded Chancellor Gaitskell upon the change in governments in the autumn of 1951, attempted to bring the following budget for 1952-53 into approximate over-all balance, basing his estimates mainly on the expectation that Britain's terms of trade would improve and that domestic production would increase.[3] Because of the additional burden to be imposed by larger defense expenditure, an excess profits tax of 30 per cent was levied (offset in part by a reduction in the ordinary corporate profit tax) and the tax on petroleum products was increased. In addition, a 40 per cent cut in the cost of food subsidies was accompanied by a reduction in personal income taxes and an increase in family allowances.

The actual budgetary result for 1952-53 was a large over-all deficit of 436 million pounds, attributable in part to revenue falling below expectations when profits and other incomes did not rise as predicted, and in part to government expenditure in excess of the original estimate. Yet Chancellor Butler was able to assert that the deficit did not impair the broader objectives in view when the budget was originally formulated—presumably the objectives of external balance, internal price stability, resource flexibility, and a high level of domestic employment. What happened was that the improvement in the terms of trade was greater than anticipated (see chart), the physical volume of exports declined unexpectedly, and—perhaps partly because of the more restrictive monetary policy—consumption expenditure and inventory investment tapered

[3] For details of the new government's economic program and subsequent developments, see the May and December 1952 issues of this *Review*.

off. Hence, the ordinary current surplus did not need to be nearly so large as the Chancellor had originally calculated.

Britain's progress toward greater internal stability is reflected in the chart. Retail prices, after rising more or less gradually throughout the postwar period, have remained relatively stable since mid-1952. Industrial production, after a steady rise through 1951, fell off slightly, mainly as the result of a recession in both foreign and domestic demand for Britain's manufactures of clothing and textiles, but it has now recovered approximately to the 1951 level. At the same time that better internal balance was being achieved, the government undertook to relax its use of direct controls and to return a number of commodity markets to the hands of private traders. On the other hand, the danger of wage inflation continues to be a problem; wage demands, which resulted in a moderate rise in average weekly wage rates toward the end of 1952, are currently being renewed in some quarters and, if effective, might well tend to undermine the competitiveness of Britain's products abroad by pushing up internal costs.

The eased pressure of internal demand has made a significant contribution to Britain's improved external balance by curtailing import requirements and increasing the availability of goods for export. Britain's lengthy delivery dates for exports, which have been a major factor preventing larger sales of capital goods abroad, appear to have been considerably shortened in 1952. Helped in addition by a substantial improvement in the terms of trade, by direct import cuts, and by a high level of economic activity in the dollar area, Britain shifted from a balance-of-payments deficit on current account (including MSA defense-support aid) of 398 million pounds in 1951 to a surplus of 291 million in 1952.

The Decline in "Excess" Private Liquidity

One of the reasons for the relatively lower level of domestic demand would appear to be that excess private liquidity, which has been an inflationary factor of gradually diminishing importance over the postwar years, was much reduced by 1952-53. In addition, the large volume of sterling balances held abroad, which had essentially constituted an external form of excess liquidity, were also in 1952 more nearly approaching the normal level necessary for working balances—notably those of Australia and India—and this development was responsible in great measure for the reduction during that year in Britain's physical volume of exports.

A very rough indication of the postwar trends in domestic excess liquidity in Britain is provided in Table IV. Although in the broad sense, a definition of liquid assets may include such "near-moneys" as savings bank deposits, life insurance equities, and government and other securities, liquidity more narrowly defined may be taken as the aggregate money supply in private hands. The money supply almost doubled between 1938 and 1945, while gross private expenditure rose only about 10 per cent, reflecting largely the fact that allocation and rationing controls prevented individuals and business firms from spending as much as they wished.

The money supply relative to current private outlays then declined rather steadily over the postwar period, and by 1952 the ratio was slightly below that of 1938. In effect, disinflationary budgeting, together with the existing monetary controls, served to restrain the growth of the money supply, while a gradually rising domestic price level, expanding output, and an import surplus through 1948 (financed by foreign grants and loans, a drawing-down of foreign exchange reserves, and sales of British holdings of foreign investments) contributed, from the supply side, toward reducing excess liquidity. It may be noted in particular that, upon being sold in exchange for domestic sterling, the additional supply of imports afforded by the United States and Canadian loans and by Marshall aid made a significant contribution to the diminution of liquidity.

Private liquidity, as more broadly defined, has steadily declined relative to gross private expenditure during the postwar period, although it still is greater than prewar. For example, total holdings of Britain's so-called "small savings"—including National Savings Certificates, Defense bonds, and deposits in post office and trustee savings banks—rose as a ratio to gross private expenditure from about 30 per cent in 1938 to approximately 90 per cent in 1945, but had dropped below 50 per cent by 1952; moreover, in actual volume these savings have remained essentially unchanged since 1948. Some other types of personal saving, such as contractual saving through insurance and various kinds of welfare societies, may be slightly higher relative to gross private expenditure than before the war, but these are generally not of a highly liquid nature. As regards the national debt, detailed ownership data are unfortunately not available, but it may be noted that a substantial portion is now more firmly lodged in the hands of government departments, the Exchange Equalization Account, and large institutional investors. During the postwar period, large private holdings of government (and other) securities have

Table IV
Postwar Liquidity Trends in Britain
(In millions of pounds)

Year	Money supply*	Gross private expenditure†	Ratio of money supply to private expenditure
1938	2,968	4,945	0.60
1945	5,825	5,500e	1.06
1946	6,280	7,509	0.84
1947	6,839	8,774	0.78
1948	6,955	9,952	0.70
1949	7,031	10,538	0.67
1950	7,089	10,990	0.65
1951	7,260	11,864	0.61
1952	7,279	12,549	0.58

* Annual averages of midmonth data. Excludes government deposits. Includes bank notes in circulation and the "net deposits" of the eleven London clearing banks, and is roughly comparable to United States net demand and time deposits plus currency in circulation.

† Gross national expenditure less government expenditure on current goods and services. Includes public investment expenditure, but this comprises a relatively small part of the total.

e Rough estimate.

Sources: *The Times Review of Industry*, "London and Cambridge Economic Service Bulletin"; Central Statistical Office, *Annual Abstract of Statistics (1952); Preliminary Estimates of National Income and Expenditure, 1948 to 1952*, Cmd. 8803.

been liquidated, partly by businesses in order to obtain needed capital or to meet tax liabilities, but largely by individual holders, usually for the purpose of maintaining customary living standards in the face of high taxation.

The 1953-54 Budget

Chancellor Butler's budget for 1953-54 was presented as an "incentive budget" intended to stimulate productive effort. His four main proposals, involving a revenue loss in the present fiscal year of 169 million pounds, were summarized as ". . . the restoration of the initial [depreciation] allowances for plant and machinery, a lessening of the load of the Purchase Tax, a prospect of the future ending of the E.P.L. [*i.e.*, the excess profits tax], and the reduction of the . . . Income Tax". After allowing for these tax remissions, the Chancellor anticipated for 1953-54 an ordinary surplus of 109 million pounds, which when set against an expected "below-the-line" deficit of 549 million, implies an over-all deficit (and hence comparable public borrowing) of about 440 million, or roughly the same as actually realized in 1952-53.

Despite these incentive tax concessions, Chancellor Butler appears not to have departed from the principle of compensatory fiscal policy, as seems clear from his statement that: "This year, my economic analysis has shown that [as in 1952] the likely level of effective demand will still be less than our productive capacity, so that again we shall not require savings through the Budget of anything like the size of previous years". The distinctive feature of the Chancellor's general approach to economic policy has rather been his endorsement of more positive monetary measures that are intended to operate in conjunction with fiscal policy and to relieve the budget of some of the heavy burden it has borne to date in Britain's fight against inflation.

Some use was made of monetary restraint measures, it is true, following the abandonment in early 1947 of Chancellor Dalton's postwar attempt to depress interest rates further. However, until the new monetary measures of late 1951 and early 1952, primary emphasis was placed upon qualitative restraints over bank loans, exercised through intermittent Bank of England instructions to the commercial banks as regards lending criteria and, to a lesser extent, upon permitting longer-term interest rates to rise freely in response to market forces.

Since late 1951, however, the new monetary measures—the raising of the Bank of England discount rate to 4 per cent, the Bank of England's resumption of the initiative in open market operations, and several ancillary measures—have made a significant contribution to internal stability and to the improvement in Britain's external accounts. In broader terms, however, perhaps the most notable aspect of the new monetary policy is that it reflects the British determination to use all available measures that might help to maintain internal price stability and thereby provide the confidence in sterling needed to increase saving incentives at home and to encourage a more favorable environment for foreign trade.

A further distinctive feature of Chancellor Butler's program is to be seen in the nature of his tax reductions. More stress was placed on the incentive to invest in industry than in previous postwar budgets, although the total benefits involved will not accrue immediately. First, the excess profits tax is to be eliminated, but only as of January 1, 1954. Second, the special initial depreciation allowances for new investment have been restored: 20 per cent for capital expenditure on plant and machinery, 10 per cent for industrial buildings, and 40 per cent for new mining projects. Finally, about half of the benefit from Chancellor Butler's cut in the standard rate of income tax from 9½ to 9 shillings is expected to go to industry through its effect in reducing the tax rate on corporate profits. As it affects personal incomes, the standard-rate reduction may be expected to influence industry's incentive to produce but mainly by the indirect route of stimulating consumer demand, as will also be true in the case of Chancellor Butler's 25 per cent reduction in purchase-tax rates.

Concluding Comment

Despite the recent tax concessions, the over-all burden of British taxation remains very heavy. The scope for future tax reductions will depend in significant measure not only upon the course of international political developments but also upon a continuation of efforts to reduce less essential government expenditures, upon the effects of the new "incentive budget" in stimulating productivity, and upon the extent to which the recent and prospective tax remissions lead to increased private savings and productive investment rather than to greater consumption.

Britain's need for greater saving and corresponding new investment continues to be of vital importance. Given the prospect of increased competition in the sale of its manufactures abroad, Britain's future depends in part upon a continued growth in the world market for manufactures and in part upon the attainment of a satisfactory rate of industrial progress at home. The British *Economic Survey for 1953* emphasized that: "There can be no question of the importance of maintaining a high level of productive investment in 1953 and future years . . ." because ". . . if exports are to be raised to the new plane required and maintained there throughout the years ahead, there will be the need for the continuous development of new products and of new industries exploiting new techniques".

Against the background of a severe balance-of-payments crisis, last year's budget was inevitably concerned with the short-run objective of attaining improved external balance and internal stability. The successful progress toward these objectives during the past year has enabled Chancellor Butler, in his new budget, to give more attention to the fundamental problem of incentives, particularly as they bear on investment and productivity, and hence on Britain's present and future competitive position in international trade. There are of course risks, as well as opportunities, in relaxing somewhat the severe budget discipline of earlier years. The restoration of flexible monetary policy to a position of greater influence provides one possible means of helping to meet whatever problems may arise.

CONSUMER PRICE INDEX

The U. S. Bureau of Labor Statistics has recently completed a thorough revision of the consumer price index, the first such revision since 1940. This revision was undertaken in order to provide better reflection in the index of the marked changes in consumer buying patterns which have occurred as a result of the substantial rise in real incomes and the introduction of many new consumer products since the late thirties.

During World War II the consumer price index had gained new importance as a tool of Government policy-making in addition to its significance as a business indicator and a yardstick in private wage negotiations. This index was used to estimate the effectiveness of price controls at the consumer level and to aid in the formulation of wage stabilization policies. Controversy over the significance and reliability of the index resulted in endorsement of the Bureau's work by a Presidential commission of leading statisticians but revealed the necessity for improving and bringing up to date some of the techniques used. About three years ago a comprehensive revision was undertaken. However, because of the need for an improved measure of the price rises resulting from the outbreak of the Korean war, particularly since there had been increasingly widespread use of the index in the "escalator" clauses of many wage contracts, the Bureau published an interim revision of the index in March 1951 (beginning with the January 1951 index) to serve until the revision could be completed.[1] This interim index proved to be a reasonably close approximation of the one which emerged from the more comprehensive revision.

As indicated by its full (but seldom used) title, "Index of Change in Prices of Goods and Services Purchased by City Wage-Earner and Clerical-Worker Families to Maintain Their Level of Living", the index is a measure of price change. It does not attempt to show any changes from month to month in the quality and quantity of goods and services bought or in the total amount spent for living. Its main purpose is to measure the purchasing power of disposable income in terms of a pattern of expenditures. Income taxes are regarded as a deduction from income rather than the price of a particular service. Savings also are excluded from the index.

Several times in its history the index has been brought up to date to reflect the changes in the public's buying habits. The first "market basket" was based on a survey of expenditures by consumers in 1917-19, and the next major study was made for the years 1934-36. Minor adjustments were made to allow for the unavailability of some items during World War II. Subsequently, when the interim index was introduced, the effects of postwar changes, as shown by experimental surveys in 1947-49, were taken into account. The 1952 revision is based on the Survey of Consumer Expenditures that was made as of 1950 in 91 cities by the Bureau of Labor Statistics; these data have been adjusted to reflect changes in buying habits up to 1952. "Weights" are derived to reflect the importance of each commodity in the "market basket". These weights, which are different for each city, are then used to combine price data into group indexes for that city; these city indexes are combined into a national index on the basis of population weights.

The revised index is a direct continuation of the "interim adjusted series" and is linked to indexes that are continuous back to 1913. The preservation of the "historical continuity" is possible because the index is essentially the same in purpose and design; the technical improvements have not changed the basic index structure. The January 1953 revised index has been linked directly to the December 1952 interim index. The Bureau had planned to end publication of the "old series" in December 1952. It had been carried forward, despite the introduction of the interim adjusted series in 1951, in order to smooth over the transitional adjustment to the interim series for users of these data. However, President Eisenhower ordered the old series to be computed for another six months to allow time for those labor unions and businesses whose contracts still made reference to this series to shift their contracts to the revised index base.

Several major improvements have been made in the new index. In addition to the change in the weighting schedule already described, the revision improved geographical coverage and increased the variety of commodities priced. A change was also made in the base period, which was shifted from the 1935-39 average to the 1947-49 average.

[1] An article describing the index and the interim revision appeared in the April 1951 issue of this *Monthly Review*, pp. 55-57.

REVISION OF CONSUMER CREDIT STATISTICS

The Board of Governors of the Federal Reserve System has recently completed an extensive revision of its consumer credit statistics involving both conceptual changes in the composition of the series and the incorporation into the series of new statistical information which has recently become available. The figures included in the table of Selected Economic Indicators, published on p. 92 in this *Review*, are on the revised basis.

The series has been revised monthly back to December 1939. Although data were not available to carry a complete revision through earlier years, the major components of the old series for the period 1929-39 have been adjusted upward to the level of the revised series on the basis of the relationship between the new and old estimates for the end of 1939.

A detailed description of the changes and the revised figures were published in the April 1953 issue of the *Federal Reserve Bulletin*. A reprint of the article may be obtained free of charge by writing to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C.

For the first time since its inception, the index includes data for medium-sized and small cities as well as for large cities. The present list of cities ranges in size from New York City down to towns of 2,500 population and is thus more representative of all urban areas. While the old index was based on prices in 34 large cities, the new national index is based on samples of prices in 46 cities, only 20 of which are classified as large cities. Separate indexes are published only for the 20 largest cities. In the case of small and medium-sized cities, the weights assigned to each city reflect the relative importance of all cities of similar size, climate, and income in the United States.

Prices of items in the "market basket" used for the index are collected at regular intervals, and the price changes are determined by comparison of successive prices. Detailed specifications are drawn up for each item in the index to minimize the effect of changes in style or quality. The frequency of the pricing of commodities in the cities varies. Prices of all sample commodities and services are collected monthly in the five largest cities. In all other cities, prices are collected monthly for foods, rents, and fuels. All other goods and services are priced quarterly in the 25 other large and medium-sized cities and every four months in the 16 small cities. Furthermore, pricing dates in those cities which are priced every three or four months are staggered, so that, for example, goods priced in January, April, July, and October in one group of cities are priced in February, May, August, and November in another group of cities.

The number of commodities and services priced for the new index has been increased to more than 300 from about 200 in the old series and about 225 in the interim index. The 300 items selected for pricing are those which are relatively important in family spending. They are sensitive to price movements and are representative of price trends of groups of related items. The increase from the old series in the number of items priced reflects changes in both technology and buying habits (covering such items as frozen foods, canned baby foods, detergents, and television sets) and in statistical pricing techniques. The number of food items was increased substantially to 90, compared with 51 and 60 items, respectively, in the old series and the interim index; additional items have also been included in the clothing, housefurnishings, and miscellaneous goods categories. For the first time, direct measures of the effect of price changes on costs of home ownership and maintenance have been incorporated into the index. The obligations undertaken in the purchases of homes, including interest, are now treated as consumption items; the purchase price of new homes and maintenance costs are directly priced instead of imputed as in the former indexes. Costs of restaurant meals are now included, and used cars are priced directly rather than imputed on the basis of the price movement of new cars.

Important changes have been made in the major groups for which separate indexes are published. The new index consists of eight major groups: food, housing, apparel, transportation, medical care, personal care, reading and recreation, and other goods and services. As shown in the accompanying table, the relative importance of these groups in the total differs somewhat from the relative importance assigned to similar groups or subgroups in the interim index. For example, food, which was the most important single component in both the old series and the interim index, having a relative importance in 1952 of 43 per cent and 35 per cent, respectively, accounts for 30 per cent of the revised index and is no longer the most important component. Housing, accounting for 32 per cent of the revised index, is the most important of the eight groups. This major group includes the subgroups of rent, housefurnishings, and fuels, which were listed as major groups in the former indexes, and the two additional subgroups of other shelter and household operation. Because repair and maintenance costs are now listed separately (in the other shelter category) rather than imputed to rent, the relative importance of the rent component has been reduced from 11 to 5 per cent. The remaining major groups in the revised index (other than apparel which was also a major group in the old index) were formerly included in the miscellaneous goods and services category.

In addition to the improvements which have been made in the monthly indexes, there will be an increase in the precision of the annual indexes, particularly in pricing items for which changes can be measured more accurately on a yearly than on a monthly basis. Although no satisfactory way has been found to measure precisely the seasonal changes of prices of such items as fresh fruits and vegetables in a monthly comparison, variations can be compared over a yearly period. The pricing of houses is also carried out more accurately on an annual basis.

Relative Importance of Various Types of Expenditures in the Old and New Consumer Price Indexes

Old index			New index	
Group	Relative importance 1952		Group	Relative importance 1952
	Old series	Interim series		
Food	43.4	34.9	Food	30.1
			Housing	32.0
Rent	13.3	11.3	Rent	5.3
			Other shelter	11.2
Fuel, electricity, refrigeration	5.2	3.4	Gas and electricity	1.9
			Solid fuels and fuel oil	1.3
Housefurnishings	4.6	5.6	Housefurnishings	6.6
			Household operation	5.9
Apparel	11.8	12.4	Apparel	9.7
Miscellaneous goods and services	21.7	32.4	Medical care	4.7
			Personal care	2.1
			Reading and recreation	5.4
			Transportation	11.0
			Other goods and services	5.0
All items	100.0	100.0	All items	100.0

Source: Computed at the Federal Reserve Bank of New York from U. S. Bureau of Labor Statistics data.

In conformance with the suggestion made by the Bureau of the Budget that Federal agencies use a postwar base for their economic index numbers, the revised index is published on the 1947-49 base. Figures are available on this base back to 1913 from the Bureau of Labor Statistics of the U. S. Department of Labor (Washington 25, D. C.) for the all items, food, rent, and apparel categories; indexes for other groups are available beginning with January 1947. For the first time the Bureau of Labor Statistics' three price indexes—basic commodity, wholesale, and consumer—have the same base period.

It has been of interest to observe, over the period for which both the old and the new indexes have been prepared, that the movement of the two has diverged significantly. Between November 1952 and April 1953 the old series declined 3.3 points on the 1935-39 base, while the new index, when adjusted to the same base for purposes of comparability, only declined by 1.0 in percentage points. The difference resulted mainly because the greatest price drops over this period were in the food category, which had a greater relative importance in the old series. One consequence of this divergence was that the wages of those unions whose contracts remained tied to the old series were reduced by a larger amount than they would have been had the contracts been based on the new index. This was, of course, a fortuitous result; had the concentration of recent price changes been in other types of commodities, the relative declines of the two series might have been reversed. The aim in developing the new series was to provide a better, more comprehensive measure of the changes in retail prices paid by urban families. It would appear from the analysis of the new series presented above that the Bureau of Labor Statistics has come as near to fulfilling that objective as the limits of statistical accuracy permit.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1953 April	1953 March	1953 February	1952 April	Percentage change: Latest month from previous month	Percentage change: Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*	1935-39 = 100	242*p*	243	240	216	#	+12
Electric power output*	1947-49 = 100	159	159	155	141	#	+13
Ton-miles of railway freight*‡	1947-49 = 100	—	102*p*	100	101	+ 3	− 5
Manufacturers' sales*	billions of $	26.9*p*	25.7	25.4	23.5	+ 5	+14
Manufacturers' inventories*	billions of $	44.3*p*	44.1	43.8*r*	43.4	#	+ 2
Manufacturers' new orders, total*	billions of $	26.0*p*	24.8	25.7*r*	24.3	+ 5	+ 7
Manufacturers' new orders, durable goods*	billions of $	12.8*p*	12.2	13.4	12.4	+ 5	+ 3
Retail sales*	billions of $	14.4*p*	14.4	14.5*r*	13.4	#	+ 7
Residential construction contracts*	1947-49 = 100	181*p*	176	182	189	+ 3	− 4
Nonresidential construction contracts*	1947-49 = 100	179*p*	178	167	158	+ 1	+13
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	88.0	90.1	88.7	98.0	− 2	−10
Wholesale prices†	1947-49 = 100	109.4*p*	110.0	109.6	111.8	− 1	− 2
Consumer prices†	1947-49 = 100	113.7	113.6	113.4	112.9	#	+ 1
Personal income (annual rate)*	billions of $	—	282.5*p*	280.9	262.5	+ 1	+ 8
Composite index of wages and salaries*	1939 = 100	—	245*p*	244	233	#	+ 5
Nonagricultural employment*	thousands	49,055*p*	49,091	49,112*r*	47,624	#	+ 3
Manufacturing employment*	thousands	17,198*p*	17,171	17,049*r*	16,143	#	+ 7
Average hours worked per week, manufacturing†	hours	40.8*p*	41.1	40.9	39.8	− 1	+ 3
Unemployment	thousands	1,582	1,674	1,788	1,612	− 5	− 2
Banking and finance							
Total investments of all commercial banks	millions of $	73,120*p*	74,780*p*	76,030*p*	74,120	− 2	− 1
Total loans of all commercial banks	millions of $	65,330*p*	65,220*p*	64,070*p*	58,220	#	+12
Total demand deposits adjusted	millions of $	98,000*p*	97,370*p*	98,340*p*	95,120	+ 1	+ 3
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,022*p*	29,962	29,867	28,689	#	+ 5
Bank debits (U. S. outside New York City)*§	millions of $	96,299	95,323	94,124	86,831	+ 1	+11
Velocity of demand deposits (U. S. outside New York City)*	1947-49 = 100	n.a.	n.a.	n.a.	n.a.	—	—
Consumer instalment credit outstanding†‡‡	millions of $	19,666*p*	19,267	18,860*r*	14,731	+ 2	+34
United States Government finance (other than borrowing)							
Cash income	millions of $	3,215*p*	11,042	6,267	4,689	−71	−31
Cash outgo	millions of $	6,447*p*	6,970	5,754	5,972	− 8	+ 8
National defense expenditures	millions of $	4,470*p*	4,503	4,012	4,227	− 1	+ 6
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	140	139	137	127	#	+10
Residential construction contracts*‡	1947-49 = 100	—	180*p*	174	197	+ 4	− 1
Nonresidential construction contracts*‡	1947-49 = 100	—	197*p*	175	165	+13	− 1
Consumer prices (New York City)†	1947-49 = 100	111.1	111.2	111.1	110.9	#	#
Nonagricultural employment*‡	thousands	—	7,627.3*p*	7,619.5	7,470.3	#	+ 2
Manufacturing employment*‡	thousands	2,801.6*p*	2,805.4	2,785.0	2,696.7	#	+ 4
Bank debits (New York City)*§	millions of $	53,100	50,372	50,832	50,760	+ 5	+ 5
Bank debits (Second District excluding New York City)*§	millions of $	4,343	4,344	4,141	3,868	#	+12
Velocity of demand deposits (New York City)*	1947-49 = 100	n.a.	n.a.	n.a.	n.a.	—	—

Note: Latest data available as of noon, June 1.
p Preliminary.
r Revised.
n.a. Not available. Series in process of revision.
* Adjusted for seasonal variation.
† Seasonal variations believed to be minor; no adjustment made.
‡ The seasonal adjustment factors for this series have been revised.
\# Change of less than 0.5 per cent.
§ Revised series.
‡‡ Revised series. Back data available from the Board of Governors of the Federal Reserve System.
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

Final figures indicate that Second District department store sales were 3 per cent larger during the combined months of March and April than during the corresponding period a year ago. This marked the first time since the latter part of 1951 that seasonally adjusted sales were above those of the previous year for two consecutive months. The higher sales reflected greater consumer interest in most major lines of merchandise, as compared with last year. The largest gains were recorded in the ready-to-wear apparel groups; sales of men's clothing increased at the same rate as women's and misses' apparel and accessories. Total sales of homefurnishing lines for these two months were the only exception to the upward pattern; the aggregate volume in March and April this year was just equal to that of last year. Nonetheless, this represented a revival of consumer demand since department store sales of homefurnishings have shown year-to-year declines since June 1951.

It is expected that total dollar volume for May will not match sales of a year earlier, owing to the fact that there was one less shopping day during the calendar month this year than last. However, after adjustment for this irregularity, District sales are estimated to be 2 per cent greater than in May 1952.

With sales for the first quarter (February-April) of the fiscal year equal to comparable year-ago figures, and with strength shown in the early weeks of May, Second District retailers apparently are looking forward to a more favorable spring season than previously had been expected. Reflecting the revised expectations, new orders for additional merchandise placed by District stores in April were 8 per cent greater than those of the previous year, pushing the month's ratio of new orders to sales, on a seasonally adjusted basis, to the highest point for that month in several years. Total orders for additional merchandise outstanding at the end of the first quarter were 9 per cent above the April 30 level of last year. The rise of 4 per cent in the value of seasonally adjusted month-end stocks in April, the largest month-to-month gain since March 1951, is a further indication of the optimism felt by department store merchandisers. This increase placed month-end inventories above the level maintained in the preceding two months and above the year-earlier figure. The aggregate value of stocks and outstanding orders at the end of the first fiscal quarter rose 5 per cent above a year ago.

Indexes of Department Store Sales and Stocks
Second Federal Reserve District
(1947-49 average=100 per cent)

Item	1953			1952
	Apr.	Mar.	Feb.	Apr.
Sales (average daily), unadjusted	93	91	79	94
Sales (average daily), seasonally adjusted	98	100	96	96
Stocks, unadjusted	119	115	107	115*r*
Stocks, seasonally adjusted	114	110	110	110*r*

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 Apr. 30, 1953
	Apr. 1953	Jan. through Apr. 1953	Feb. through Apr. 1953	
Department stores, Second District	−1	−1	0	+4
New York—Northeastern New Jersey Metropolitan Area	−1	−2	−1	+2
New York City*	−2	−4 (−2)	−3 (−1)	+1
Nassau County	+7	—	—	+18
Westchester County	−1	+4	+5	+5
Northern New Jersey	0	+3	+4	+4
Newark	0	+1	+2	+2
Fairfield County	−2	+3	+5	+11
Bridgeport	−2	+3	+5	—
Lower Hudson River Valley	−2	+5	+5	+5
Poughkeepsie	0	+6	+6	+5
Upper Hudson River Valley	+1	+1	+2	+10
Albany	+5	+2	+3	+10
Schenectady	−2	+1	+1	+9
Central New York State	−1	+6	+4	+4
Mohawk River Valley	−1	+4	+2	−11
Utica	0	+3	+3	+12
Syracuse Metropolitan Area	−1	+7	+5	+1
Northern New York State	+5	+11	+9	+16
Southern New York State	−2	+1	+1	+4
Binghamton Metropolitan Area	−2	+1	+1	+4
Elmira	−3	+4	+3	+5
Western New York State	0	+4	+3	+6
Buffalo Metropolitan Area	+2	+4	+3	+6
Buffalo	+2	+3	+3	+6
Niagara Falls	+4	+5	+4	—
Rochester Metropolitan Area	−3	+4	+3	+7
Apparel stores (chiefly New York City)	−1	+1	+2	+8

* 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, May 29, 1953)

Industrial production leveled off in April and May following earlier marked expansion, and construction activity continued in near record volume. Retail sales were maintained at the high level of other recent months and were substantially above a year ago. Prices generally changed little. Private demands for bank credit continued strong for this time of the year. Yields on long-term government and private bonds rose further.

Industrial Production

The Board's industrial production index in April was 242 per cent of the 1935-39 average as compared with 243 in March. In May, output has apparently been maintained at the April rate and is 15 per cent above the reduced level of May 1952.

Output in durable goods industries was maintained in April at the advanced March level. Passenger automobile assembly rose further, and in April and the first half of May was at an annual rate of 7.2 million units; in the latter part of May, however, output was considerably curtailed by scattered work stoppages. Output of household durables declined in April as major appliance production was reduced and television set production declined substantially further from the record levels of last winter. Activity in industrial and military equipment lines generally held steady in April. Steel mill operations in May have been scheduled at about rated capacity, up somewhat from April but still below the record March rate. Lumber production in April and May has increased less than seasonally from the exceptionally high first-quarter levels.

Production of nondurable goods was at an unusually high level in April though down slightly from the record March rate. Activity in the textile and leather industries declined somewhat but remained substantially above year-ago levels. Output of paper, chemicals, and rubber products was maintained at peak rates for the postwar period.

Coal production has increased in April and May as earlier marked output curtailments led to a substantial reduction in inventories, and in May crude petroleum output has also turned up. Iron ore mining increased sharply in April as the Great Lakes were opened for shipments earlier this year than usual.

Construction

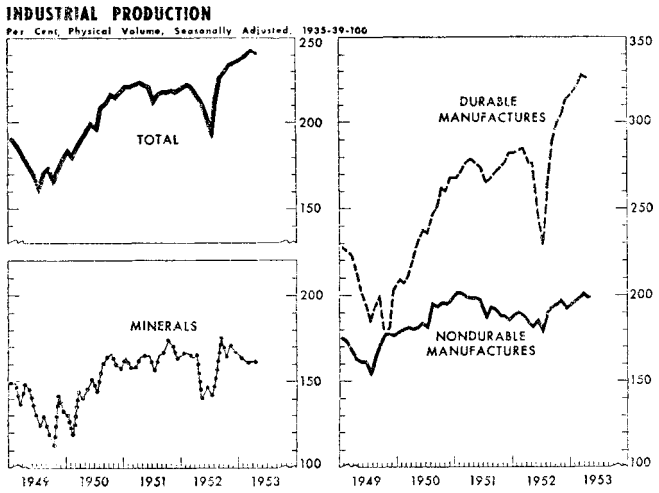
Value of contract awards increased substantially in April, reflecting in part large Federal awards for atomic energy projects. The number of housing units started was 110,000 in April—up from 97,000 in March and also from 106,000 in April 1952. Value of new construction work put in place continued close to record levels after allowance for seasonal variation.

Employment

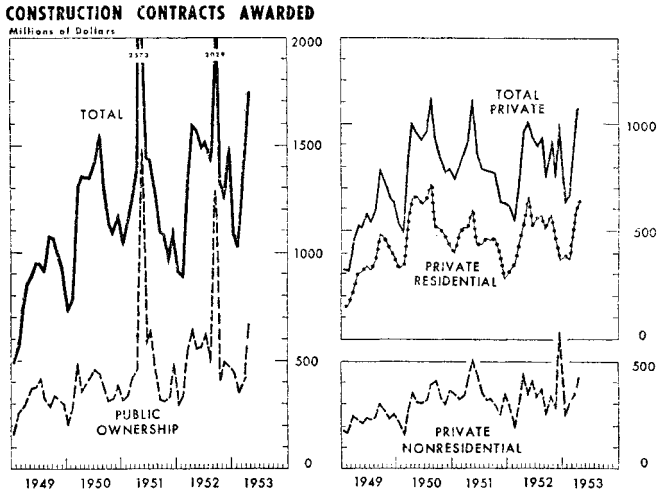
Seasonally adjusted employment in nonagricultural establishments in April continued at the record of 49.1 million reached in February. The average factory work week, at 40.8 hours, was down seasonally but was one hour above a year ago; average hourly earnings at factories were unchanged from March at $1.75, or 10 cents more than in April 1952. The number unemployed continued to decline seasonally and at 1.6 million was unchanged from a year ago.

Distribution

Total retail sales in April and May continued substantially above year-ago levels. At department stores, sales slackened



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



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

somewhat in April but rose considerably in the first three weeks of May to a level 7 per cent larger than in the corresponding period a year ago; sales for the entire month after allowance for seasonal changes are likely to return to the high levels reached at the end of the last year. According to preliminary figures, stocks at department stores at the end of April were 6 per cent larger than a year ago and on a seasonally adjusted basis slightly higher than at the end of March.

Commodity Prices

The general level of wholesale commodity prices changed little from mid-April to the latter part of May. Hog prices rose substantially further, and cattle prices firmed despite continued heavy marketings. After mid-May winter wheat prices declined sharply, and on May 27 were about 10 per cent below Federal support levels. Prices of lead and finished steel were raised, while steel scrap eased further. Some additional makes of motor vehicles were reduced.

The consumer price index advanced slightly from mid-March to mid-April, reflecting chiefly increases in rents and various services. Since mid-April retail prices of foods have risen slightly, reflecting mainly increases in pork and fresh fruits and vegetables.

Bank Credit and Reserves

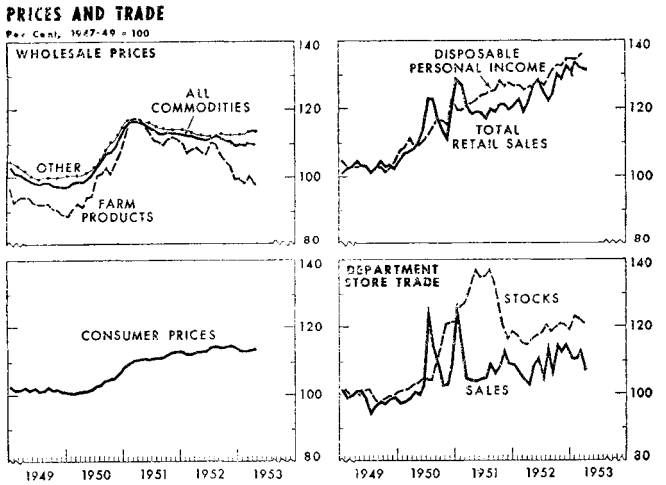
Total loans and investments outstanding at banks in leading cities declined further in late April and early May. The decline was due in the main to a further reduction in holdings of U. S. Government securities. There were also moderate decreases in other security investments and in total loans. Food processors and commodity dealers continued to repay seasonal debt at banks, but metal manufacturers, public utilities, and trade concerns increased their borrowing. Real estate and other loans (largely consumer) rose further.

Member bank reserve positions remained generally tight until about mid-May but eased considerably thereafter, owing to the usual midmonth increase in Reserve Bank float and a sharp reduction in Treasury balances with the Reserve Banks. Banks were able to reduce substantially their indebtedness to the Federal Reserve.

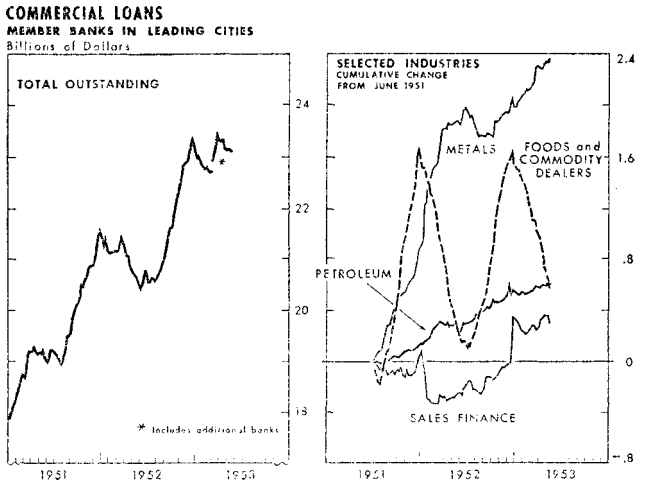
Security Markets

Yields on Treasury bills moved sharply lower during most of May, while yields on long-term issues reached new peaks. On May 11 the Treasury announced the offering of a new series of Savings notes yielding 2.47 per cent if held to maturity of two years. On May 20 the Treasury offered a 2⅝ per cent certificate maturing June 1, 1954 to holders of the certificates maturing June 1 and to holders of the bonds called for payment June 15.

Yields on corporate bonds advanced appreciably during the first two weeks of May and then leveled off at a new postwar high. Prices of common stocks increased moderately during the same period.



Seasonally adjusted series except for prices. Wholesale 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.



Data for selected industries reported by over 200 of the largest weekly reporting member banks. Metals includes metal products, machinery, and transportation equipment. Foods (combined with commodity dealers) includes liquor and tobacco. Petroleum includes coal, chemicals, and rubber. Wednesday figures, latest shown are for May 13.

1st Lieutenant Lloyd L. Burke
U.S. Army
Medal of Honor

THE RED KOREAN strongpoint had stalled our attack; Lieutenant Burke saw that a breakthrough must be made. Rallying 35 men, he crept close to the enemy bunkers. He laid down a grenade barrage. Then he ran forward to an

exposed knoll and opened a one-man pitched battle. He turned a light machine gun into the Red position. He caught live enemy grenades in mid-air and threw them back. Once he killed three men with his pistol. Before sunset Lieutenant Burke and 35 men had defeated 300. The lieutenant says:

"Every day, men who fought in Korea are coming home. They're finding jobs—partly because they and you and I own nearly 50 billion dollars' worth of Defense Bonds. For Bond savings—which protect our own families—are also building a great backlog of *national* prosperity. Reason enough for investing in Bonds—don't you agree?"

★ ★ ★

Now E Bonds earn more! 1) All Series E Bonds bought after May 1, 1952 average 3% interest, compounded semiannually! Interest now starts after 6 months and is higher in the early years. 2) *All maturing E Bonds* automatically go on earning *after maturity*—and at the new higher interest! Today, start investing in better-paying Series E Bonds through the Payroll Savings Plan.

Peace is for the strong! For peace and prosperity save with U.S. Defense Bonds!