// MONTHLY REVIEW
Of Credit and Business Conditions
FEDERAL RESERVE BANK OF NEW YORK
VOLUME 36 | MARCH 1954 | No. 3

MONEY MARKET IN FEBRUARY

Bank reserve positions in the aggregate continued to be comfortable throughout February and excess reserves regularly exceeded borrowings by a substantial margin. In order to avoid wide fluctuations in the supply of reserves, the Federal Reserve System purchased securities at the beginning of the month to avert a threatened reserve squeeze, and in the latter part reversed the process and sold a larger amount of securities than it had purchased earlier. For the four statement weeks ended February 24 the System Open Market Account took 102 million dollars (net) out of the money market.

On February 4 the Federal Reserve Bank of New York and four other Reserve Banks announced that effective the following day they were reducing their discount rate for loans to member banks from 2 per cent to 1¾ per cent. This reduction supplemented and emphasized action taken previously through open market operations, to assure that an adequate supply of reserves would be available to the banking system to meet the credit needs of the economy, and brought the discount rate more nearly in line with current short-term money rates. By February 15 the lower rate was in effect at all twelve Reserve Banks. The announcement of the discount rate reduction had an immediate effect on many other money market rates. Prices of almost the whole Government security list were marked up the following morning. At the close of business on February 5 quotations on some of the longer bonds were ¾ of a point or more above the previous day's close. The Federal Open Market Committee reduced the System's minimum buying rate on bankers' acceptances by ¼ of 1 per cent to 1¾ per cent and shortly thereafter the dealers' offering rate on unindorsed 90-day acceptances was reduced from 1⅞ per cent to 1⅝ per cent. Rates on Federal funds were lowered to bring them into line, and there was some further easing of rates on other related credits.

The rise in Government security prices, however, proved to be temporary and in the next ten days or so prices of these securities eased; in some cases they dropped back close to or below the levels prevailing immediately prior to the discount rate announcement. Shortly after the middle of the month a new price rise was generated by rumors that the Government was contemplating more positive steps to bolster the economy, that the Board of Governors was considering a reduction of member bank reserve requirements, and that the Treasury might postpone any offering of long-term securities for cash at this time. This rise persisted through the end of the month.

Trading in most sectors of the Government security market was thin throughout February after the closing of the subscription books on the Treasury's refunding offer, and the larger part of the month's activity was again concentrated in Treasury bills. Under the pressure of demand and the decline in the supply of short-term securities after the refunding, average rates on new issues of bills declined to the lowest levels in several years (0.893 per cent for the February 11 issue). Outstanding issues traded in the market during most of the month at yields below 1 per cent and closed on February 26 at bid rates ranging from 0.80 per cent for short bills to 1.00 per cent for the longest ones.

In the four weeks ended February 17, the loans and investments of the weekly reporting member banks expanded slightly, despite large sales of Treasury bills (to meet the pressing demand from nonbanking sources) and a continuing decline in the demand for commercial, industrial, and agricultural loans. These reductions were offset by substantial increases in security loans and loans to banks, and by bank purchases of municipal obligations.

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Table I

Weekly Changes in Factors Tending to Increase or Decrease Member Bank Reserves, February 1954

(In millions of dollars; (+) denotes increase, (—) decrease in excess reserves)

Factor	Statement weeks ended				Four weeks ended Feb. 24
	Feb. 3	Feb. 10	Feb. 17	Feb. 24	
Operating transactions:					
Treasury operations*	−224	−189	+106	+ 21	−286
Federal Reserve float	−153	− 60	+289	−295	−219
Currency in circulation	− 30	+ 7	+102	− 17	+ 62
Gold and foreign account	− 34	+ 5	− 9	+ 22	− 16
Other deposits, etc	− 65	+ 8	− 92	− 12	−161
Total	−507	−230	+397	−282	−622
Direct Federal Reserve credit transactions:					
Government securities					
Direct market purchases or sales	+ 56	+ 89	—	−247	−102
Held under repurchase agreements	+ 57	—	− 57	—	—
Loans, discounts, and advances	+405	− 75	−149	− 43	+138
Total	+518	+ 14	−206	−290	+ 36
Total reserves	+ 11	−216	+191	−572	−586
Effect of change in required reserves	+ 16	+222	+ 45	+ 77	+360
Excess reserves	+ 27	+ 6	+236	−495	−226
Daily average level of member bank:					
Borrowings from Reserve Banks	211	360	301	200	268
Excess reserves	306	614	632	682	559

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

Member Bank Reserve Positions

Member banks in the aggregate were adequately supplied with reserves throughout February, although the distribution of these reserves among the banks was not always even. Some banks in New York City and elsewhere were under pressure at various times during the month and had to borrow from the Reserve Banks on several occasions to meet their reserve requirements. Rates on Federal funds in the City, as a result, remained close to the "ceiling" through most of February. Excess reserves of member banks declined 226 million dollars over the four weeks ended February 24, but on a daily average basis, as Table I indicates, they remained well above average borrowings throughout the month.

Most of the regular operating factors took funds out of the money market during the four weeks under review. The Treasury, which had allowed its working balances with the Reserve Banks to be drawn down to a low level in the middle of January in anticipation of large tax receipts in the latter part of January and of cash receipts on February 2 from the third issue of Commodity Credit Corporation Certificates of Interest, built up these balances above normal working levels early in February and, despite subsequent disbursements, took 286 million dollars net out of the market. "Other" deposits with the Reserve Banks, which had also been reduced in January, were rebuilt in February, and, together with other unclassified items, took about 160 million dollars out of the market. Float, in line with its usual seasonal pattern, contracted somewhat over the month and there was a small additional market loss during the four weeks from foreign account operations.

The post-Christmas return flow of currency, as is customary, leveled out in February, and thus provided only a minor offset (62 million) to the losses from the other regular market factors. But a sharp decline in required reserves offset more than half of the net losses from the other factors. This decline, 360 million dollars, reflected for the most part the substantial bank sales of Treasury bills to nonbank investors and a consequent decline in demand deposits. Most of the remaining reserve losses were met by a reduction of excess reserves.

The System Open Market Account purchased 145 million dollars of bills outright in the first two statement weeks of the month and the Federal Reserve Bank of New York acquired an additional 57 million dollars of short-term securities under repurchase agreements. In the week ended February 17, when a rise in float and a return flow of currency combined to swell the volume of reserves available to the banks, the System Account withdrew from the market and the dealers repurchased from the New York Bank the securities they had sold to it earlier. In the final week of the month the persistent ease in bank reserve positions threatened to create a "sloppy" money market, and the System Open Market Account sold 247 million dollars of securities. The net decline in System security holdings over the four-week period offset much of the net increase in member bank borrowings, so the resulting increase in total direct Federal Reserve credit outstanding was only 36 million dollars.

The reserve position of banks was less easy during February in New York City than in most other parts of the country since there was a large and persistent outflow of commercial and financial funds from this market. A substantial part of the outflow was related to the sales of securities by banks outside the City to New York depositors. Part of it also may have reflected the "repatriation" of Treasury interest payments on the securities that were involved in the February 15 refunding operation and that were held by New York banks for the account of their correspondents. Although the New York market did gain funds on balance through direct Treasury operations during the month, these gains offset only part of the losses from the outflow of funds.

Treasury Financing and the Market for Government Securities

In the early part of February the Treasury completed one of the largest debt operations in its history. Out of the 20.8 billion dollars of securities involved in the exchange, approximately 7.0 billion were exchanged for the 1⅝ per cent certificates of February 1955 and 11.2 billion for the 2½ per cent bonds of November 1961. Of the issues eligible for exchange, only 102 million of the 8.1 billion dollars of the 2¼ per cent certificates of indebtedness and 75 million of the 4.7 billion of the 1⅜ per cent notes were unexchanged. Of the June bonds, 1.7 billion of the 2's of June 1952-54, 376 million of the 2¼'s of 1952-55, and 322 million of the 2¼'s of 1954-56 remain outstanding. The Treasury announced that holders of the remaining 2.4 billion of June bonds would be given another opportunity, later, to exchange them for other securities.

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The new issue of 7-year and 9-month bonds is the largest single marketable Treasury issue outstanding, and its issuance marks another stride in the Treasury Department's effort to lengthen the average maturity of the outstanding public debt and to space its maturities. It also points up how difficult the mere passage of time makes this task. When the interest-bearing public debt was at its all-time peak (277.9 billion dollars) in February 1946, approximately 72 per cent of the total was in marketable issues with an average maturity of nine years and two months. At the beginning of last year, marketable issues constituted only 56 per cent of the total interest-bearing debt and their average maturity was down to five years and five months. Despite the fact that 1.6 billion dollars of 30-year bonds and 2.2 billion of 7-year 10-month bonds were included in the Treasury's fund raising program for 1953, the average maturity of the public marketable debt had declined to five years and two months at the end of last December. Even with the completion of the February refunding operation the average has been lengthened only to five years and eight months.

The effect of the refunding operations on security prices in February was negligible, as most of the adjustments had been made at the end of January. A number of other factors, however, did have important effects on the market. The first of these was the reduction of the discount rate. However, the price increases generated by this reduction were dampened shortly thereafter by the market's adjustments to an expected new issue of long-term securities for cash. The trend was reversed once again in the middle of the month by Administration indications that more positive measures to bolster the economy would be taken if business and employment did not begin to expand seasonally in the spring, and by the widespread, persistent rumors of an early reduction in member bank reserve requirements that appeared at about the same time. Many analysts reasoned that if the Administration wished to take more positive steps to stimulate business, it would not offer long-term securities to absorb funds that might otherwise go into mortgage or corporate securities. As a result, prices of the longer-term outstanding Treasury bonds again advanced strongly late in the month.

The demand for Treasury bills was strong throughout February and a large volume of them changed hands. For the most part the sellers were commercial banks and the buyers were corporations, public authorities, and other nonbank investors, some of whom were seeking short-term investment outlets for the proceeds of recent financing or for their tax reserves. The upward pressure of demand on Treasury bill prices (downward on yields) was no doubt greatly accentuated by the removal of so large a volume of other short-term securities from the market, through the Treasury's successful refunding operation. The average rate on the first issue of new bills in February, the one dated February 4, rose slightly over the closing January figure to 1.031 per cent, as the banks then held less free reserves than at any other point in the month. The announcement of the discount rate reduction, added to demand factors already present, caused the rate on the February 11 bill issue to drop to 0.893 per cent, the lowest rate since October 1947. Rates on the next two issues (February 18 and 25) rose somewhat again, but the ease in the money market and the generally bullish attitude in the Government security market kept them relatively low—1.024 per cent and 0.986 per cent, respectively.

Trading in the new 2½'s of 1961 was also fairly substantial during the month. Dealers exchanged a relatively large amount of "rights" for the new bonds and they apparently succeeded over the month in selling a substantial part of their holdings of the issue to commercial banks, who were continuing efforts to lengthen their own portfolios, and also to other investors. Although the price of this bond wavered occasionally during the month, it closed on February 26 at a bid price of 101¹³⁄₃₂, compared with an opening "when-issued" bid quotation of 100¹²⁄₃₂. Market interest in the new 1⅝ per cent certificates of indebtedness lagged during most of the month, although it did pick up somewhat in the closing days. The final bid price for that issue on the 26th was 100¹⁶⁄₃₂. Activity in the rest of the list was very thin, as it has been for many months, although dealers continued to mark up prices, the gains for the month ranging up to more than 2 points. The ten-month-old 3¼ per cent bonds of 1978-83 closed the month at 108²⁴⁄₃₂ (bid).

Table II

Weekly Changes in Principal Assets and Liabilities of the Weekly Reporting Member Banks

(In millions of dollars)

Item	Statement weeks ended				Change from Dec. 30, 1953 to Feb. 17, 1954p
	Jan. 27	Feb. 3	Feb. 10	Feb. 17p	
Assets					
Total loans and investments	+232	+590	−792	+ 25	−1,409
Loans, net*	− 81	+724	−178	+ 32	−1,203
Commercial, industrial, and agricultural loans	−184	+136	− 82	+ 13	− 811
Security loans	− 51	+565	−157	− 38	− 305
Real estate loans	− 4	+ 6	− 1	+ 15	+ 19
Loans to banks	+165	+ 16	+176	+ 71	+ 142
All other loans (largely consumer)	− 9	− 3	−114	− 29	− 238
Total investments	+313	−134	−614	− 7	− 206
U. S. Government securities	+300	−298	−580	− 63	− 454
Treasury bills	+313	−531	−483	+ 40	− 495
Other U. S. Government securities	− 13	+233	− 97	−103	+ 41
Other securities	+ 13	+164	− 34	+ 56	+ 248
Loans net and other securities	− 68	+888	−212	+ 88	− 955
Liabilities					
Demand deposits adjusted	+ 25	−527	−799	−591	−2,019
Time deposits except Government	+ 61	+ 63	+ 18	+ 30	+ 178
U. S. Government deposits	− 88	+434	−167	+731	+ 245
Interbank demand deposits:					
Domestic	−911	−147	−142	+120	− 971
Foreign	+ 25	− 11	0	+ 40	+ 8

p Preliminary.

* Figures for various loan items are shown gross (i.e., before deduction of valuation reserves); they therefore may not add to the total, which is shown net.

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Member Bank Credit

Loans and investments of the weekly reporting member banks increased 55 million dollars, net, during the four weeks ended February 17, primarily as a result of substantial increases in loans to banks and in security loans. Loans to banks increased 428 million over the four-week period, reflecting both the uneven distribution of reserves among banks and the existence within the banking system of excess reserves that could be loaned out at less than the discount rate. The 319 million dollar net increase in security loans was a direct result of loans made mainly by New York City banks to Government security dealers to help them carry their purchases of the "rights" to the new 1⅝ per cent certificates of indebtedness and the 2½ per cent bonds of November 1961—and later, of course, the loans financed carrying of the new securities themselves. As the figures for the weeks ended February 10 and 17 indicate, these loans are being gradually liquidated as the dealers place the securities with investors. Commercial, industrial, and agricultural loans and consumer (all other) loans continued to decline in the four weeks under review. The actual decline in the former group of loans was even more than the 117 million dollars indicated by Table II, since part of the decline was offset by bank purchases of the third issue of Commodity Credit Corporation crop-loan certificates. These certificates were issued on February 2 and apparently about half of the 350 million dollar issue went to the weekly reporting member banks. "All other" loans were down 155 million during these four weeks. The particularly sharp drop registered in the week ended February 10 reflects in part a large retail concern's repurchase from the banks of a sizable block of consumer paper that it had previously sold to the banks.

Total investments of the weekly reporting banks declined 442 million dollars during these four weeks. This decline, as noted earlier, was largely accounted for by sales of Treasury bills. This group of banks offset only a fraction of these sales by purchases of other securities but apparently picked up part of the 2½ per cent bonds of November 1961 which the dealers disposed of during this period. As Table II indicates, the holdings of Government securities other than bills by the weekly reporting banks rose only 20 million dollars, net. They also purchased nearly 200 million dollars of New York City Housing Authority notes and other municipal securities.

REPORT OF THE RANDALL COMMISSION ON FOREIGN ECONOMIC POLICY

Very considerable interest and discussion have been aroused in this country and abroad by the release on January 23 of the report of the Commission on Foreign Economic Policy headed by Clarence B. Randall. The Commission, composed of ten members of the Senate and the House of Representatives, selected from both political parties, and of seven private citizens appointed by President Eisenhower, was formally constituted last August in keeping with the terms of the Trade Agreements Extension Act of 1953. The Commission was given the broad directive "to examine, study, and report on the subjects of international trade and its enlargement consistent with a sound domestic economy, our foreign economic policy, and the trade aspects of our national security and total foreign policy; and to recommend appropriate policies, measures, and practices".

Although a number of official commissions, notably those headed by Gordon Gray, William Paley, and Daniel Bell, had in recent years already reviewed and reported in detail on our foreign economic problems, policies, and objectives, the new Administration on taking office had an understandable desire to initiate another survey of this important field, under a commission of its own choosing, with a view to shaping its future foreign economic policies. The heavy Congressional representation on the Commission suggests, also, that the Administration hoped in this way to achieve a legislative program that might reconcile the wide range of conflicting views in Congress on this broad subject. The time, in any case, seemed not inappropriate for a fresh review of the field. By the end of 1952, the period of major postwar international economic dislocation and readjustment seemed largely to have come to a close; there had been a striking improvement in the economic situation and in the payments position of much of the rest of the world; and there were growing demands at home and abroad for policies to promote a more rapid movement toward liberalized international trade and payments in the interests of further strengthening the economic base of the free world.

The Commission's report, prepared in a period of three months on the basis of intensive discussions, hearings, and staff work, surveys a wide range of our foreign economic problems and policies, including those relating to tariffs and trade policy, foreign aid, foreign investment, currency convertibility, agriculture and raw materials, East-West trade, and others. The controversial nature of the subject matter examined, however, is indicated by the fact that in the main body of the text a large number of dissents or special viewpoints on individual recommendations are expressed by individual members. Of more significance, a separate statement, expressing disagreement or reservations on many of the recommendations, was submitted by Senator Millikin; and a minority report, published separately, was submitted by Representatives Reed and Simpson.

Despite these dissents, there is evidence in the main text of the report that many concessions were made by individual members of the Commission, presumably in a desire to minimize the area of disagreement and to make possible recom-

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mendations that would stand a chance of legislative enactment. It is, in fact, basic to a proper appraisal of the report to recognize it as a compromise document aimed at providing a practical program for early Congressional action. Unlike many of its predecessors, the focus of this report is primarily upon short-run problems rather than upon broader, long-run issues.

On balance, however, the report's program for action has a decided leaning toward the "liberal" position on foreign trade. That position has traditionally been based on those general principles of the free market economy toward which United States domestic economic policy has, for the most part, been oriented. It is the "liberal" premise that the largest possible volume of unrestricted, nondiscriminatory world trade is in the best interests of the world as a whole and of the individual trading countries. Relative freedom in international trade and payments tends to induce each country, via the working of the price mechanism, to concentrate on the production of those things in which it has the greatest relative advantage, thereby tending to increase the world's aggregate output of goods and services and to raise the living standards of each nation. As applied to the United States, which exercises so dominant a role in the world economy, the "liberal" position favors measures to relax significantly our barriers to imports, not only to provide us with goods that can be acquired more cheaply from abroad than at home, but also to enlarge the current dollar earnings of foreign countries and thereby to facilitate the relaxation of foreign restrictions against the importation of our own goods. The alternatives, it is usually suggested, might be continued tight restrictions abroad and/or large-scale economic aid from this country.

World Dollar Problem

The analysis and recommendations of the report are developed and set forth against the background of the so-called world dollar problem. During the postwar period as a whole, foreign countries as a group had heavy deficits in their payments with the United States, despite the tight exchange and trade controls which they have maintained over dollar expenditures. On balance, these deficits have been financed—and in fact made possible—by United States Government grants and loans; our economic aid alone amounted to about 33 billion dollars in the years 1946 through 1953. The report calls attention, however, to the marked improvement that had occurred during the past few years. By 1953, the world "dollar gap" (exclusive of military aid items) had been closed, and foreign countries in that year accumulated over 2 billion dollars of gold and dollar reserves; the industrial production and foreign trade of Western Europe were much above prewar levels; inflation abroad had generally been checked and internal direct controls relaxed; and considerable progress had been made toward liberalizing world trade and payments.

The report emphasizes, however, that the present situation of relative ease in the world's dollar position is based in part upon a number of special factors which give it a somewhat uncertain and unstable character. If, for example, the present direct restrictions on dollar expenditures by foreign countries were significantly relaxed—and it has long been a fundamental objective of the United States Government, and is an expressed hope of the Commission, that they should be so relaxed—the foreign demand for dollar goods could rise substantially. Moreover, the present high level of world dollar receipts is based in part on large "extraordinary" and, by implication, impermanent expenditures abroad by this Government, including some 3 billion dollars per year of outlays for our military establishment abroad, for offshore procurement, and for stockpiling, and about 2 billion dollars per year of economic grants and loans. (The Commission, in fact, explicitly recommends that economic grants, which constitute the bulk of our economic aid to foreign countries, should, in general, be terminated as soon as possible.) Finally, it is noted that the dollar position of foreign countries would also be affected adversely if there were a marked contraction of business activity in this country or an unfavorable turn in the terms of trade of Western Europe. The conclusion is reached, therefore, that "much remains to be accomplished before a dependable and durable solution of the dollar problem can be achieved".

The implication is left in the report that the dollar problem is a problem both for foreign countries and for ourselves. Presumably we want the economies of the rest of the free world to be strong, healthy, and capable of steady growth, not only in our economic and trading interests, but also in our security interests. Only if the economic base of friendly countries is sound are they likely to have the ability and will to resist Communist intrigue and subversion. Tight restrictions abroad against the importation of our goods—arising out of dollar payments difficulties—constitute a major impediment to the realization of these objectives by depriving friendly countries of the goods they need and thus weakening their economies and their growth potential, as well as their ability to rearm. A continuation of dollar payments difficulties could thus have serious divisive implications of an economic and political character for the free world, make for a less economic use and allocation of its over-all resources, and jeopardize our security interests. The analysis of the Commission majority implies, therefore, that there are further important reasons, beyond the mere assurance of continued large exports of our goods and services, for the United States itself to have a vital interest in a satisfactory solution of the dollar problem.

In keeping with its source of authority, the report focuses mainly on various measures that the United States might take to enlarge the flow of dollars to the rest of the world, to strengthen the economies of foreign countries, and thereby to contribute to a solution of the dollar problem. Primary emphasis is placed on policies to increase our merchandise imports and our private investments abroad. It is emphasized, however, that the United States "cannot do this job alone" and that the final solution "will probably depend even more upon the efforts of other countries than upon our own".

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Summary of Recommendations

In the controversial field of trade and tariff policy—which lies at the core of the report—the Commission advances a series of recommendations that bear the marks of attempted compromise. It recommends that the Reciprocal Trade Agreements Act should be extended for not less than three years, so as to reduce the degree of uncertainty associated with the recent shorter-term extensions. Under the new act, the President should be authorized to reduce existing tariff rates by not more than 5 per cent of the present rates in each of the first three years. He should also be authorized to reduce tariffs, on products not being imported or being imported only in negligible volume, by not more than 50 per cent from the levels of January 1, 1945; and to reduce to 50 per cent *ad valorem,* or its equivalent, any rate in excess of that level. It is recommended that the controversial "escape clause" and "peril point" provisions of the present legislation be retained, but that the President be more explicitly authorized to disregard findings under these provisions whenever the national interest of the United States requires it. It is also recommended that the provisions of the Buy American Act, which require Government procurement agencies to give preference to domestic suppliers unless their prices are substantially higher than foreign suppliers, be waived in cases where the foreign bidders are from countries that treat our bidders on an equal basis with their own nationals. Despite the compromise nature of these various recommendations, the three Congressional members of the Commission previously mentioned dissociated themselves from many of them in their separate statements.

Steps should also be taken, according to the Commission, to remove unnecessary complexities and uncertainties associated with our present tariff structure and our customs procedures and administration, which have in themselves proved a significant deterrent to imports. More specifically, the Tariff Commission should be directed to study our tariff schedules with a view to framing proposals for the simplification of commodity definitions and rate structures; the Department of the Treasury should formulate proposals designed to simplify the problem of classifying articles not enumerated in our tariff schedules, and should make a continuing study of the difficulties and delays in customs administration with a view to their elimination; the Senate should give prompt consideration to a bill presently before it which would amend and improve our customs valuation procedures; and measures should be taken to promote the more efficient operation of the present provisions relating to our anti-dumping and countervailing duties.

One of the public members of the Commission, David J. McDonald, submitted a proposal, which is reprinted in the report, for Government assistance to communities, employers, and workers to facilitate adjustment in the event that injury is caused by tariff changes. Although the Commission viewed this proposal with some sympathy, it refused to incorporate it in its recommendations on the ground that possible injury caused by tariff changes was but one phase of a much broader problem, since similar injury could arise from many other unavoidable changes in a free economy. On the other hand, Mr. McDonald's recommendation that no tariff concessions should be granted on products made by workers receiving wages which are substandard in the exporting country was adopted by the Commission.

Considerable attention is devoted in the report to various methods of increasing the outflow of private investment capital to the rest of the world. Such an increase, it is argued, would serve to enlarge the volume of international trade, to assist in the maintenance of high levels of economic activity in the United States, to develop primary resources abroad to meet the ever-growing needs of the United States and foreign countries, and to contribute to over-all economic development and higher levels of productivity abroad. The report calls attention to the need for creating an investment "climate" in foreign countries which would attract private American capital in larger volume. In this connection, it recommends that the United States Government should give full diplomatic support to the acceptance and understanding abroad of the principles underlying the creation of such a climate, and that we should continue to negotiate international treaties to establish common rules on the fair treatment of foreign investments. It also recommends that our present program of guaranties to American investors abroad against expropriation or inconvertibility of exchange should be continued for a further trial period and extended to cover the risks of war, revolution, or insurrection.

As a means of stimulating our foreign investments, however, the Commission places its main emphasis on various tax measures. The measures recommended are substantially the same as those suggested by President Eisenhower in his Budget Message and those recently approved by the Ways and Means Committee of the House of Representatives. Broadly, they would involve three revisions in the Revenue Code. First, the Commission recommends that there be a reduction in the corporate tax rate by at least 14 percentage points on income from investment abroad, and that comparable preferential tax treatment be granted to individuals investing abroad. Second, the Commission recommends that Congress remove several specified restrictions which now prevent a person who invests abroad from offsetting in full against his domestic tax the appropriate foreign taxes. Finally, recommendations are made to reduce the possibility, inherent in present United States tax law, of penalties to investors for adopting the specific form of organization dictated by local laws or business conditions abroad.

Primary reliance, in the view of the Commission, should be placed on private, as contrasted with United States Government, investment abroad. But it is pointed out that there are special circumstances where our economic and foreign policy objectives can be served by public lending, namely, where substantial economic aid is deemed necessary in our interests, but cannot be obtained from private or international sources.

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Examples would include the expansion of foreign production of raw materials needed for defense purposes, alleviation of the results of natural disasters, expansion of basic facilities abroad (e.g., transportation), and in some cases general economic development. But it is emphasized that public lending should not compete with, or displace, private foreign investment.

With regard to economic grants by the United States Government, it has already been noted that the Commission recommends the termination of such grants as quickly as possible. But exception is made for cases where support is needed to maintain military forces or to conduct military operations connected with our own security beyond the economic capacity of the foreign country to sustain. The Commission also recommends vigorous support of our technical assistance program for underdeveloped countries, but cautions that it should not become a "big money" program or involve capital investments.

The strong emphasis throughout the report upon the incentives of the free enterprise system, the stimulating effects of competition, and the stabilizing influence of free markets is most evident in the section dealing with the problems of agriculture and raw materials. While making it clear that it was not the responsibility of the Commission to reformulate the agricultural policy of the United States, the report stresses the need for harmonizing our agricultural and foreign economic policies without sacrificing the sound objectives of either. This should be accomplished, it argues, by seeking to avoid recourse to inflexible agricultural price supports, and to the export subsidies and import quotas that they involve, and by devising alternative methods of achieving desirable farm policy goals. With regard to the troublesome problem of instability in world raw material prices, the Commission similarly argues against extensive resort to international commodity agreements, which, it contends, will merely introduce undesirable rigidities and restraints and possibly involve very large outlays of United States Government funds. On similar grounds, it objects to proposals for unilateral buffer stock action by the United States to stabilize world prices of raw materials and foodstuffs. On the other hand, it believes that the United States can make "constructive contributions" to greater stability in world prices by relaxing or removing impediments to our foreign trade, by encouraging the diversification of production in countries now excessively dependent upon a few products, by avoiding actions incidental to our commodity control and stockpile programs that would have disruptive effects on world prices, and—in keeping with a theme recurring throughout the report—by tempering the fluctuations of our domestic economy.

In the interests of further contributing to a solution of the world dollar problem, the report recommends a liberalization of our policies with respect to shipping, tourism, and East-West trade. It recommends that the statutory provisions requiring use of United States vessels for half of all shipments financed by United States Government loans and grants should be repealed; and also that the determination of the active merchant fleet requirements of this country should take account of the availability of foreign vessels. To promote United States tourist expenditures abroad, the duty-free allowance for returning tourists should be raised from $500 to $1,000. And to reduce the dependence of Western European countries upon United States aid and to strengthen their economies, we should acquiesce in more trade in peaceful goods between Western Europe and the Soviet bloc, so far as this can be done without jeopardizing our military security.

In the final section of its report, the Commission emphasizes the desirability of a restoration of currency convertibility and nondiscrimination in trade abroad and suggests measures that the United States might take, over and above the more general policies recommended in the report, to promote "gradual but positive progress" toward this goal. Pointing to the need for larger monetary reserves abroad as a prerequisite for convertibility, it recommends "a much more active utilization than heretofore of the International Monetary Fund's holdings of gold and convertible currencies". As a second means of support, it recommends that "the Federal Reserve System explore with foreign central banks the possibilities of standby credits or line of credit arrangements". It calls attention to the "ample precedent" for such arrangements in the interwar period and to the facts that they would avoid an increase in the public debt and could be handled more flexibly and informally than a formal grant of credit by our Treasury.

Conclusion

The Randall Commission was faced with the difficult task of producing, within a short period of time, a document designed to harmonize widely differing views on the controversial and politically charged subject of our foreign economic policies and programs. Its recommendations, summarized briefly above, add up to a modest, and essentially limited, compromise program framed with a view to early Congressional action. It is not clear from the report how large a contribution the Commission would expect this program, if adopted in full, to make toward a solution of the world dollar problem and the achievement of freer and more active international trade which are the report's main concern. And it is as yet an open question, especially in the light of the numerous dissents and reservations expressed by influential Congressional members of the Commission, how many of the recommendations will in fact be translated into actual policy. But it is at least likely that the subject matter and recommendations of the report will be vigorously debated, within Congress and without, in the months immediately ahead. Mr. Randall himself has been appointed a consultant to the President with the responsibility of supervising the preparation of the Administration's proposals in this field for submission to Congress.

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THE PRESIDENT'S BUDGET MESSAGE FOR FISCAL 1955

The Budget for the fiscal year ending June 30, 1955 which President Eisenhower presented to Congress on January 21 is the first to be completely prepared by his Administration. It is cast, according to the President, in terms of "adequate" provision both for our national defense and international responsibilities and for "essential" (rather than what some consider desirable) domestic activities and programs. The basic assumption is made that fairly stable conditions, both internally and externally, will prevail. Accordingly, no tax or expenditure programs specifically designed to combat recessionary (or inflationary) tendencies are proposed for consideration by Congress. Likewise, the proposed defense programs do not reflect any expectation of heightened international tension. To be sure, defense and related outlays are changed in composition, with greater emphasis on striking power; but a measurable reduction in total is also envisioned. Finally, the Budget implies a continuing development toward self-sustainability by the countries receiving economic aid.

In particular, these assumptions of stability are reflected in the levels of income and profits upon which the individual income and corporate profits tax yields are calculated, in the levels of private consumption expenditures to which excise tax revenues are tied, in the levels of farm price movements on which the net payments by the Commodity Credit Corporation are based, and in the level of unemployment in industries covered by unemployment insurance to which the disbursements for compensation are related. For the period covered by the Budget it is assumed, among other things, that personal income and corporate profits will continue at substantially the high levels of the final quarter of the past calendar year, that consumers will spend at rates prevailing then, that farmers will withdraw a substantial volume of crops pledged against loans, and that the number of unemployed persons will remain close to the level in the past calendar year.

The estimate of receipts is based on the retention of the existing corporate income and excise tax rates, both of which are scheduled to decline on April 1 in the absence of new legislation, and the adoption of a list of some twenty-five reforms in the current tax structure, most of which have already been approved by the House Ways and Means Committee. Thus, changes in business conditions or in international relations, as well as changes resulting from Congressional action, would obviously alter the budget programs.

Under these assumptions, budget receipts, as estimated at 62.6 billion for fiscal 1955, fall short of anticipated expenditures of 65.6 billion. The result is an indicated budget deficit of 2.9 billion dollars, compared with an indicated deficit of 3.3 billion in the current fiscal year and a deficit of 9.4 billion in fiscal 1953. On the basis of *cash* receipts and outlays, however, a small surplus would be obtained in fiscal 1955, compared with a small deficit expected in the current year and a deficit of 5.2 billion in fiscal 1953.

The estimated budget receipts in fiscal 1955 would amount to 20 per cent of national income at current levels, or somewhat less than the estimate (22 per cent) for the current fiscal year and slightly below that for fiscal 1953. Before Korea, in fiscal 1950, budget receipts were 17 per cent of national income, whereas at the peak of the World War II effort they were 24 per cent. Relating outlays to gross national product rather than to national income, the anticipated budget outlays would represent about 18 per cent at current levels, around 2 percentage points less than either the estimated share in the current fiscal year or the actual proportion in fiscal 1953. Before Korea, budget outlays were 15 per cent of gross national product, and at the peak of the World War II effort they were nearly 45 per cent. On a cash basis, the ratio of receipts and expenditures to national income and gross national product would be only slightly higher than on a budgetary basis. Thus, the proposed changes in Federal budget programs within the expected economic setting would have a relatively modest impact on the economy. The tax reductions as they become available for spending or investment by the public should be a stimulus to business and should partly offset the projected shrinkage in Government outlays, although the combined effect of these changes would undoubtedly vary from industry to industry.

While only a slight change in fiscal 1955 is expected in the net results of Federal operations (i.e., in the budgetary deficit), a significant reduction is expected in appropriations and in the amount of unexpended appropriation balances at the end of fiscal 1955, as shown in Table I. Under the President's program for the coming year, new obligational authority, as in the current fiscal year, will be less than expenditures. A cumulative reduction of nearly 25 billion dollars in unspent appropriations from the peak level at the end of June 1953 is anticipated by the end of fiscal 1955, portending a further reduction in expenditures. Thus, the President notes that in the revised 1954 Budget and the new 1955 Budget "the trend clearly is toward a balanced budget".

Table I
Budget Authorizations, Expenditures, and Unspent Appropriations, 1950-55
(In billions of dollars)

Fiscal year	New obligational authority*	Expenditures	Cumulative unspent balances of appropriations†
1950	49.3	39.6	14.1e
1951	82.9	44.0	50.3e
1952	91.4	65.4	68.8
1953	80.2	74.0	78.7
1954e	60.7	70.9	66.5
1955e	56.3	65.6	54.1

e Estimated by the Bureau of the Budget.
* Includes increases and adjustments in authorizations to contract and to make expenditures from borrowed money, as well as new appropriations to make expenditures from the general revenues of the Government.
† As of end of year. Includes reappropriations of spending authority for the mutual security and atomic energy programs which would lapse if not used in a given fiscal year, as well as continuing and new appropriations. Does not include authorizations to contract or spend from borrowed money.
Source: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1955.*

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The twin financial problems of debt management are explicitly presented in the Budget Message as involving not only the offering of securities that the market will take for cash or refunding, but also an appraising of the economic situation and the adapting of financing plans to it so as not to contribute to either inflation or deflation. Within this goal, the specific problems are to lengthen the maturities of the debt and to obtain a wider distribution among individuals and other nonbank investors. A start, for example, was made during the past calendar year, when the public debt increased by 7.8 billion and nonbank investors (including the Government trust funds) added 6.4 billion dollars to their holdings of Government issues.

Budget Accounts

Receipts

The estimated decline of budgetary receipts in fiscal 1955 by some 5 billion dollars would accrue to the benefit of both individuals and corporations, as shown in Table II. It reflects, on the one hand, a full year's effect of the reductions in individual income tax rates and of the elimination of the excess profits tax, which became effective on January 1, 1954, and, on the other, the anticipated reductions arising from the proposed revisions in the existing tax structure. These revisions, which are designed to eliminate "inequities" and "tax complications" would, among other things, remove some of the "double" taxation of dividend income, and provide more liberal depreciation allowances to business and better tax treatment to individuals for working children, child care, medical expenses, and annuities. They would also reduce the irregularity of tax payments by requiring advance payments, beginning in the fall of 1955, by corporations in September and December before the end of their income year and by shifting the filing date for individuals from March 15 to April 15.

Table II

United States Budgetary and Cash Operating Transactions, Fiscal Years 1953-55
(In billions of dollars)

Transactions	Actual 1953	Estimated 1954	Projected 1955	Change, 1954-55
Income				
Budget receipts, net:				
Income taxes on individuals	32.5	33.4	30.3	−3.1
Corporate profits taxes	21.6	22.8	20.3	−2.5
Excise	9.9	10.2	10.2	+ *
Other receipts, net	3.7	4.2	4.3	+0.1
Refunds (deduction)	− 3.1	− 3.0	− 2.5	−0.5
Total budget receipts, net	64.6	67.6	62.6	−5.0
Noncash budget receipts (deduction)	− 0.2	− 0.3	− 0.3	—
CASH BUDGET RECEIPTS	64.4	67.3	62.3	−5.0
CASH TRUST RECEIPTS	7.0	7.7	8.5	+0.9
TOTAL CASH RECEIPTS	71.3	75.0	70.9	−4.1
Outgo				
Budget expenditures:				
Defense and related programs†	50.9	49.7	45.6	−4.1
Nondefense programs	23.1	21.2	20.0	−1.2
"Relatively uncontrollable" items	*14.9*	*14.1*	*14.1*	− *
Other nondefense	*8.2*	*7.1*	*5.9*	*−1.2*
Total budget expenditures	74.0	70.9	65.6	−5.3
Noncash budget items (deduction) ‡	− 3.4	− 3.3	− 3.2	+ *
Additional cash payments§	0.5	0.7	0.8	+0.1
CASH BUDGET OUTGO	71.1	68.3	63.1	−5.2
CASH TRUST OUTGO#	5.2	6.8	7.6	+0.8
CLEARING ACCOUNT	0.3	*	*	− *
TOTAL CASH PAYMENTS	76.6	75.2	70.7	−4.4
Deficit or Surplus				
Budget deficit	− 9.4	− 3.3	− 2.9	+0.3
CASH DEFICIT (−) OR SURPLUS (+)	− 5.2	− 0.2	+ 0.2	+0.3
Difference in deficits	4.2	3.1	3.1	− *

Note: Because of rounding, figures do not necessarily add to totals.

* Less than 50 million dollars.

† Includes spending for the major national security programs (military outlays of the Defense Department, strategic and critical materials, atomic energy, and mutual defense) as well as for related programs (the Coast Guard, maritime activities, expansion of defense production, the National Advisory Commission for Aeronautics, and the Selective Service System).

‡ Noncash intra-Governmental payments and interest accrued on Savings bonds in given years.

§ Includes redemptions by the International Monetary Fund of noninterest-bearing notes, and the payment of accrued interest on redeemed bonds.

\# Includes the net transactions by partially owned Government corporations, as well as expenditures of trust accounts.

Source: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1955;* Bureau of the Budget, *Receipts from and Payments to the Public, Fiscal Years 1953, 1954 and 1955.*

If personal income remains at approximately the recent annual rate of around 285 billion dollars—the figure the Treasury and the Bureau of the Budget are reported to have used—it is estimated that taxes on individual incomes in fiscal 1955 will yield 3.1 billion less than in fiscal 1954. The loss from the recent 10 per cent reduction in tax rates on individual incomes would account for the major portion of this decline, the anticipated cut from the proposed reforms in the tax structure amounting to 600 million dollars. Part of the loss in income taxes, however, would in effect be offset by an expected 500 million dollar reduction in the amount of refunds, reflecting mainly the new rates for withholding income taxes. With profits at the recent level of around 43 billion dollars, a reduction of 2.5 billion in corporate tax collections in fiscal 1955 is anticipated as a result of the elimination of the excess profits tax and the proposed corporate tax reforms. (The total loss in fiscal 1955 from all these changes will amount to nearly 6 billion dollars, compared with an estimated loss of over 1 billion dollars in fiscal 1954.) If Congress is not willing to go along with the President's request for a retention of the current corporate income and excise tax rates scheduled to be automatically reduced on April 1, the Government will lose around 2.5 billion more in fiscal 1955 than is anticipated in the new Budget.

Income tax payments by individuals, as estimated at over 30 billion dollars, will provide almost half of the estimated budget receipts in fiscal 1955, while corporate profits taxes, at over 20 billion dollars, will provide over 32 per cent. The relative contributions from these two sources differ only slightly from those in the current fiscal year. Excise taxes, which provide the bulk of the remaining receipts, are not expected to change from the current year's 10.2 billion, unless Congress refuses to approve the retention of existing rates.

Disbursements

Anticipated budget expenditures for fiscal 1955 would be some 5.3 billion less than in the current fiscal year and around 8.4 billion less than was spent in the fiscal year ended last June, before the truce in the Korean conflict. The estimated

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expenditures include requirements under legislation yet to be proposed to Congress, mainly for the extension of mutual security assistance, as well as under existing legislation. Expenditures for major national security and related programs, at 45.6 billion dollars, would be 4.1 billion less than the outlays expected during the current fiscal year and 5.4 billion less than in fiscal 1953. Nondefense activities in fiscal 1955, at 20 billion dollars, would require 1.2 billion less than corresponding operations this year and 3.0 billion less than in the past fiscal year. All but 5.9 billion dollars of this spending would be for the "relatively uncontrollable" major programs, which are expected to require about the same amount in fiscal 1955 as in the current year.

Defense and Related Programs

Expenditures for the military functions of the Department of Defense alone are estimated at 37.6 billion dollars after an anticipated cut of nearly 4 billion. The reduction in military outlays is to be achieved by a substantial cutback of 3.2 billion in military procurement—particularly of vehicles, ammunition, and soft goods—and by lesser reductions in spending for personnel (down 600 million) and for operation and maintenance (down 200 million). The program for fiscal 1955 is based, according to the President, on the new concept of military flexibility, involving the full exploitation of air power and modern weapons in a program aimed at continued maintenance within the financial capability of a sound economy. This concept replaces the "target-date readiness" on which the previous expansive military budgets were based. Reflecting this concept, as well as savings from economies and the cessation of hostilities in Korea, the cut in military outlays will be made mainly in outlays by the Army, although disbursements by the Navy are also to be cut. Part of these reductions will be offset by a rise in spending by the Air Force, which would reach a new peak for the current rearmament period. The projected changes would make the Air Force the largest military spender, with over 16.2 billion or 43 per cent of the military budget allotted to its programs for fiscal 1955. The Army and Navy divide the remainder about equally.

NATIONAL SUMMARY OF BUSINESS CONDITIONS

Because of an advance in the publication date of the "National Summary of Business Conditions", it is no longer being reprinted in the *Monthly Review*. The "Summary" will continue to appear in the *Federal Reserve Bulletin*, which may be obtained from the Board of Governors of the Federal Reserve System, Washington 25, D. C. This Bank will also make reprints of the "Summary" available to member banks in the Second Federal Reserve District for distribution to their customers.

The proposed defense program calls for a cutback in military personnel to slightly over 3 million by June 30, 1955. The present level of more than 3.4 million is scheduled to be reduced by around 100,000 by the end of June 1954 and a further cut of almost 300,000 is anticipated during fiscal 1955. These cuts reflect a somewhat larger reduction in Army and Navy forces, partly offset by a relatively small increase in Air Force personnel. The rise in the Air Force is part of a long-range plan under which it would be raised to 115 wings by June 1954, and to 137 in the following three fiscal years. The Army, which now has twenty divisions, will inactivate one between now and July and may lose more in fiscal 1955, when a cut of nearly 245,000 is to be made in its manpower. Army antiaircraft guided missile battalions will be increased as part of a program to improve continental defense. The cut in Navy strength will be relatively small.

Spending for other national defense programs is scheduled to decline by 100 million dollars. Disbursements for mutual defense assistance and atomic energy, at 4.3 billion and 2.4 billion, respectively, would rise by relatively small amounts to new peak levels; these increases would be more than offset, however, by projected cutbacks in spending for other related defense programs, including the stockpiling of strategic and critical materials, maritime activities, defense production expansion, the Coast Guard, and several smaller programs. The latter programs, together, would require less than 1.3 billion dollars under the projected budget for fiscal 1955.

Nondefense Programs

The "relatively uncontrollable" nondefense programs in fiscal 1955, estimated at 14.1 billion, would be about the same as in the current fiscal year, with an anticipated decline in spending for the support of agricultural farm prices and for public-assistance grants to the States being offset by a rise in interest payments. Relatively small changes are anticipated in other major programs in this group, which include veterans' aid programs, Federal-aid highway grants, agricultural programs for land conservation and for the removal of surplus agricultural commodities, and grants to the States for the administration of unemployment services.

The estimated 1.2 billion dollar reduction in "other nondefense" programs arises in part from cutbacks in certain programs and in part from an expected shift to net receipts from net disbursements for several of the Government's public enterprise programs, which are included on a net basis in budget expenditures. The cutbacks occur mainly in spending for international economic aid (down 300 million), and in the Post Office deficiency (down 350 million, reflecting both economies and a proposed rise in rates). The shift to net receipts, which is estimated to provide over 650 million dollars, is expected to occur in the operations of the Federal National Mortgage Association and the Export-Import Bank, and in the agricultural Disaster Loans and Emergency Feed Program, and would occur as the loans and mortgages are repaid or sold

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to private lenders. The cumulative projected decline in foreign economic aid in the current fiscal year and in fiscal 1955, at over 650 million, is more than double the projected increase in these two years in mutual military assistance. Changes in other programs are relatively small and tend to offset each other.

Expenditures by the Commodity Credit Corporation (CCC) for the support of farm prices are expected to decline only slightly from the nearly 1.2 billion estimated for the current year, despite the application of marketing quotas on wheat and cotton and of acreage allotments on corn. Combined direct and indirect price-support operations in fiscal 1955, however, are expected to decline to slightly more than a quarter of the combined volume in the current fiscal year; guaranteed loans are expected to show a small decline in fiscal 1955, whereas in the current year a substantial increase is anticipated. It is assumed that the major portion of the private loans, which are short term, will in effect be refunded in fiscal 1955. A fairly large volume of receipts from repayments by farmers and from the sale of commodities has also been assumed in setting the net outlays by the CCC in both fiscal 1954 and 1955. If such receipts do not materialize, larger disbursements by the CCC or an increase in private financing will be required. To cover the continued large need for both direct and indirect support of farm prices, the President requested that Congress not only cancel 775 million of notes in the current fiscal year now owed to the Treasury by the corporation,[1] but also increase the total of the latter's borrowing authority by 1,750 million dollars, effective July 1, 1954.

Cash Position

Cash receipts in fiscal 1955, under the program presented in the Budget Message, would exceed cash disbursements by almost 200 million dollars. This is some 3.1 billion dollars better than the expected budget deficit for several reasons. In the first place, the budget figures include a large amount of noncash expenditures and only a small amount of noncash receipts from Government agencies. The noncash expenditures consist mainly of anticipated payments to the trust funds for interest and other charges, and of the net increase in accrued interest on Savings bonds. These funds are generally invested immediately in Government securities or held in reserve, thus requiring no immediate payment of cash. The cash deficit in the budget accounts alone is expected to be less than 800 million dollars, and it is anticipated that this will be offset since the trust funds are expected to receive more cash from the public than they will disburse in benefits.

On a cash basis, nearly 71 billion dollars is expected to be collected from the public in fiscal 1955. The decrease of over 4 billion dollars from fiscal 1954 is expected mainly from the anticipated decline in income and profits taxes, which will be partly offset by an expected rise of nearly 900 million in cash collections by the trust funds. Larger receipts are anticipated by the Old-Age and Survivors' Insurance Fund (up 900 million), reflecting mainly the full impact of the increase in rates (from 1½ per cent to 2 per cent for both employers and employees) effective on January 1, 1954. A further small increase in receipts in fiscal 1955 stems from the proposed revision in the program, to become effective next January 1, which would extend the coverage to some ten million persons and raise the maximum annual taxable income base from $3,600 per employee to $4,200. The increase from these changes would be significantly greater in fiscal 1956. Cash receipts by the Unemployment Trust Fund would also show a small increase, under the initial impact of a proposed revision to extend coverage to firms with fewer than eight employees and to Federal civilian employees.

Cash outlays by the Government in fiscal 1955 would amount to 70.7 billion dollars, with the budget accounts disbursing 63.1 billion of this total. The estimated outlays are 4.4 billion dollars less than the estimated spending for the current fiscal year. The major changes in the budget accounts discussed above will reduce cash spending by 5.2 billion dollars, but part of this decline is expected to be offset by a rise in cash outlays by the trust funds.

Cash disbursements by the trust accounts for fiscal 1955, as estimated at over 7.6 billion dollars, are nearly 800 million higher than in fiscal 1954, largely as a result of the normal increase in the number of recipients of old-age benefits and of the proposed revision in the program which would raise individual benefits as of October 1954. On the assumption of stable business conditions at the recent high levels, a nominal rise of only 100 million dollars in payments by the Unemployment Trust Fund is estimated for fiscal 1955, reflecting an increase in claims of short duration and the liberalization of benefits by some States. Payments to new claimants under the proposed extension of the unemployment program would add around 60 million dollars to disbursements. Disbursements by other accounts are expected to show a small decline in fiscal 1955.

Public Debt

If Congress accepts the President's tax proposals, the contemplated cash outlays under the budget program for fiscal 1955 would allow for a small net decline in cash borrowing from the public. However, a rise of over 3.5 billion dollars in the debt would occur as a result of noncash expenditures. Thus, by June 30, 1955 the public debt would amount to 273 billion dollars, as shown in Table III. Because of the wide swings in receipts and expenditures and the heavy concentration of taxes in the latter half of the fiscal year, however, there would be periods during the year when the public debt

[1] Congress authorized the cancellation of notes in the amount of 682 million dollars in a measure signed by President Eisenhower on February 12.

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Table III
Change in the Public Debt, Fiscal Years 1953-55
(In billions of dollars)

Source of funds*	Actual 1953	Estimated 1954	Projected 1955	Change, 1954-55
Excess of cash payments (+) or receipts (−)	+ 5.2	+ 0.2	− 0.2	−0.3
Change in Treasury balance, cash operations†	− 2.3	+ 0.8	—	−0.8
Cash borrowing from the public, net‡	+ 2.9	+ 0.9	− 0.2	−1.1
Noncash borrowing	+ 4.0	+ 3.5	+ 3.5	—
Gold retirement of debt	—	− 0.5	—	+0.5
Increase in the Federal debt‡	+ 6.9	+ 4.0	+ 3.4	−0.6
Public direct debt at end of year	266.1	269.8	273.0	+3.2
Treasury's balance at end of year	4.7	5.0	5.0	—

Note: Because of rounding, figures do not necessarily add to totals.
* The minus (−) sign indicates the use of a surplus or an existing balance for retiring debt, and the plus (+) indicates the provision of funds by borrowing to cover a deficit or build up the balance.
† The net change in the General Fund reflects the reduction in gold for the purpose of retiring debt, as well as the change in deposits from cash operations with the public.
‡ Includes a small amount of transactions in Government corporation issues.
Source: *The Budget of the United States Government for the Fiscal Year Ending June 30, 1955;* Bureau of the Budget, *Receipts from and Payments to the Public, Fiscal Years 1953, 1954 and 1955.*

would be considerably greater than the year-end amount, which, the President warned, would make it necessary for Congress to raise the debt ceiling.

Current Fiscal Year

Cash receipts in the current fiscal year ending June 30 are now estimated to provide 75.0 billion dollars, which is only 200 million less than expected cash outlays. These estimates show little change from those submitted in the *Review of the Budget* last August when a cash operating deficit of 400 million was anticipated,[2] compared with a deficit of 6.6 billion estimated for the current fiscal year in the Budget Message submitted January 1953 when higher outlays were proposed.

[2] Because of a change in accounting procedures whereby receipts of the Railroad Retirement Trust Fund are now deducted directly from budget receipts, additional cuts of 640 million dollars from the *Review of the Budget* estimates were made in both budget receipts and expenditures. This change has no effect on the net deficit. Formerly, the receipts of this fund were left in budget receipts, and an offsetting transfer was included in budget expenditures.

EARNINGS AND EXPENSES OF THE SECOND DISTRICT MEMBER BANKS

Net profits of member banks in the Second Federal Reserve District, after taxes but before dividend payments, totaled 221.0 million dollars in 1953. This represented a decline of 7.4 million dollars—slightly more than 3 per cent—from 1952's net profit figure of 228.4 million dollars. As the profits of all member banks in the nation increased to 865 million dollars from 829 million in 1952, the share accounted for by the Second District's member banks fell from 27½ to 25½ per cent.

Within the Second District, the earnings experience of the central reserve New York City banks contrasted sharply with that of the reserve city and country banks. For the central reserve New York City banks, the 1953 profit total of 161.1 million dollars represented a decrease of 13.5 million, or 8 per cent, from the 1952 level. For the reserve city and country banks, however, last year's profit total of 59.9 million dollars represented an increase of 6.1 million dollars, or 11 per cent. And while the total net profit for the City banks provided a return of 6.4 per cent on capital funds, the District's reserve city and country member banks as a group earned a 7.6 per cent return on their capital funds (in 1952 the return for both groups was 7.2 per cent).

This less favorable 1953 profits experience of the central reserve New York City banks resulted primarily from the fact that the City banks took much heavier security losses during the year than the reserve city and country member banks did. But, to a considerable extent, these losses, reflected by the reduction in the central reserve city banks' 1953 profits figures, may be considered only temporary in nature. That is, profits were reduced by the security losses realized, but a considerable part of those losses has probably since been recovered in the form of unrealized appreciation in the City banks' investment portfolios. Moreover, some of these losses may have been taken in an effort to economize on taxes at a time when rates were high.

During the first half of the year, when tight conditions prevailed in the money market, some banks may have sold securities at a loss in order to ease reserve positions. But other banks that took security losses during 1953 did so in the course of portfolio "switching" operations aimed at reducing income tax liability. And the fact that security losses were heavier in the second half of 1953, when reserve positions were considerably easier and there was little or no compulsion to liquidate security holdings, reinforces the supposition that perhaps the greater portion of the year's sales was voluntary in nature and was undertaken to establish tax losses. To the extent that losses incurred in switching were greater than the resulting tax savings, net profits were depressed. On the other hand, any increase in the level of Government security prices over that which obtained when the switches were made carries with it the possibility of future long-term capital gains taxable at a lower rate.

The change toward ease in Reserve Bank credit policy initiated early in May, and the implementation of this easier policy by open market purchases of Treasury bills and the July reduction in reserve requirements, were correctly interpreted by many security traders as leading to lower market yields (higher prices) for Government securities. In fact, Government security prices have been moving upward since June 1953 and, according to published announcements, substantial unrealized appreciation has already accumulated in security portfolios of a number of banks. This unrealized appreciation in the value of bank Government security portfolios is, of course, not reflected in the accompanying 1953

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earnings results. It will appear in the future, if and when the securities that have appreciated are sold or redeemed and a profit is established.

In 1953, net profits of the central reserve New York City banks were 25 per cent below the peak established in 1945, but the net profits of the reserve city and country member banks in this District had virtually reattained their former highs. The accompanying chart shows the growth that has taken place since prewar years in the net profits of both groups of banks. It indicates that, in both groups, net current operating earnings after income taxes have maintained an almost uninterrupted advance to successive new peaks. And this advance occurred despite an equally sharp advance in operating expenses, and an even steeper rise in income taxes.

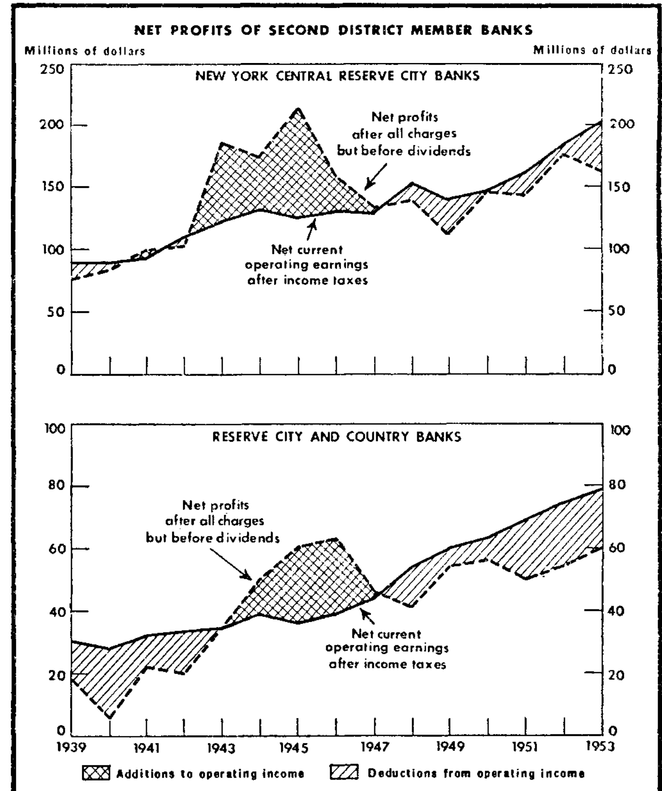
The other item charted—net profits after all charges but before dividend payments—reflects the effects not only of income taxes but also of additions to or deductions from operating earnings arising from recoveries and charge-offs on loans, investments, and other assets, security profits or losses, and increases or decreases in valuation reserves. These "final" net profit figures bulged upward in the war years as a result of a heavy volume of security profits. And these security profits, in turn, were an outgrowth of the Government financing methods followed during the war, including the interest rate pattern and the Federal Reserve System's policy of supporting Government security prices.

With the end of hostilities, and the termination of sales of Government securities on the wartime scale through the commercial banking system, security profits of the banks were gradually reduced to nominal proportions. In fact, beginning with the Federal Reserve-Treasury accord of March 1951 and the resulting "free market" in Government securities, the commercial banks frequently incurred small net losses on security transactions.

The disappearance of the heavy wartime security profits resulted in generally lower net profits during the entire postwar period. And, in the years after 1948, the practice of making charges against earnings to set up tax-deductible reserves for bad debt losses on loans had a further depressing effect on reported profits. Together, these two factors largely obscured the very real improvement in bank earnings positions that has resulted from the steady growth in operating earnings.

Operating Income

Total current earnings of the Second District member banks continued in 1953 the steady uptrend that has been in progress for the past fifteen years. All categories of earnings were larger than in 1952, but the greatest gains—quantitatively and relatively—stemmed from loans. In the central reserve New York City banks, loan income increased 15 per cent and reflected an 8 per cent rise in average loan volume, coupled with an increase in loaning rates. Rates charged on commercial and industrial loans, the main component of the City banks' loan portfolio, were on the average about $\frac{1}{5}$ of 1 per cent higher in 1953 than in 1952. In the reserve city and country



banks where loan rates are closer to legal ceilings, the increase in loan income (17 per cent) moderately exceeded the rise in average loan volume (14 per cent) because of a greater growth in higher-rate consumer loans than in other types of loans.

As a source of current earnings, interest received on U. S. Government securities increased moderately in importance throughout the District, as the higher average rates obtainable on issues refunded during the year more than offset the effect of a decline in average holdings. Government security portfolios declined more in the New York City banks than elsewhere in the District. Consequently, the City banks' earnings on Government securities showed a relatively smaller increase than the Government security earnings of the reserve city and country banks. On the average, higher rates of interest also were obtainable on obligations of States, counties, and municipalities—the principal components of "other securities". In the central reserve New York City banks, the higher rates offset a decline in the average volume of holdings, and income from "other securities" remained unchanged. At the rest of the District's member banks, the higher rates reinforced the effect of an increase in the average volume of holdings, and income from "other securities" rose 10 per cent.

Operating Expenses

In the central reserve New York City banks, total current operating expenses showed a slightly smaller relative increase than total current earnings. In the remainder of the District's member banks, however, the growth (12.5 per cent) in expenses exactly matched the rise in operating earnings. Outlays

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Earnings and Expenses of Member Banks in the Second Federal Reserve District for Selected Years
(In millions of dollars)

Item	New York central reserve city banks				Reserve city and country banks			
	1945	1949	1952	1953	1945	1949	1952	1953
Earnings:								
On U. S. Government securities	222.1	147.8	133.8	136.7	81.5	75.3	75.9	80.5
On other securities	24.2	25.8	42.9	42.9	10.3	15.0	20.2	22.2
On loans	105.6	188.8	377.8	433.6	45.2	123.1	186.6	218.2
Service charges on deposit accounts	7.5	14.9	18.2	19.6	9.0	17.9	22.4	24.9
Trust department	40.7	51.9	66.6	69.6	5.3	7.7	9.3	9.6
Other earnings	32.1	46.9	52.0	54.6	12.9	15.6	18.4	19.1
Total current earnings	432.2	476.1	691.3	757.0	164.2	254.6	332.8	374.5
Expenses:								
Salaries and wages	116.8	164.2	212.8	228.0	46.4	80.8	106.2	117.5
Interest on time deposits	5.6	7.7	17.9	28.1	23.8	31.3	42.1	49.2
Other expenses	94.0	110.2	139.8	148.0	42.2	65.3	80.9	91.2
Total current expenses	216.4	282.1	370.5	404.1	112.4	177.4	229.2	257.9
Net current operating earnings before income taxes	215.8	194.0	320.8	352.9	51.8	77.2	103.6	116.6
Net recoveries (+) or charge-offs (−) on loans	+ 1.3*	− 5.7	+ 2.4	+ 2.1	+ 1.2*	− 3.7	− 1.6	− 4.5
Security profits and recoveries (+) or charge-offs (−)	+100.2†	+ 12.0†	− 3.7	− 30.4	+ 26.1†	+ 8.3†	− 4.7	− 8.8
All other net recoveries (+) or charge-offs (−)	− 12.4	− 3.9	+ 1.9	− 6.4	− 2.7	+ 0.5	− 1.7	− 1.2
Net additions to (−) or deductions from (+) valuation reserves for:								
Loan losses	—	− 30.1	− 11.9	− 9.9	—	− 11.8	− 12.8	− 5.7
Security losses	—	—	+ 3.7	+ 4.2	—	—	+ 0.9	+ 1.3
Net profits before income taxes	304.9	166.3	313.2	312.5	76.4	70.5	83.7	97.7
Taxes on net income	90.7	55.0	138.6	151.4	16.0	16.9	29.9	37.8
Net profits after income taxes	214.2	111.3	174.6	161.1	60.4	53.6	53.8	59.9
Cash dividends paid or declared	73.0	82.3	94.7	103.2	13.9	19.4	23.5	24.9
Retained earnings	141.2	29.0	79.9	57.9	46.5	34.2	30.3	35.0

* Includes transfers to or from valuation reserves for loan losses.
† Includes transfers to or from valuation reserves for losses on securities.
Sources: Board of Governors of the Federal Reserve System, 1945-52; 1953 preliminary figures compiled by the Federal Reserve Bank of New York.

for salaries and wages, the principal component of total expenses, rose 7 per cent in the City banks and 11 per cent in the reserve city and country institutions. Interest paid on time deposits more than doubled in the New York City banks (where such deposits are comparatively unimportant). But in the remainder of the District, where time deposits comprise nearly two fifths of all deposits, interest payments increased 17 per cent.

The relatively greater increase in the City banks' interest payments on time deposits resulted from both a more pronounced rise in interest rates paid and a sharply higher volume of time deposits. The effective rate of interest paid on time deposits by the central reserve New York City banks rose from 8/10 of 1 per cent in 1952 to 1.1 per cent in 1953; in the District's other member banks, the rate rose by only 1/10 of a per cent, from 1.1 per cent to 1.2 per cent. Furthermore, average time deposit volume expanded more than three times as rapidly in the City banks as in the other banks, owing mainly to a greater growth in time deposits of municipalities and foreign banks. Municipalities have evidently been temporarily placing part of the proceeds of recent new security issues in time deposits with the City banks, in order to earn some return until the funds are needed. The accounts of foreign banks are maintained almost entirely in the large central reserve New York City banks. Consequently, the growth in these accounts, representing part of the improvement in the gold and dollar positions of foreign nations, was not shared in to any great extent by the District's reserve city and country member banks.

Nonrecurring Items

Individually, the New York City banks were about evenly divided with respect to the number showing net recoveries or net losses on loans. Also, in all cases in which net charge-offs did occur, they were confined to relatively small amounts. Charge-offs on loans in the other Second District member banks were modestly higher than in recent years. In the aggregate, however, they totaled only 4½ million dollars, or 1/10 of 1 per cent of outstanding loans. Net security losses, as mentioned previously, advanced sharply in the City banks and amounted to 30.4 million dollars, compared with 3.7 million in 1952; in the reserve city and country member banks they rose from 4.7 million dollars to 8.8 million.

Deductions from earnings made to increase valuation reserves on loans were rather high (9.9 million dollars) in New York City, reflecting increases in reserves made by a number of institutions which were hoping for a decision by the Bureau of Internal Revenue to allow increases in the tax-deductible provision for future losses on loans. Currently, the maximum accumulation allowable in the tax-deductible reserve for bad debt losses on loans is three times the average annual loss experience of the past twenty years. Most banks in New York City have already reached their ceilings under this provision, and the anticipatory build-ups of reserves had to be made largely without benefit of tax exemptions. If the loan valuation reserves had been held within present ceilings, the increases shown in the attached table and chargeable against current earnings would have been converted to a modest reduction.

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In the member banks outside New York City, the build-up in the loan valuation reserve continued at a much reduced pace, probably reflecting continued accumulations in bad debt reserves by banks that have only, in late years, elected to adopt the reserve method of handling loan losses. Valuation reserves against security losses were drawn upon throughout the District to cushion the effect on profits of the year's security losses.

Taxes and Dividends

Income taxes paid by the central reserve New York City banks increased only 9 per cent, compared with 26 per cent for the remaining member banks. As mentioned earlier, the City banks reduced their tax bill more heavily than the other banks by establishing losses on securities. Actually, the increase in the tax bill for the City banks is overstated to some extent, because of the nonrecurrence of sizable tax refunds received in the previous year and deducted in the table from current tax payments in 1952. The increase that did occur, however, reflects higher taxable incomes, as well as higher over-all effective rates for those banks in the excess profits tax bracket (which had a larger proportion of their taxable incomes subject to excess profits taxes than in 1952).

The upward trend in dividend payments, which has been in evidence since 1943, continued at an accelerated pace in the central reserve New York City banks in 1953, and at a more moderate pace among the District's other member banks. In New York City, the dividend increase aggregated 8.5 million dollars, or 9 per cent. This was the sharpest year-to-year rise since the late twenties. Of the twenty central reserve New York City banks paying dividends, thirteen raised their payments, six left payments unchanged from the 1952 level, and one lowered its payment.

DEPARTMENT STORE TRADE

Preliminary estimates for department store sales in February point to continuing strength of consumer buying in the Second Federal Reserve District. The seasonally adjusted index of average daily sales in District department stores is expected to rise to 102 per cent of the 1947-49 average, an increase of 1 per cent over January 1954 and of 2 per cent over February 1953. Data are not yet available to compare the February experience in the District with that for department stores in the country as a whole. However, the final figures for January—when the index remained unchanged from the December 1953 level but registered a 1 per cent increase over the corresponding month a year earlier—compared favorably with the preliminary index for department store sales in the country as a whole. The latter showed a slight decline in January 1954 both with respect to the previous month and January 1953.

In actual dollar amounts, District department store sales during January were slightly down from sales during the corresponding month a year earlier, when the calendar had included one more shopping day. The decline was very moderate (2 per cent) in the New York-Northeastern New Jersey Metropolitan Area but fairly pronounced in the remainder of the District, notably in Northern New York State (15 per cent) and the Upper Hudson River Valley (10 per cent). This experience contrasted sharply with that for 1953, when monthly sales in the New York-Northeastern New Jersey Area, in comparison with year-ago levels, were relatively less favorable than those in the rest of the District. For 1953 as a whole, Metropolitan Area department store sales were down from a year earlier while sales in the rest of the District advanced.

Final estimates for 1953 indicate that the postwar trend toward a growing use of consumer credit facilities by customers of Second District department stores continued in that year, roughly paralleling department store credit developments for the country as a whole. Consumers in the Second District spent about the same number of dollars in department stores in 1953 as they had a year earlier but made cash payments

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

Item	1954	1953		
	Jan.	Dec.	Nov.	Jan.
Sales (average daily), unadjusted	81	178	129	80
Sales (average daily), seasonally adjusted	101	101	102	100
Stocks, unadjusted	98	104	132	102r
Stocks, seasonally adjusted	111	113	115	115r

r Revised.

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

Area	Net sales			Stocks on hand Jan. 31, 1954
	Jan. 1954	Jan. through Dec. 1953	Feb. 1953 through Jan. 1954	
Department stores, Second District	− 3	0	0	− 3
New York—Northeastern New Jersey Metropolitan Area	− 2	−1	−1	− 5
New York City*	− 2	−3 (−2)	−2 (−2)	− 7
Nassau County	—	—	—	—
Westchester County	+ 4	+4	+5	− 6
Northern New Jersey	− 5	+2	+2	− 1
Newark	− 7	+1	+1	+ 1
Fairfield County	− 9	—	—	− 8
Bridgeport	− 9	—	—	—
Lower Hudson River Valley	− 2	+4	+4	+ 4
Poughkeepsie	− 2	+5	+4	+ 5
Upper Hudson River Valley	−10	−1	−1	− 5
Albany-Schenectady-Troy Metropolitan Area	− 9	−1	—	− 5
Albany	− 8	−2	−3	− 8
Schenectady	− 9	+3	+2	+ 1
Central New York State	− 5	+4	+3	+ 9
Utica-Rome Metropolitan Area	−12	+2	+1	+ 4
Utica	− 8	+3	+2	+ 7
Syracuse Metropolitan Area	− 3	+4	+3	+12
Northern New York State	−15	+4	+3	+ 1
Southern New York State	− 8	0	0	+ 3
Binghamton Metropolitan Area	− 6	0	−1	+ 6
Elmira	−11	+1	0	+ 2
Western New York State	− 2	+4	+4	+ 2
Buffalo Metropolitan Area	− 4	+4	+3	0
Buffalo	− 4	+4	+3	0
Niagara Falls	− 5	+4	+3	—
Rochester Metropolitan Area	0	+5	+5	+ 4
Apparel stores (chiefly New York City)	− 1	−1	−1	+ 5

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

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for only 58 per cent of their total purchases, compared with 59 per cent in 1952, 61 per cent in 1951, and 73 per cent in 1945. The increase in the proportion of purchases made on a credit basis during 1953 was due entirely to a rise in the share of open account buying, in contrast to 1952 when the relative use of both charge accounts and instalment sales had risen. Consumers charged 30 per cent of their aggregate 1953 purchases, 1 percentage point more than in 1952 and only slightly less than in the only prewar year (1941) for which data are available. Instalment sales, on the other hand, accounted for the same proportion of total department store sales (12 per cent) in 1953 as they had in 1952. The overall statistics on instalment sales for 1953 fail to reveal the nature of the changes within the year, however. During the first half of 1953, the dollar volume of instalment sales rose substantially over the year-earlier level and there was also some further increase in the proportionate share of such sales; this increase over year-earlier levels mainly reflected the fact that Regulation W was still in effect during the earlier period (it expired in May 1952). Instalment sales during the second half of 1953 approximately matched the relatively high level of the corresponding period a year earlier.

The continued large volume of instalment sales was greater than might have been expected in view of the fact that department store sales of durable items—many of which are typically sold on an instalment basis—were declining fairly steadily during 1953 in relation to the sales of a year earlier; for 1953 as a whole, aggregate sales of furniture and bedding, domestic floor coverings, household appliances, and radio and television sets were down 3 per cent. The explanation of this seeming inconsistency appears to lie mainly in the fact that in recent years department store sales of apparel and other soft goods on "revolving credit" or "budget plan" arrangements (which are classified as instalment sales in the Federal Reserve survey) have rapidly grown in importance, while at the same time department stores were in many cases reducing the size of durable goods lines as a result of competition from other types of sellers. In District furniture stores, which specialize almost entirely in durable items and conduct about four fifths of their business on an instalment basis, instalment sales declined somewhat more over the year than total sales.

SELECTED ECONOMIC INDICATORS
United States and Second Federal Reserve District

Item	Unit	1954	1953			Percentage change	
		January	December	November	January	Latest month from previous month	Latest month from year earlier
UNITED STATES							
Production and trade							
Industrial production*‡	1947-49 = 100	125*p*	127	129	134	− 2	− 7
Electric power output*	1947-49 = 100	—	160	159	150	+ 1	+ 7
Ton-miles of railway freight*	1947-49 = 100	—	88*p*	96	100	− 8	−12
Manufacturers' sales*§	billions of $	—	24.1*p*	24.3	24.5	− 1	− 2
Manufacturers' inventories*§	billions of $	—	46.7*p*	46.9	44.3	#	+ 6
Manufacturers' new orders, total*§	billions of $	—	21.9*p*	21.6	24.3	+ 1	−12
Manufacturers' new orders, durable goods*§	billions of $	—	9.5*p*	9.6	12.1	− 1	−25
Retail sales*	billions of $	13.8*p*	13.9	14.1*r*	14.1	− 1	− 2
Residential construction contracts*	1947-49 = 100	181*p*	177	176	173	+ 2	+ 5
Nonresidential construction contracts*	1947-49 = 100	196*p*	229	255	201	−14	− 2
Prices, wages, and employment							
Basic commodity prices†	1947-49 = 100	88.1	88.5	87.4	89.7	#	− 2
Wholesale prices†	1947-49 = 100	110.8*p*	110.1	109.8	109.9	+ 1	+ 1
Consumer prices†	1947-49 = 100	115.2	114.9	115.0	113.9	#	+ 1
Personal income (annual rate)*	billions of $	—	284.7*p*	285.9	280.5*r*	#	+ 1
Composite index of wages and salaries*	1939 = 100	—	253*p*	253	243	#	+ 4
Nonagricultural employment*	thousands	48,352*p*	48,577	48,868*r*	49,014*r*	#	− 1
Manufacturing employment*	thousands	16,169*p*	16,412	16,589*r*	16,949*r*	− 1	− 5
Average hours worked per week, manufacturing†	hours	39.4*p*	40.2	40.0	41.0	− 2	− 4
Unemployment††	thousands	2,359	1,850	1,428	1,892	+28	+25
Banking and finance							
Total investments of all commercial banks	millions of $	78,680*p*	78,140*p*	78,210*p*	76,920	+ 1	+ 2
Total loans of all commercial banks	millions of $	66,490*p*	68,260*p*	67,250*p*	63,860	− 3	+ 4
Total demand deposits adjusted	millions of $	102,430*p*	103,280*p*	100,210*p*	100,490	− 1	+ 2
Currency outside the Treasury and Federal Reserve Banks*	millions of $	30,191*p*	30,360	30,313	29,831	− 1	+ 1
Bank debits (U. S. outside New York City)*	millions of $	89,570	91,507	91,653	91,403*r*	− 2	− 2
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 $	—	21,807	21,586	18,851*r*	+ 1	+17
United States Government finance (other than borrowing)							
Cash income	millions of $	4,601*p*	5,339	5,396	5,239	−14	−12
Cash outgo	millions of $	4,746*p*	6,294	6,258	5,442	−25	−13
National defense expenditures	millions of $	3,603*p*	4,245	3,879	4,082	−15	−12
SECOND FEDERAL RESERVE DISTRICT							
Electric power output (New York and New Jersey)*	1947-49 = 100	—	138	137	137	+ 1	+ 2
Residential construction contracts*	1947-49 = 100	—	152*p*	130	149	+16	− 4
Nonresidential construction contracts*	1947-49 = 100	—	202*p*	219	190	− 8	+10
Consumer prices (New York City)†	1947-49 = 100	113.0	113.0	112.9	111.7	#	+ 1
Nonagricultural employment*	thousands	—	7,612.6*p*	7,607.9	7,633.7	#	#
Manufacturing employment*	thousands	—	2,703.7*p*	2,706.2	2,779.9	#	− 3
Bank debits (New York City)*	millions of $	59,910	54,022	54,269	50,046	+11	+20
Bank debits (Second District excluding New York City)*	millions of $	4,183	4,392	4,034	4,133*r*	− 5	+ 1
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, March 2, 1954.
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.
# Change of less than 0.5 per cent.
‡ Revised series. Back data available from the Board of Governors of the Federal Reserve System.
§ Revised series. Back data available from the U. S. Department of Commerce.
†† On the basis of a new sample, January unemployment was 3,087,000.
Source: A description of these series and their sources is available from the Domestic Research Division, Federal Reserve Bank of New York, on request.

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