MONTHLY REVIEW

FEDERAL RESERVE BANK OF RICHMOND

RICHMOND 13, VIRGINIA FEBRUARY 29, 1948

Business Conditions

THE shakeout in selected commodity prices occurred mainly in February and cannot have been a casual factor of business developments in January, the latest month of statistical record. While the breaks in commodities came largely in grains, there were quite a number of important raw materials that were carried down with them. The results of these price breaks is causing a general reappraisal of the business outlook by both buyers and sellers.

The effects on the economy of the Fifth District have been pretty much in terms of a standstill in new business booked by the industries of the District, with the chief impact on the cotton goods and related industries. Thus far there have been no indications on the part of the producers of a change in their price notions; such easing as has occurred in wholesale markets has come from second hand sales.

January retail trade in the District, as well as in the country as a whole, fell substantially from the December level even after taking account of the normal seasonal drop. While adverse weather and poor transportation appear to have been in a large measure responsible for this decline, there have been increasing apprehensions on the part of store executives regarding the fall in unit sales in many departments. Department store inventories in January rose to a new high level on a seasonally adjusted basis. The combination of falling unit sales for some months, the sharp drop in dollar sales in January, and the wide break in commodity futures have created a degree of cautiousness that is likely to result in subnormal order placing until such time as the retail markets have demonstrated strength to justify fuller coverage of store requirements.

The decline of farm prices will have an adverse effect on farm incomes of the District, but this decline will not be substantial or have a uniform incidence. Feed costs will be lower and should result in lower dairy costs which should compensate for any reductions that may be necessary in milk prices. Lower feed costs and larger supplies around mid-year should also stimulate expansion in the broiler industry. The decline in this District's department store sales index from December to January was effected much more substantially in agricultural states of North and South Carolina than in the other states of this District.

There is no hesitation in the purchasing of coal at this time, and output is continuing as high as the factors of production will permit. January output fell 2 per cent from the December level on a seasonally adjusted basis, but this was not due to lack of demand. The chief cause of the reduction was a shortage of coal cars, attributable in part to adverse weather conditions, with absenteeism and mine disabilities secondary factors. A moderate increase in allocations for export have been made for March. Some opinion is expressed that coal supplies in Europe will be adequate by summer to cover its requirements on the basis of present levels of industrial activity. Total exports of bituminous coal in the year 1947 totaled around 65 million tons. The mild winter in Europe has permitted considerable stockpiling thus far. Coal prices at the mine in December were at their all time high level. Shortage of fuel oil has retarded the oil burner business, but such gain in coal usage as may result from this shift will be more than offset by the railroads' trend to Diesel locomotives. A new wage contract is coming up and this will no doubt add further to the price of coal for a few months duration.

Cotton consumption of the mills in the Fifth District declined 2 per cent from December to January after seasonal correction. January consumption was 6 per cent below January 1947. Activity at cotton yarn mills in January, however, was 4 per cent larger than a year ago when measured in spindle hours of operation and not in pounds of cotton consumed. This difference between the changes in cotton consumption and in spindle hours shows that a substantial shift has taken place from coarse to fine yarns. Employment in cotton textile mills continued in an upward trend through December in both North Carolina and Virginia. Apparel industries in these states and in Maryland rose more than seasonally from August through December to new high levels. Part of the gain in employment in these industries is due to new installation of facilities by firms moving from northern locations.

Manufacturers' sales of furniture in December improved substantially over the November level and continued at a high level. Retail sales of furniture in the District were also in a comparatively large volume, although the January level declined 6 per cent from December after seasonal correction. Retail furniture dealers are reported to be well stocked on furniture in general and deliveries can be had from manufacturers in about 60 days. Employment in furniture industries in North Carolina continued to rise moderately month by month from the middle of 1947 through December, but in Virginia the employment level in these industries appears to have reached a peak in the fall.

Building permits valuation in the District in January gave further evidence of a possible continued substantial rise in building construction. Permits values in December were already at the District's highest level of record (except for January 1928) and this level was augmented by 10 per cent in January. Some of these permits, however, are apparently failing to reach the contract stage for no such performance is shown in the contract awards of the F. W. Dodge Corporation for this District. These contracts in October and November were moderately above the range that had prevailed since back in 1946, but the December awards fell back into this range.

Business in hand is adequate to maintain, or slightly improve, the production levels of the District through March. If retail trade nationally returns to and is maintained at the December seasonally corrected level, it is possible that the manufacturers' prices of cotton goods and fabricated products might hold at the recently advanced levels. Thus far in February, however, the indications are that no such level of trade would be seen this month. With both January and February trade figures declining the high level of inventories acts as an impediment to new purchases, but the decision to maintain or reduce prices may be postponed until after Easter.

AVERAGE DAILY TOTAL DEPOSITS* OF MEMBER BANKS

	Last half of Dec.		Last half of Jan.	
	$ thousands	% of U. S.	$ thousands	% of U. S.
Maryland	1,029,230	.95	1,016,776	.94
Reserve city banks	661,053	.61	648,127	.60
Country banks	368,177	.34	368,649	.34
District of Columbia	911,006	.84	936,265	.86
Reserve city banks	889,954	.82	914,645	.84
Country banks	21,052	.02	21,620	.02
Virginia	1,307,768	1.20	1,296,746	1.20
Reserve city banks	300,326	.28	300,315	.28
Country banks	1,007,442	.92	996,431	.92
West Virginia	586,221	.54	583,538	.54
North Carolina	853,871	.78	844,461	.78
Reserve city banks	379,762	.35	381,431	.35
Country banks	474,109	.43	463,030	.43
South Carolina	438,308	.40	438,568	.40
Fifth District	5,126,404	4.71	5,116,354	4.72
United States (millions)	108,899	100.0	108,342	100.0

*Excluding interbank demand deposits.

BUSINESS INDEXES—FIFTH FEDERAL RESERVE DISTRICT
AVERAGE DAILY 1935-39=100—SEASONALLY ADJUSTED

	Jan. 1948	Dec. 1947	Nov. 1947	Jan. 1947	% Change Jan. 1948 from Dec. 47	% Change Jan. 1948 from Jan. 47
Automobile Registration*	......	134	121	91	......	......
Bank Debits	302	309	318	278	— 2	+ 9
Bituminous Coal Production*	166	170	180	175	— 2	— 5
Building Contracts Awarded	323	305	331	304	+ 6	+ 6
Building Permits Issued	375	342	280	216	+ 10	+ 74
Business Failures—No.	11	33	52	9	— 67	+ 22
Cigarette Production	220	218	229	241	+ 1	— 9
Cotton Consumption	150	153	145	160	— 2	— 6
Department Store Sales	286	322	310	292	— 11	— 2
Department Store Stocks	332	325	310	315	+ 2	+ 5
Electric Power Production	......	245	234	235	......	......
Employment—Mfg. Industries*		136	136	134		
Furniture Orders	......	528	234	349	......	......
Furniture Shipments	......	419	267	311	......	......
Furniture Unfilled Orders	......	979	1010	599	......	......
Furniture Sales—Retail	261	290r	302	265	— 10	— 2
Gasoline Consumption	......	......	161	169	......	......
Life Insurance Sales	276	271	246	238	+ 2	+ 16
Residential Construction Contracts	357	314	405	510	+ 14	— 30
Wholesale Trade:						
Automotive Supplies**	317	289	308	331	+ 10	— 4
Drugs	276	253	268	248	+ 9	+ 11
Dry Goods	171	237	236	148	— 28	+ 16
Electrical Goods**	105	94	92	77	+ 12	+ 36
Groceries	263	270	264	267	— 3	— 1
Hardware	140	135	126	121	+ 4	+ 16
Industrial Supplies**	330	422	398	289	— 22	+ 14
Paper and Its Products**	170	213	196	155	— 20	+ 10
Tobacco and Its Products**	100	116	105	132	— 14	— 24

*Not seasonally adjusted
**1938-41=100

The European Recovery Program

I. INTRODUCTION

The present international developments are of vital importance to the United States and to the economy of the Fifth Federal Reserve District. With changes impending in the course and character of our international trade, the significance of these developments cannot be over-emphasized. In recent months, there has been a great deal of attention given to the general problem of European recovery. However, there has been no concise summary of the aid program as it has evolved and no discussion of its specific importance to this District. For that reason it seems desirable to present a series of articles relative to international developments as they affect the Fifth District. However, by way of background, this first article discusses in over-all terms the general European situation and the content of both European and American proposals for aid.

II. THE ECONOMIC SITUATION IN WESTERN EUROPE

In his speech of June 5, 1947, Secretary Marshall outlined the essence of the postwar European problem and our policy in relation to that problem. In this speech, he pointed out that we have not fully realized the impact of the war on Europe—that more important than "the physical loss of life, the visible destruction of cities, factories, mines, railroads," was "the dislocation of the entire fabric of the European economy." To remedy this dislocation and to correct the basic factors undermining the restoration of Europe as a working economy, Marshall called for a cessation of piecemeal aid from this country and for the development of a planned program. In his statement, he called for the initiative to come from a concerted effort by the European nations themselves to meet their problem and to state clearly what assistance they would need from us in this process of self-recovery.

Before considering the European response to Marshall's address, however, some consideration shuld be given to the nature of the problem. This involves three questions:

(1) What constituted the fabric of the European economy?

(2) What dislocations have caused the breakdown of that economy?

(3) What steps have been taken to rebuild that economy?

European Economy

The industry of Europe and the purchasing power of 270 million people played an important part in world trade before the war. Europe was the second greatest area of industrial production in the world—centered in the production of coal, steel, and chemicals. In electric energy, shipyard tonnage, and textiles, its production exceeded even that of the United States. In 1938, it provided over 50 per cent of the world's imports and absorbed nearly 50 per cent of the world's exports. The United States sent 40 per cent of its total exports to Europe. European trade, with that of other countries such as Canada and the South American countries, provided the basis for a wider market for U. S. exports. European ships carried the bulk of the world trade, and its foreign investments financed industries all over the world.

In this prewar economic structure of Europe, the intertrade between European countries was an integral and essential part. Trade between the European countries represented roughly ⅓ to ½ of their total export and import trade. Additional comment may be made as to the nature of this trade; there was an interflow of industrial products—coal, steel, and chemicals—from countries such as Britain and Western Germany in exchange for food products from France, Italy, Eastern Germany, and Eastern Europe. Thus, prior to the war, the European countries were highly interdependent, and this interdependence is still a primary factor in considering current dislocations. The importance of the interdependence is clearly stated by the European countries themselves in the Paris Report as follows:

> The exceptional degree of specialisation in the industry and agriculture of the participating countries and Western Germany was responsible for their high standard of living, but it contained certain elements of weakness. The machine was highly developed and delicate. It depended for its efficient working upon the smooth working of international trade and the uninterrupted flow of goods and services.[1]

In considering the prewar structure of Europe, reference should be made to the fact that Germany was a focal point in the intra-European trade picture, both as a source of supply for the coal and steel required by industries in Western Europe and as a market for the products of the other Western European nations.

In this brief discussion of the prewar European economy, two other weaknesses may be noted:

1. Political interference consistently violated the economic interdependence described above. The growth of nationalistic and war economies in Europe and the severe international political tensions were reflected in measures of economic nationalism such as import and export quotas, subsidies, currency manipulation, and trade restrictions of various types.
2. The deterioration of the fixed capital position of the European nations also characterized the prewar economy.

   The normal peacetime industrial plant in certain Western European countries was permit-

[1]Committee of European Economic Co-operation, General Report, Vol. I, Department of State, Paris, September 21, 1947, p. 5.

> ted to run down in the period between the wars. In some cases, lack of modernization and obsolescence seriously retarded industrial activity and damaged the commercial position of the countries concerned.[2]

Dislocations

Although, as indicated above, some of the factors in the current economic situation in Europe predate World War II, many of the current dislocations may be attributed to the war. In the Paris Report, the Western European countries reported the following dislocations as an outgrowth of the war:

> (i) Physical devastation and disruption in Western Europe and in the principal food and timber-producing zones of Eastern Europe which, together with the dislocation of the European transport system, caused a temporary paralysis of production in Western Europe, including Germany;
>
> (ii) prolonged interruption of international trade, which occurred simultaneously with the loss of income from merchant fleets and foreign investments, and led to the exhaustion or diminution of dollar funds in the sixteen countries at a moment when many vital needs could be met only from dollar sources;
>
> (iii) human strain and exhaustion resulting from six years of war or enemy occupation;
>
> (iv) internal financial disequilibrium which is the inevitable result of a long war;
>
> (v) in South East Asia, the shortage of supply of food and raw materials which were vital to the European economy, both for direct consumption and as earners of dollars;
>
> (vi) the abnormal increase of population in certain areas resulting from the war-time movement of peoples.[3]

The paralysis of production in the immediate postwar period is reflected in the Paris Report data on the level of production in Western Europe. This report indicates that in the immediate postwar period industrial production in Belgium, France, and the Netherlands was reduced to from 30 to 40 per cent of the prewar level, and in Italy to only 20 per cent. In Germany, production of coal and steel was only 30 to 40 per cent of the prewar level.

Likewise, since food is a primary essential to European reconstruction and since the participating countries are predominantly agricultural, the low level of agricultural production is highly significant. Thus, in terms of the specific countries, one of the primary difficulties has been the fall in the production of bread grains in France and Italy below prewar levels—a fall aggravated by the severe winter of 1946-47. In France, bread grains production, which before the war was 8.9 million tons, fell to an estimated 3.8 million tons in 1947-48. In Italy, bread grains production fell from the prewar level of 7.4 million tons to an estimated level of 4.7 million tons in 1947-48.

The prolonged interruption of international trade and simultaneous loss of income from merchant fleets and foreign investments, with the subsequent diminution of dollar funds, needs little or no elaboration. Perhaps the best example is the case of Britain, where the loss of income from foreign investments and merchant shipping has been most acute. For the participating countries, it has been estimated that 62 per cent of their 1938 tonnage was destroyed by the war, while foreign investments have been liquidated to the extent that they are now yielding only approximately 1/3 of prewar income. Thus, in order to obtain the basic essential imports in food and raw materials necessary for reconstruction, the European countries have had to further liquidate gold and dollar balances.

The internal financial disequilibrium in Europe has consistently aggravated the postwar problem. Loss of confidence in the currency and the official over-valuation of many of the currencies have resulted in the spread of black markets and the hoarding of farm products and in discouraging exports. With unbalanced budgets contributing to an increasing money supply and with an inadequate supply of goods, a serious inflation has taken place in most of the European countries. In some countries, such as Great Britain, the inflation has been "suppressed" by a series of control measures but there have been equally serious resultant distortions in the economy.

Again, the losses of prewar sources of supply have been an important factor in the postwar disequilibrium. Particularly vital in this connection has been the failure to restore production in Western Germany. Belated recognition has been given to the fact that the German restoration is at the core of European recovery from an economic standpoint. Likewise, the Eastern European countries, which were a vital source of foodstuffs, timber, and other raw materials, are no longer exporting to Western Europe in prewar volume. This is attributable partly to the slow reconstruction from the devastation in the area and partly to the political developments which interfered with East-West trade. Finally, Europe's trade with Southeast Asia has similarly been reduced by war destruction and political unrest. These countries—many of which are European colonies or have industries financed by European capital—contain the strategic materials such as tin, jute, rubber, oil, etc., upon which Europe depended.

Thus, the dislocation of the fabric of European economy may be summed up in terms of inadequate production, disruption of trade relations among the European nations, internal financial disequilibrium, a low standard of living and general war weariness, loss of foreign exchange and other resources, and subsequent restriction of essential imports of fuel and raw materials necessary for the recovery of industrial and agricultural production.

Reconstruction

While these dislocations in the Western European economy still persist in greater or less degree, some at-

[2] Taken from the Economic Co-operation Bill as proposed by President Truman.

[3] Committee of European Economic Co-operation, op. cit., pp. 6 and 7.

tention should be given to the efforts at reconstruction already made by the United States and by the European nations. There will be no attempt in this paper to analyze in detail the aid already extended by the United States to the European nations, totaling some $11.2 billion between July 1, 1945, and December 31, 1947. A brief summary of the aid extended would include:

(1) **Lend-Lease**—Part of the goods transferred during the war and following the official termination of lend lease in August 1945 has been used in the reconstruction process.

(2) **UNRRA**—Although this was a relief and rehabilitation program sponsored by 44 nations, the United States contributed $2.7 billion out of a total UNRRA aid of $3.7 billion, or over 72 per cent of the relief funds, and perhaps an even larger percentage of the total goods distributed.

(3) **The Export-Import Bank**—This agency was authorized by Congress to the extent of $2.8 billion to make emergency reconstruction loans to countries of Europe and the Far East.

(4) **International Monetary Fund**—The U. S. quota of $2.8 billion, out of a total of $8.8 billion, has provided the Fund with its primary dollar resources.

(5) **The International Bank for Reconstruction and Development**—The Bank has made four loans—$250 million to France, $195 million to Holland, $40 million to Denmark, and $12 million to Luxemburg. Practically all of these loans were made in dollars, so that again the United States may be considered as having made the primary contribution.

(6) **The British Loan**—This made available to the United Kingdom $3.75 billion, supposedly to help the British in the transition period and to restore convertibility to sterling.

With regard to the reconstruction steps taken by the Western European nations, a partial list might include the following:

(1) Financial reforms in Belgium, and more recently in France and Italy, represent an attack on the problem of internal financial disequilibrium.

(2) The Benelux Agreement represents a concrete attempt to remedy the disrupted trade relations between Belgium, the Netherlands, and Luxemburg.

(3) The Clearing Union, operating through the Bank for International Settlements, will promote trade between Italy, France, Belgium, Luxemburg, and the Netherlands.

As a result of the assistance listed in the foregoing, the Western European nations have made some progress toward the restoration of a working economy. This is reflected in the present levels of industrial production. In 1947, industrial production in the United Kingdom, the Netherlands, Denmark, Norway, France, and Sweden was up to or above prewar levels. Specifically, it has been noted that:

> At the middle of 1947, Marshall Europe's shipyards had under construction approximately 3,340,000 gross tons of merchant vessels, almost 50 per cent above the mid-1939 level; 1,540,000 gross tons were launched in 1946, as compared with an average of about a million tons before the war. Production of electric power shows the same improvement, an increase from 130 billion kilowatt hours yearly in 1938 to 170 billions in 1947. Coal production is still below prewar levels, but even in this field remarkable strides have been made. Excluding the output of the United Kingdom, production of coal in Marshall Europe increased from 41 per cent of pre-war in 1945 to 88 per cent of pre-war in October, 1947. In the United Kingdom the output was 80 per cent of pre-war in 1945 and by November, 1947 had reached 92 per cent of the pre-war level.[4]

In spite of the apparent progress, the dislocations still persist to the point that many countries have been forced by lack of exchange to restrict their imports of the fuel and raw materials indispensable for their industrial and agricultural production, and to restrict their imports of food to the critical point in terms of sustaining further industrial efforts. Thus, recognizing that the piecemeal program by the Europeans and by the United States was insufficient, Secretary Marshall, in his address in Cambridge on June 5, 1947, stated:

> Our policy is not directed against any country or doctrine but against hunger, poverty, desperation and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist. Such assistance, I am convinced, must not be on a piecemeal basis as various crises develop. Any assistance that this Government may render in the future should provide a cure rather than a mere palliative . . . .
>
> It is already evident that, before the United States Government can proceed much further in its efforts to alleviate the situation and help start the European world on its way to recovery, there must be some agreement among the countries of Europe as to the requirements of the situation and the part those countries themselves will take in order to give proper effect to whatever action might be undertaken by this Government. It would be neither fitting nor efficacious for this Government to undertake to draw up unilaterally a program designed to place Europe on its feet economically. This is the business of the Europeans. The initiative, I think, must come from Europe. The role of this country should consist of friendly aid in the drafting of a European program and of later support of such a program so far as it may be practical for us to do so. The program should be a joint one, agreed to by a number, if not all European nations.

[4]John J. McCloy, "Europe's Hope for Recovery," address given before the First Annual "Forecasting" Conference of the Chamber of Commerce of Philadelphia, Warwick Hotel, Philadelphia, January 15, 1948.

III. THE EUROPEAN PROPOSAL—CEEC

There was an immediate response by the European nations to Marshall's challenge to draw up a program of self-recovery and to indicate clearly what was needed from us in the process. By July 12, 1947, sixteen European nations began the job of formulating a program. These nations were Austria, Belgium, Denmark, France, Great Britain, Greece, Iceland, Ireland, Italy. Luxemburg, the Netherlands, Norway, Portugal, Sweden, Switzerland and Turkey. The USSR specifically declined to participate, and likewise kept all its satellites from joining in preparing the program. Out of this conference came the Committee on European Economic Co-operation, plus a number of advisory technical committees charged with the task of formulating the program. And on September 22, 1947, the CEEC submitted its report to Secretary Marshall, a report which may be considered as the European draft of a recovery program.

Briefly, what is in this Report? The Report sets forth a program calling for:

(1) a strong production effort by each of the participating countries, especially with regard to agriculture, fuel and power, transport, and the modernization of equipment;

(2) the creation of internal financial stability in each of the participating countries as an essential condition for securing the full use of Europe's productive and financial resources;

(3) the maximum economic cooperation between the participating countries;

(4) over and above the program of self-assistance, a definite statement of the import requirements and dollar deficits of the participating countries.

In the following discussion, an attempt will be made to describe in summary fashion the various parts of the European proposal.

Production Effort

The scale of the productive effort required and set forth in the CEEC Report represents an expansion of output similar in general scale to that achieved by the United States in the mobilization years 1940-44, when coal output was increased by 34 per cent, steel output by 31 per cent, and electric power by 61 per cent. The Report calls for the participating countries to increase coal output by 33 per cent, steel output by 60 per cent, and electric power output by 44 per cent over the four-year period. Specifically, the following objectives are set forth:

(i) Restoration of pre-war bread grain and other cereal production, with large increases above pre-war in sugar and potatoes, some increases in oils and fats, and as fast an expansion in livestock products as supplies of feeding stuffs will allow.

(ii) Increase of coal output to 584 million tons i.e. 145 million tons above the 1947 level (an increase of one-third), and 30 million tons above the 1938 level.

(iii) Expansion of electricity output by nearly 70,000 million Kwh or 40 per cent above 1947 and a growth of generating capacity by over 25 million Kw or two-thirds above pre-war.

(iv) Development of oil refining capacity in terms of crude oil throughout by 17 million tons to two and a half times the pre-war level.

(v) Increase of crude steel production by 80 per cent above 1947 to a level of 55 million tons or 10 million tons (20 per cent) above 1938.

(vi) Expansion of inland transport facilities to carry a 25 per cent greater load in 1951 than in 1938.

(vii) Restoration of pre-war merchant fleets of the participating countries by 1951.[5]

It should be emphasized in connection with these objectives that throughout the Report the participating nations called for the supply from European production of most of the capital equipment needed for these expansions. In terms of the countries involved, the production program represents a commitment for Britain to increase coal production above prewar levels, for France and Italy to restore their cereal production by 1951 to prewar levels, and for the Bi-Zonal part of Western Germany to increase its production of crude steel from current extremely low levels to at least an approximation of prewar levels.

Internal Financial Stability

Recognizing that the problem of internal inflation and the resultant hoarding of food, goods, and capital has aggravated the European problem, the CEEC Report calls for provision of $3 billion by the United States to help check the inflation by increasing each country's reserves of gold and dollars. In addition, various governments, such as France and Italy, pledged themselves to take the necessary measures to balance their budgets and to balance expenditure against revenue. In fact, in the Report, all the governments pledged themselves to achieve internal stability.

Since the Report was published last September, both France and Italy have taken action toward internal financial reform. In France, for example, a combination of a heavy compulsory bond issue and tax program with the devaluation of the franc represents a major step in this direction.

Economic Cooperation

With regard to the development of economic cooperation between the participating nations, the CEEC Report calls for the restoration of the prewar measure of self-help through the normal course of trade—for example, supplying France with much needed coal out of production in the United Kingdom and the Ruhr. Thus, a primary objective of the productive effort involved in the program was to provide other participating countries' needs and permit a rapid reduction in the supplies required from the United States. In addition, the governments pledged themselves to abolish present abnormal restrictions on imports and exports whenever

[5] Committee of European Economic Co-operation, op. cit., pp. 14 and 15.

possible and to aim at multilateral trading in accordance with the principles of the ITO Charter. Specifically, the Report calls for (1) the setting up of a study group to consider the question of a Customs Union, (2) a cooperative plan to expand electric power without regard to national frontiers, (3) standardization of types of equipment such as mining machinery and freight cars, (4) an international freight car pool, (5) exchange of information on national steel programs.

Since the Report was written, the Western European governments have gone ahead with their plans for cooperation. In a survey made by Gunnar Myrdal, Executive Secretary of the UN's Economic Commission for Europe, it is noted that cooperation has begun on the road transport agreement, the railway car pool, the manpower and timber committees, and the establishment of permanent machinery for allocation of coal and new steel.

Import Requirements and the Balance of Payments Problem

In this European Report, the import requirements, principally from the United States, were stated in principally in terms of needs rather than "availabilities." The total import program for the single years 1948 and 1951, as well as the total for the four-year period, is indicated in the following table:

TABLE I

IMPORT PROGRAM OF THE PARTICIPATING COUNTRIES (EXCLUDING THEIR DEPENDENT TERRITORIES) AND WESTERN GERMANY FROM THE AMERICAN CONTINENT

($000 millions at prices of July 1, 1947)

	1948		1951		Total 1948-1951		
	U. S. A.	Rest of America	U. S. A.	Rest of America	U. S. A.	Rest of America	Total
Food, Fertilizer	1.5	1.8	1.2	2.2	5.4	8.3	13.7
Coal	0.3	....	0.05	....	0.7	....	0.7
Petroleum Products*	0.5	....	0.55	....	2.2	....	2.2
Iron and Steel	0.4	neg.	0.3	neg.	1.2	0.1	1.3
Timber	0.1	0.2	0.1	0.1	0.4	0.6	1.0
Equipment covered by Technical Committee	1.1	neg.	0.6	neg.	3.3	0.1	3.4
Other imports	2.1	1.2	1.5	1.6	7.2	5.7	12.9
Total imports	6.0	3.2	4.3	3.9	20.4	14.8	35.2
Shipping services	0.6	....	0.3	....	1.7	....	1.7

*Amounts required from dollar sources.

Note: The above figures reflect quantities only and no change in import and export prices.

Source: Taken from Volume I of the **General Report** of the Committee of European Economic Co-operation, published by Department of State, Publication 2930, European Series 28, released September 1947.

In connection with the import program, there is a very fundamental factor to be considered; namely, that, while the total volume of imports required is much the same as in a normal prewar year, the source of supply has shifted primarily to the American Continent. However, the Report assumes "a substantial and steady resumption of Eastern European food, feeding-stuffs, and timber supplies . . ."[6]

Corresponding to the program of import needs is the question of payments. In the Report, a common account has been prepared which shows the deficit of the participating countries and Western Germany in their trading relations with the American Continent and with other non-participating countries. The following table gives the estimated adverse balance of payments over the four-year period.

TABLE II

BALANCE OF PAYMENTS OF PARTICIPATING COUNTRIES AND WESTERN GERMANY, 1948-1951

($000 Million)

	1948	1949	1950	1951	Total
U. S. A.	5.64	4.27	3.28	2.62	15.81
Rest of American Continent	1.94	1.82	1.30	0.91	5.97
	7.58	6.09	4.58	3.53	21.78
Deficit of Dependent Territories	0.46	0.26	0.07	-0.13	0.66
Total	8.04	6.35	4.65	3.40	22.44
Less Possible Capital from the World Bank	0.92	0.89	0.72	0.60	3.13
Total	7.12	5.46	3.93	2.80	19.31

Source: "General Report of the Committee on European Economic Co-operation," published by the Department of State, Vol. I, p. 54.

In this table, it may be noted that there is a decline in the dollar deficit over the period, presumably due to (1) a fall in the need of American imports of certain types—e.g., coal and steel; (2) increased production in Europe; (3) more supplies available in the rest of the world; (4) growth of exports to the American Continent. The growth of exports to the American Continent over the period is indicated in the following table:

TABLE III

EXPORTS TO THE AMERICAN CONTINENT 1948-51

($000 million)

	U.S.A.	Rest of American Continent
1948	0.85	1.31
1949	1.11	1.72
1950	1.23	2.14
1951	1.48	2.46

Source: Volume I of the **General Report** of the Committee of European Economic Co-operation.

An additional note which should be emphasized in connection with the deficit estimates is that they are based on a change in the terms of trade in favor of the participating countries. In other words, export prices are assumed constant, while import prices are assumed to decline over the period.

IV. THE U. S. ROLE IN THE EUROPEAN PROGRAM

The emphasis in the above has been on the fact that the recovery program is primarily a European program, drafted by the Western European nations and involving a definite program looking toward self-reconstruction and recovery. However, in the initial draft by the CEEC, the role of the United States in assisting in the reconstruction of Western Europe is clearly outlined in terms of its import needs and dollar deficits. Therefore, following the submission of the CEEC Report last September, it has been subject to very careful consideration by a number of specialized technical committees here in the United States. Analyses of the U. S. role in the program have been made by the following groups:

(1) **The Krug Committee**—a committee headed by the Secretary of the Interior and charged with

[6] **Ibid.**, p. 43.

the analysis of the foreign aid program in terms of our resources—to answer the question: Can we meet the demands on us in terms of our productive abilities and without impairment of our basic resources? This Report, titled "National Resources and Foreign Aid," was completed and submitted on October 20.

In general, the Committee notes that our resources are sufficient to meet the needs outlined in the European program. However, the Committee further notes that meeting these needs would impose additional strain on the domestic supply of several key commodities; namely, steel, coal, wheat, nitrogen fertilizers, and certain items of industrial equipment. Thus, with respect to the supply situation of these commodities, the Committee recommends specific measures such as:

wheat—food conservation programs, efforts to limit the use of wheat for feed, etc.;

Coal—pooling arrangements to improve the car supply situation, promotion of coal purchasing during slack season, more orderly system of foreign purchase;

nitrogen fertilizers—fuller utilization of existing plant capacity;

steel—a strict system of allocation on a priority basis, an intensive scrap collection drive, a wider use of new techniques of production.

(2) **The Council of Economic Advisers**—a group which similarly was charged with the analysis of the foreign aid program in terms of its economic impact on the domestic economy—to furnish an answer to the question: What will be the effect of the program on domestic prices, consumption levels, etc.?

In its answer to this question, the Council indicated that, while the high foreign demand has added to the pressure on prices, the inflationary price rise has been due primarily to domestic demand. As evidence, the Council cited the case of foreign demand reaching a peak in the second quarter of 1947 while prices stabilized, and of foreign demand dropping in the third quarter of 1947 while prices began to rise again. However, while minimizing the over-all price effect of foreign aid, the Council indicated that additional aid will add to the inflationary pressure in certain specific key areas, the effect of which may filter through our entire economy. The areas cited include food, steel, industrial and agricultural machinery, coal, and fertilizer. In the case of these specific commodities, the Council warned of further inflationary danger unless domestic measures were adopted to soften the impact of the program. The measures cited included selective distribution to the most necessary domestic and foreign uses by allocations, export controls, discouragement of misuse or excessive use, efficient transportation and distribution, and the curbing of speculation and hoarding of goods. In addition to these controls, the Council pointed to the need for continuing to finance the program out of tax revenues and for additional measures to curtail credit expansions.

(3) **The Harriman Committee**—a special 19-man committee headed by the Secretary of Commerce, set up to report directly to the President, and charged with the determination of what aid could be safely and wisely extended by the United States in the light of the analyses by the Krug Committee and the Council of Economic Advisers. The Harriman Committee made a number of estimates of the aid which the United States should extend, based on several divergent assumptions regarding availability of goods and the terms of trade. Specifically, the Committee scaled down the European requests and recommended an aid program of $12 to $17 billion over the four-year period. For 1948, the Committee suggested an aid program in the magnitude of $5.75 billion.

These reports constitute the official governmental investigations used as a basis for the Administration's proposal to Congress. The State Department presented to Congress in December a proposed **Outline of European Recovery Program,** containing a proposed bill titled "Economic Cooperation Act of 1948," an explanation of the Bill, an exposition of the essential elements involved in the U. S. role in the program, a discussion of the commodity requirements and the cost involved in U. S. assistance, and the proposed U. S. organization and administration of such a program. This Outline is the end result of the wide cooperative effort throughout the executive branch reflected in the various reports described. Thus the data presented to Congress are based on a careful and thoroughgoing analysis of the pertinent data and constitute very substantial revisions as compared with the initial CEEC report. Likewise, it should be noted that these U. S. estimates took into consideration the question of availability and the result is a considerable reduction of the total values of imports, an increase in the prospective European exports, and a considerable shift of European imports between the United States and the rest of the Western Hemisphere.

The proposed Bill deals specifically with the problems of supply, finance, and administration.

Supply—The Bill requests $17 billion for the four-year period and $6.8 billion for the fiscal year ending June, 1949. In advance of an appropriation, the Bill authorizes the RFC to make advances not to exceed $500 million to be repaid without interest from appropriations authorized subsequently. In the breakdown of the $6.8 billion, it may be noted that $4.5 billion represents anticipated expenditure during the period. The additional $2.3 billion represents an appropriation to cover obligations incurred after June 30, 1949. In other words, this coverage is to insure that there will be no gap between appropriations.

Finance—Specifically, the executive branch recommends that aid for financing imports into European countries should be in the form of grants or loans, "depending primarily upon the capacity of each country to repay and the effect which the accumulation of additional international indebtedness would have upon recovery".[7] The Administration recommends that the administering agency be given the responsibility of determining between loans or grants; but, as far as possible, loans should be used for the financing of imports of capital equipment and productive raw materials, while grants should be used for the financing of imports of current supplies of food, fuel, and fertilizer. With regard to the internal financing of the program, the Administration has consistently favored financing out of tax revenue, in view of current inflationary pressures in our own economy.

Administration—The Administration proposed:

. . . that there be established a new Economic Cooperation Administration (ECA) under an Administrator for Economic Cooperation appointed by the President with the advice and consent of the Senate. The ECA should be responsible for reviewing the requests for U. S. assistance submitted by the participating countries and for developing within the framework of legislative authority and appropriations specific programs for the distribution of available U. S. assistance among participating countries, including methods of financing, classes of commodities, and determination of the source of supplies as between the U. S. and other supplying countries.[8]

As to the relationship between the ECA and the Department of State, the Administration proposed that the authorizing statute should provide specifically that ECA functions affecting foreign policy be performed subject to the direction and control of the Secretary of State.

[7] State Department, "Essential Elements of Proposed United States Support for a European Recovery Program," Outline of a European Recovery Program, Washington, p. 48.

[8] Ibid., United States Government Organization and Administration for a European Recovery Program," p. 8.

V. CONCLUSIONS

The preceding discussion contains no critical evaluation of the proposed program, but instead attempts to provide the essential content of the program for use as background information. Thus, there is no attempt made in the preceding discussion to evaluate some of the critical questions involved, such as: what should be the magnitude of the aid program; whether it should be in the form of loans, gifts or a combination of both, and whether it should be financed by taxes, by sale of special securities to the public or by borrowing. Neither does this discussion attempt to go into the questions of who should administer the plan, or what conditions should be attached to insure the achievement of objectives abroad, or what the impact will be on our domestic economy. Finally, it includes no specific discussion of the possibility of the program's achievement of its objectives, nor any analysis of the major weaknesses of the program, including (a) the restoration of internal monetary stability, (b) trade barriers between the European nations, (c) trade relations between Eastern and Western Europe, (d) the terms of trade, and (e) the reconstruction of Germany.

It is hoped that this general discussion may be followed by several articles relating the international developments more specifically to the Fifth District. Forthcoming articles are in process of preparation on the following topics:

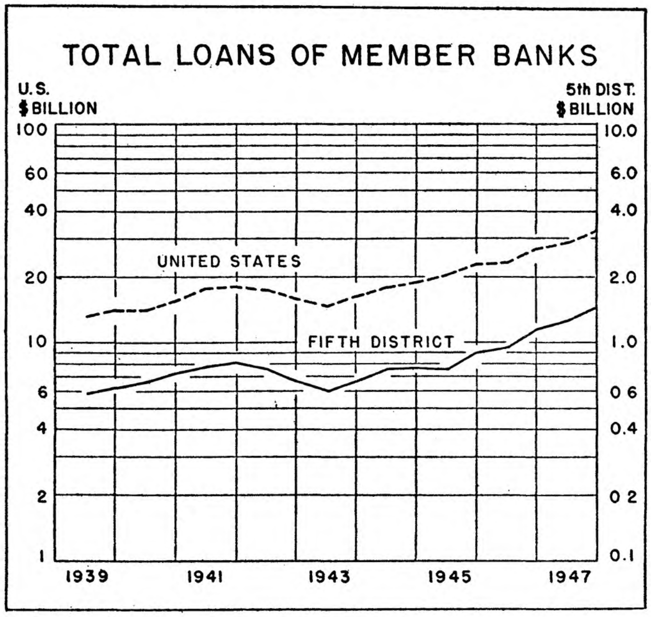
(1) The Effect of the ERP on the Fifth District Economy.

(2) The Effect of the ITO Charter on the Fifth District Economy.

(3) The Ports of the Fifth District.

Loans of Fifth District Member Banks

During 1947 the loans of the member banks of the Fifth Federal Reserve District increased by $287 million, or 25 per cent, from their total at the end of 1946. The year saw a relatively smaller yet substantial increase in the loans of all member banks in the United States, their gain being $6 billion, or 22 per cent of the December 31, 1946, figure. The chart below illustrates the new highs that have been reached in both totals.



During the three-year period ended December 1947, total loans of all member banks increased by $13.9 billion, or 74.5 per cent. In the same period, total loans in the Fifth District registered an increase of $622 million, or 85.6 per cent.

The rapid increase in loans began during the first half of 1945, when loans for purchasing and carrying securities expanded because of the Seventh War Loan Drive, which was launched in May 1945. Since that time, the total amount of loans has continued its upward trend, but the trends of its individual components have shifted. Loans for purchasing and carrying securities have declined steadily from their high peak at the end of 1945, while business, real estate, and consumer credit loans, on the other hand, have made tremendous increases. These last three categories of loans comprised 89 per cent of the Fifth District member banks' portfolios on December 31, 1947.

Business loans have grown to meet the ever-increasing demand for capital and consumer goods, while the expansion of real estate loans has served to finance the purchase of hundreds of thousands of homes and farms at prices which many believe are considerably in excess of the long-run values of the properties.

The expansion of other loans to individuals—which include instalment loans made, instalment paper purchased, and single-payment loans to individuals for non-business purposes—has represented two developments: the expansion of the total of consumer credit, which passed its prewar peak at the end of 1946, and the increasing importance of commercial banks in this field. In the United States as a whole, total consumer instalment loans increased from $1,199 million in December 1944 to $3,163 million by November 1947. Of this amount, commercial banks had outstandings of $357 million in 1944 and $1,307 million by November 1947. The increase of 266 per cent for commercial banks is almost double the percentage increase for all lending institutions. The member banks of the Fifth District have followed closely the pattern of all commercial banks in the United States in this type of lending, showing an increase from $101 million to $299 million in such loans from December 1944 to December 1947.

Loans to farmers not guaranteed by the Commodity Credit Corporation increased $13 million, but those guaranteed decreased $19 million. Loans for the purpose of purchasing and carrying securities declined $77 million, or approximately 50 per cent, during the three-year period from December 1944 to December 1947.

LOANS OF MEMBER BANKS
FIFTH DISTRICT

(Amounts in thousands of dollars)

	Dec. 30 1944	Dec. 31 1947	Increase	
			Amount	Per Cent
Commercial and industrial loans	252,154	550,266	298,112	218.2
Loans to farmers (not secured by real estate)	35,823	29,667	— 6,156	— 17.2
Loans for purchasing & carrying securities	154,383	77,099	— 77,284	— 50.1
Real estate loans	180,335	428,350	248,015	237.5
Other loans to individuals	100,800	299,088	198,288	96.7
Loans to banks	1,039	3,312	2,273	118.8
Other loans	49,358	48,554	— 804	— 1.6
Total	773,892	1,436,336	662,444	85.6

Sources: F.D.I.C. Assets and Liabilities, December 30, 1944, Operating Insured Commercial and Mutual Savings Banks.
Member bank call reports, December 31, 1947, as tabulated by Federal Reserve Bank of Richmond.

Turning now to an individual analysis of the changes in the composition of the loan portfolios of each state in the Fifth District, it is seen that the total volume of loans increased less during the period under observation in Maryland than in any of the other Fifth District states. The member banks of that state increased their loan portfolios by $66 million, or by only 38 per cent. Real estate loans, which are the second largest component of total loans (business loans being first), made a substantial increase of approximately $46 million, or 161 per cent. Business loans topped this absolute amount by $4 million, but the percentage increase was only 130 per cent. Loans for the purpose of purchasing and carrying securities declined in importance in the make-up of total loans from 47 per cent to 11 per cent, or an absolute decrease of $55 million.

LOANS OF MEMBER BANKS
MARYLAND

(Amounts in thousands of dollars)

	Dec. 30 1944	Dec. 31 1947	Increase Amount	Per Cent
Commercial and industrial loans	38,352	88,316	49,964	130.3
Loans to farmers (not secured by real estate)	3,203	4,257	1,054	32.9
Loans for purchasing and carrying securities	82,124	27,091	— 55,033	— 67.0
Real estate loans	28,533	74,376	45,843	160.7
Other loans to individuals	14,002	37,308	23,306	166.4
Loans to banks	610	101	— 509	— 83.5
Other loans	6,588	7,896	1,308	19.9
Total	173,412	239,345	65,933	38.0

Sources: F.D.I.C. Assets and Liabilities, December 30, 1944, Operating Insured Commercial and Mutual Savings Banks.
Member bank call reports, December 31, 1947, as tabulated by Federal Reserve Bank of Richmond.

Real estate loans of the member banks in the District of Columbia, which increased only 63 per cent over the three-year period ended December 1947, have increased less than those of all member banks of the Fifth District. Business loans expanded $62 million, or 254.6 per cent, and accounted for 52 per cent of the total net gain for the District of Columbia. Other loans, although of relatively minor importance, had an expansion of $8.6 million, or 228 per cent; these loans consist of advances to financial concerns and other loans not included in the detailed classification.

LOANS OF MEMBER BANKS
DISTRICT OF COLUMBIA

(Amounts in thousands of dollars)

	Dec. 30 1944	Dec. 31 1947	Increase Amount	Per Cent
Commercial and industrial loans	24,438	86,667	62,229	254.6
Loans to farmers (not secured by real estate)	265	21	— 244	— 92.1
Loans for purchasing and carrying securities	10,317	6,102	— 4,215	— 40.9
Real estate loans	45,913	74,904	28,991	63.1
Other loans to individuals	17,477	41,914	24,437	139.8
Loans to banks	....	39	39	......
Other loans	3,525	12,360	8,835	250.6
Total	101,935	222,007	120,072	117.8

Sources: F.D.I.C. Assets and Liabilities, December 30, 1944, Operating Insured Commercial and Mutual Savings Banks.
Member bank call reports, December 31, 1947, as tabulated by Federal Reserve Bank of Richmond.

In the loan portfolios of Virginia member banks, business loans are a smaller proportion than in the Fifth District as a whole; and during the three years they expanded less than did business loans in any other state of the District, only 83 per cent. Commodity credit loans to farmers almost entirely disappeared, but other loans to farmers increased 77 per cent. Real estate and consumer loans experienced the largest increases—the former $99 million, or 152 per cent, and the latter $61 million, or 152 per cent. Loans for purchasing and carrying securities registered a decline that amounted to but 1.7 per cent of the net gain realized in total loans.

LOANS OF MEMBER BANKS
VIRGINIA

(Amounts in thousands of dollars)

	Dec. 30 1944	Dec. 31 1947	Increase Amount	Per Cent
Commercial and industrial loans	82,053	149,744	67,691	82.5
Loans to farmers (not secured by real estate)	13,449	16,874	3,425	25.5
Loans for purchasing and carrying securities	23,672	19,737	— 3,935	— 16.6
Real estate loans	65,061	163,903	98,842	151.9
Other loans to individuals	39,939	100,783	60,844	152.3
Loans to banks	114	1,465	1,351	1,185.1
Other loans	15,288	15,882	594	3.9
Total	239,576	468,388	228,812	95.5

Sources: F.D.I.C. Assets and Liabilities, December 30, 1944, Operating Insured Commercial and Mutual Savings Banks.
Member bank call reports, December 31, 1947, as tabulated by Federal Reserve Bank of Richmond.

Consumer credit loans, which comprised 28 per cent of the member banks loan portfolios of West Virginia on December 31, 1947, registered the most spectacular increase of all categories of loans during the three years—an increase of 361 per cent. This increase was not as substantial, relative to the net gain in the total, as was the increase of $31 million in real estate loans. Business loans made up about 30 per cent of all loans, and they registered an absolute increase of $21.6 million during the period under observation. Loans for the purpose of purchasing and carrying securities and other loans—both of relatively minor importance—declined, the former by $5 million and the latter by $7 million.

LOANS OF MEMBER BANKS
WEST VIRGINIA (Fifth District)

(Amounts in thousands of dollars)

	Dec. 30 1944	Dec. 31 1947	Increase Amount	Per Cent
Commercial and industrial loans	11,976	33,627	21,651	180.8
Loans to farmers (not secured by real estate)	1,338	3,118	1,780	133.0
Loans for purchasing and carrying securities	7,177	2,006	— 5,171	— 72.1
Real estate loans	21,844	53,250	31,406	143.8
Other loans to individuals	7,817	35,998	28,181	360.5
Loans to banks	....	90	90	......
Other loans	8,274	1,610	— 6,664	— 80.6
Total	58,426	129,699	71,273	122.0

Sources: F.D.I.C. Assets and Liabilities, December 30, 1944, Operating Insured Commercial and Mutual Savings Banks.
Member bank call reports, December 31, 1947, as tabulated by Federal Reserve Bank of Richmond.

In North Carolina, business loans, while increasing only 95 per cent over the three year period, accounted for 54 per cent of the net gain in total loans of member banks. Real estate loans, making up about 15 per cent of the loan portfolio, and consumer credit loans, making up about 22 per cent, increased by 220 and 235 per cent, respectively. The great decrease experienced by loans to farmers was largely caused by the almost complete disappearance of loans guaranteed by the Commodity Credit Corporation. Total loans showed an increase of $130 million, or approximately 87 per cent, which was the same percentage increase as that of loans of all member banks of the Fifth District.

LOANS OF MEMBER BANKS
NORTH CAROLINA

(Amounts in thousands of dollars)

	Dec. 30 1944	Dec. 31 1947	Increase Amount	Increase Per Cent
Commercial and industrial loans	74,956	146,478	71,522	95.4
Loans to farmers (not secured by real estate)	7,087	3,087	— 4,000	— 56.6
Loans for purchasing and carrying securities	28,297	19,503	— 8,794	— 31.1
Real estate loans	13,216	42,348	29,132	220.4
Other loans to individuals	18,512	62,059	43,547	235.2
Loans to banks	93	1,616	1,523	1,637.6
Other loans	7,956	5,007	— 2,949	— 37.1
Total	150,117	280,098	129,981	86.6

Sources: F.D.I.C. Assets and Liabilities, December 30, 1944, Operating Insured Commercial and Mutual Savings Banks.
Member bank call reports, December 31, 1947, as tabulated by Federal Reserve Bank of Richmond.

Among the member banks of South Carolina, consumer credit loans made the most spectacular increase during the three year period ended December 1947, increasing $18 million, or 589 per cent. Business loans, on the other hand, expanded by $25 million; and this amount accounted for 54 per cent of the total net gain. The total figure of loans to farmers registered a decrease because loans guaranteed by the Commodity Credit Corporation fell to only 5 per cent of their former level. Real estate loans expanded from $5.8 million to $19.6 million with a percentage increase of 239.6. Other loans, which comprise only 8 per cent of the loan portfolios of the member banks in South Carolina, declined 56 per cent during the three year period.

LOANS OF MEMBER BANKS
SOUTH CAROLINA

(Amounts in thousands of dollars)

	Dec. 30 1944	Dec. 31 1947	Increase Amount	Increase Per Cent
Commercial and industrial loans	20,379	45,411	25,032	122.8
Loans to farmers (not secured by real estate)	10,481	2,318	— 8,163	— 77.9
Loans for purchasing and carrying securities	2,796	2,654	— 142	— 5.1
Real estate loans	5,768	19,587	13,819	239.6
Other loans to individuals	3,053	21,031	17,987	588.9
Loans to banks	222	....	— 222	......
Other loans	7,727	5,798	— 1,929	— 25.0
Total	50,426	96,799	46,373	92.0

Sources: F.D.I.C. Assets and Liabilities, December 30, 1944, Operating Insured Commercial and Mutual Savings Banks.
Member bank call reports, December 31, 1947, as tabulated by Federal Reserve Bank of Richmond.

As the above tables have shown, lending has extensively increased in three main categories—business, real estate, and consumer credit.

The reasons for the increase in business loans are threefold, and all of them are directly related to the general economic developments of the period. The increasing volume of physical goods has required increased working capital for production and distribution; plant expansion and modernization have required temporary advances pending longer-term financing; and finally, the higher prices and cost levels necessitate increased funds with which to handle even the same volume of goods. Funds obtained from banks, moreover, added to the volume of demand for scarce goods and production resources, and in turn helped to bring about the rising prices which increased financing needs. Loans made because of these conditions may in some cases result in a less than proportionate increase in output and in other cases actually result in diverting goods from markets. Bankers have been asked to make loans only for productive purposes, but recent analysis has indicated that term loans are increasing, and that many of them are non-productive under existing conditions of full employment.

Illustrative of some of the reasons for the expansion of business loans is the construction industry, in which tremendous expansion has occurred between the years 1944 and 1947, accompanied by rapidly rising costs. The following table shows comparable construction figures in the Fifth District for these two years.

CONSTRUCTION CONTRACTS AWARDED
IN FIFTH DISTRICT

(Thousand Dollars)

Year	Commercial Buildings	Manufacturing Buildings	Non-residential	Residential	Total Construction
1944	20,663	54,763	171,208	157,560	479,785
1947	90,308	145,536	309,420	428,631	935,839
Percentage increase	337	166	81	172	95

Source: F. W. Dodge Corporation

Inventories of the reporting department stores in the Fifth District have shown an increase of 56 per cent in the same period, revealing in part an increased demand and in part higher prices. This is reflected by increased demands for working capital and in particular bank loans for financing inventories.

All classes of real estate loans have experienced increases, which are the result of increased transactions, higher prices and the accumulated demand for new homes. The rising cost of farm land is shown by the index of the value of farm real estate (1935-1939=100), which has advanced from 151 in December 1944 to 218 in December 1947. It may be noted that in a survey made by the American Bankers Association, it was revealed that the paying record on real estate loans at this time appears to be the most satisfactory of all classifications of loans and that only 13 per cent of the replies indicated any sign of slowing up.

There are perhaps two main explanations for the expansion of consumer loans. First is the increase in the supply of nondurable and durable consumer goods. Now that the latter have reappeared on the market, there is a larger volume to be financed and at higher prices. These rising prices are another reason for the increase in consumer credit loans. Even though the same amount of materials were being purchased, a larger sum of money would be needed to make the purchase; thus larger loans are requested of the lending agencies. In the consumer credit line, the sharpest increases have come in retail automobile instalment loans and other retail, repair, and modernization loans. This is understandable as 1944 was still a war year and automobiles and durable consumer goods were not being manufactured for the consumer to buy. Bankers are lending support to the use of terms which are similar to those prescribed under Regulation W; however, the opinion has been expressed that competition will force the relaxation of these standards. It may be noted that in another field of consumer credit total receivables of 19 department stores in the Fifth District had, by the end of 1947, increased 107 per cent over the year-end figure of 1944.

Loans to farmers have shown a decided decline because of the large drop in loans guaranteed by the Commodity Credit Corporation, but in every state other loans to farmers (not secured by real estate) have increased over the three-year period ended December 1947 by at least 50 per cent—and in two states (Maryland and West Virginia) over 100 per cent. Many of the agricultural loans made by the banks in the tobacco and cotton areas in the Fifth District must be carried over this year because of the lower tobacco prices, poorer cotton and peanut production in some sections, and higher operating costs throughout the farming sections.

This rapid and substantial expansion of loans carries with it equally substantial effects upon the lending banks and upon the economy as a whole. Foremost among these, from the standpoint of banks, is the change in the composition of bank assets, with the accompanying effect upon the earning rate of these assets.

From the end of 1944 through last December, loans of all commercial banks increased from 20.5 per cent of total loans and investments to 32.8 per cent, reflecting a 76.6 per cent increase in loans and a 6.9 per cent decline in investments. Member banks of the Fifth District reported a 4.02 per cent average return on loans during 1947, as compared with a 1.58 per cent return on Governments, which comprised the major part of their investments. If this may be taken as typical of all commercial banks, it then follows that the increase in the loan portfolios has been accompanied by increased earnings.

It must be borne in mind, however, that a part of this higher return is received by lending banks as compensation for risks assumed in making loans; the fact that the risks do not mature as losses in the period in which the earnings are collected should by no means obscure this fact. Banks accepting these added risks should make provision for the acceptance of the losses that may be expected to arise at some time in the future from loans being made now—such provision taking the form of the earmarking of earnings for this purpose and, where necessary, an increase in capital to provide more adequate protection to the funds of depositors.

At this time, purchasing power is high relative to the available goods and services; in other words, effective demand exceeds the existing supply. In addition, employment is at a high level and the factors of production are being used to capacity. Since further expansion of the productive forces is possible only on a small scale, any addition to the existing money supply provides a foundation for additional inflation.

The American Bankers Association, realizing the problem, has asked the nation's bankers to embark upon a voluntary credit control program. The main points of this program as stated by ABA President Joseph Dodge, are as follows:

"1. That in the months immediately ahead, commodity and inventory loans which are designed to withhold essential goods from the normal market channels in anticipation of price rises should not be made.

"2. That mortgage loans for non-essential building or for construction which can be postponed until building supplies and labor are in greater abundance should be discouraged at the present time.

"3. That banks should give priority to loans to those borrowers who can turn out the supplies and services needed at home and abroad now, in order that the machinery for the production of essential goods may be kept functioning at maximum levels.

"4. That there should be a greatly intensified drive to sell Treasury Savings Bonds to the public and to promote other forms of savings, such as savings accounts in banks, as a means of absorbing some of the surplus money in the spending stream which would otherwise continue to compete for the goods and services in short supply."

In the nation as a whole aggregate loans increased $7 billion last year. It has been indicated that a substantial percentage of these loans was of an inferior quality. Bankers as a whole seemed especially concerned, particularly during the latter part of 1947, about the risk element and the degree of liquidity which a loan has before it is made. It is to be hoped that the bankers will go through their loan portfolios and eliminate or reduce the loans with elements of weakness. This would not only help to protect the banks from probable loss but it would offset in some degree deposit expansions resulting from new loans.

Under present conditions bankers should examine all new loan applications carefully as to their purpose and as to their inflationary nature. There is probably no single group in the country that has a larger stake in the successful application of these standards than the bankers who have been asked to apply them.

FEDERAL RESERVE BANK OF RICHMOND
(All Figures in Thousands)

ITEMS	February 18, 1948	Chg. in Amt. From 1-14-48	2-12-47
Total Gold Reserves	$1,054,387	— 18,544	— 7,507
Other Reserves	21,645	— 3,770	+ 532
Total Reserves	1,076,032	— 22,314	— 6,975
Bills Discounted	22,608	+ 15,509	— 4,400
Industrial Advances	46	+ 24	+ 46
Gov. Securities, Total	1,360,126	— 61,887	— 38,314
Bonds	362,779	+143,267	+316,362
Notes	107,385	+ 10,102	+ 85,495
Certificates	282,177	—122,876	—144,746
Bills	607,785	— 92,380	—295,425
Total Bills & Securities	1,382,780	— 46,354	— 42,668
Uncollected Items	268,562	+ 11,416	+ 15,588
Other Assets	39,983	+ 1,503	— 1,243
Total Assets	2,767,357	— 55,749	— 35,298
Fed. Res. Notes in Cir.	$1,672,071	— 38,258	— 51,695
Deposits, Total	833,951	— 32,390	+ 47,277
Members' Reserves	719,339	— 55,627	+ 26,425
U. S. Treas. Gen. Acc.	93,918	+ 26,651	+ 27,626
Foreign	18,008	— 445	— 6,339
Other Deposits	2,686	— 2,969	— 435
Def. Availability Items	224,073	+ 13,986	— 33,108
Other Liabilities	742	— 246	+ 153
Capital Accounts	36,520	+ 1,159	+ 2,075
Total Liabilities	2,767,357	— 55,749	— 35,298

CONDITION OF REPORTING MEMBER BANKS—5th DISTRICT
(All Figures in Thousands)

	February 18, 1948	Chg. in Amt. From 1-14-48	2-19-47
Total Loans	$ 801,320	— 373	+111,883
Bus. & Agri.	389,966	+ 3,307	+ 56,770
Real Estate Loans	175,545	+ 1,636	+ 41,635
All Other Loans	235,809	— 5,316	+ 13,478
Total Security Holdings	1,779,460	— 572	— 97,311
U. S. Treasury Bills	57,797	+ 28,112	+ 39,094
U. S. Treasury Certificates	153,927	— 2,052	— 89,938
U. S. Treasury Notes	104,104	— 5,098	+ 3,543
U. S. Gov. Bonds	1,341,674	— 23,437	— 59,578
Other Bonds, Stocks & Sec.	121,958	+ 1,903	+ 9,568
Cash Items in Process of Col.	204,040	— 20,778	+ 20,881
Due from Banks	150,811*	— 66,373	— 15,891
Currency & coin	62,958	— 3,379	+ 2,663
Reserve with F. R. Bank	473,699	— 41,970	+ 14,430
Other Assets	55,602	+ 2,999	+ 10,393
Total Assets	3,527,890	—130,446	+ 47,048
Total Demand Deposits	$2,677,271	—136,516	+ 44,022
Deposits of Individuals	2,003,696	—115,541	+ 70,025
Deposits of U. S. Gov.	51,814	+ 17,821	— 45,761
Deposits of State & Local Gov.	185,439	+ 15,021	+ 23,033
Deposits of Banks	380,957*	— 61,524	— 7,808
Certified & Officers' Checks	55,365	+ 7,707	+ 4,533
Total Time Deposits	607,587	+ 288	— 7,964
Deposits of Individuals	588,231	+ 696	— 7,249
Other Time Deposits	19,356	— 408	— 715
Liabilities for Borrowed Money	13,050	+ 11,550	— 1,100
All Other Liabilities	17,783	— 7,138	+ 2,066
Capital Accounts	212,199	+ 1,370	+ 10,024
Total Liabilities	3,527,890	—130,446	+ 47,048

*Net figures, reciprocal balances being eliminated.

CONSTRUCTION CONTRACTS AWARDED

STATES	Dec. 1947	% Chg. from Dec. 1946	12 Mos. '47	% Chg. from 12 Mos. '46
Maryland	$18,229,000	+ 7	$270,502,000	— 9
Dist. of Columbia	8,648,000	+101	78,948,000	+28
Virginia	14,392,000	— 16	191,302,000	— 1
West Virginia	3,224,000	— 48	65,585,000	—10
North Carolina	9,558,000	— 6	161,038,000	—11
South Carolina	17,312,000	+133	76,651,000	—36
Fifth District	$71,363,000	+ 15	$844,026,000	— 9

Source: F. W. Dodge Corp.

COMMERCIAL FAILURES

MONTHS	Number Failures District	U.S.	Total Liabilities District	U.S.
January 1948	6	356	$ 89,000	$12,965,000
December 1947	15	317	165,000	25,499,000
January 1947	5	202	344,000	15,193,000

Source: Dun and Bradstreet

DEBITS TO INDIVIDUAL ACCOUNTS
(000 omitted)

	January 1948	% Chg. from January 1947
District of Columbia		
Washington	$ 736,173	+ 7
Maryland		
Baltimore	963,568	+ 3
Cumberland	20,390	— 1
Frederick	17,406	— 5
Hagerstown	27,023	+ 6
North Carolina		
Asheville	50,478	+ 7
Charlotte	240,427	+10
Durham	96,005	— 9
Greensboro	78,342	+19
Kinston	13,278	—18
Raleigh	94,632	+ 2
Wilmington	36,566	+ 5
Wilson	17,005	— 7
Winston-Salem	121,098	— 6
South Carolina		
Charleston	58,994	+12
Columbia	91,410	+16
Greenville	82,289	+15
Spartanburg	51,811	+30
Virginia		
Charlottesville	26,412	+14
Danville	30,920	—21
Lynchburg	41,072	+15
Newport News	34,371	+14
Norfolk	184,516	+24
Portsmouth	21,400	+13
Richmond	427,770	+ 6
Roanoke	84,847	+14
West Virginia		
Bluefield	45,383	+35
Charleston	135,475	+16
Clarksburg	33,895	+17
Huntington	61,132	+24
Parkersburg	26,242	+ 2
District Totals	$3,950,330	+ 7

COTTON CONSUMPTION AND ON HAND—BALES

	Jan. 1948	Jan. 1947	Aug. 1 to Jan. 31 1948	1947
Fifth District States:				
Cotton consumed	426,425	458,005	2,329,225	2,487,305
Cotton Growing States:				
Cotton consumed	762,929	836,019	4,087,359	4,566,593
Cotton on hand Jan. 31 in				
consuming establishments	1,895,298	1,925,624		
storage and compresses	5,057,165	5,159,981		
United States:				
Cotton consumed	860,202	949,994	4,637,371	5,213,413
Cotton on hand Jan. 31 in				
consuming establishments	2,222,254	2,270,764		
storage and compresses	5,116,954	5,228,327		
Spindles active, U. S.	21,450,000	21,919,000		

COTTON CONSUMPTION—FIFTH DISTRICT
In Bales

MONTHS	No. Carolina	So. Carolina	Virginia	District
January 1948	231,668	176,319	18,438	426,425
December 1947	196,467	158,766	16,377	371,610
January 1947	248,312	189,622	20,071	458,005

Source: Department of Commerce.

PRICES OF UNFINISHED COTTON TEXTILES

	January 1948	December 1947	January 1947
Average, 17 constructions	94.57	95.88	83.34
Printcloths, average (6)	130.48	134.78	105.88
Sheetings, average (3)*	80.78	80.23	73.23
Twill (1)	79.86	79.86	75.61
Drills, average (4)	69.69	69.36	65.90
Sateen (1)	97.61	97.61	97.61
Ducks, average (2)	63.16	62.88	62.54

Note: The above prices are those for the approximate quantities of cloth obtainable from a pound of cotton with adjustments for salable waste.

DEPOSITS IN MUTUAL SAVINGS BANK
8 Baltimore Banks

	Jan. 31, 1948	Jan. 31, 1947	Dec. 31, 1947
Total Deposits	$390,743,417	$381,241,159	$389,933,198

BUILDING PERMIT FIGURES

	Total Valuation Jan. 1948	Jan. 1947
Maryland		
Baltimore	$ 3,976,810	$ 1,759,075
Cumberland	43,260	41,200
Frederick	182,675	64,380
Hagerstown	42,750	31,590
Salisbury	43,970	139,533
Virginia		
Danville	211,749	99,700
Lynchburg	108,715	265,761
Norfolk	1,974,120	336,615
Petersburg	12,900	62,800
Portsmouth	147,140	68,815
Richmond	1,026,688	1,916,175
Roanoke	1,002,438	100,103
West Virginia		
Charleston	1,011,261	1,019,804
Clarksburg	12,665	33,608
Huntington	105,825	279,640
North Carolina		
Asheville	177,260	93,618
Charlotte	900,695	418,122
Durham	457,090	211,475
Greensboro	1,425,810	298,570
High Point	342,766	128,905
Raleigh	702,485	415,565
Rocky Mount	70,450	187,600
Salisbury	30,400	30,750
Winston-Salem	299,066	308,320
South Carolina		
Charleston	134,789	162,340
Columbia	260,390	211,375
Greenville	281,600	437,700
Spartanburg	106,100	62,277
District of Columbia		
Washington	5,541,570	2,700,084
District Totals	$20,633,437	$11,885,500

SOFT COAL PRODUCTION IN THOUSANDS OF TONS

REGIONS	January 1948	January 1947	% Change
West Virginia	15,131	15,874	— 5
Virginia	1,839	1,887	— 3
Maryland	153	233	—34
Fifth District	17,123	17,994	— 5
United States	54,980	58,970	— 7
% in District	31.1	30.5	

TOBACCO MANUFACTURING

	January 1948	January 1947	% Chg.
Smoking & Chewing tobacco (Thousands of lbs.)	15,689	16,689	— 6
Cigarettes (Thousands)	27,278,272	28,450,767	— 4
Cigars (Thousands)	461,398	510,264	—10
Snuff (Thousands of lbs.)	3,898	3,434	+14

RAYON YARN SHIPMENTS AND STOCKS

	Dec. 1947	Nov. 1947	Dec. 1946
Rayon yarn shipments	62,100,000	62,200,000	55,900,000
Staple fiber shipments	22,200,000	20,300,000	12,900,000
Rayon yarn stocks	7,700,000	9,300,000	6,700,000
Staple fiber stocks	4,000,000	5,300,000	1,600,000

Source: Rayon Organon.

WHOLESALE TRADE—199 FIRMS

LINES	Net Sales Jan. 1948 Compared with Jan. 1947	Dec. 1947	Stock Jan. 31, 1948 Compared with Jan. 31 1947	Dec. 31 1947	Ratio Jan. collections to acc'ts outstand'g Jan. 1
Auto Supplies (6)*	+19	0	....	....	94
Drugs & Sundries (10)*	+10	+16	+ 8	0	118
Dry Goods (9)*	+ 1	+12	+41	+18	79
Electrical Goods (6)*	+39	— 9	+51	+ 6	98
Groceries (65)*	+ 2	+ 5	+13	+ 3	153
Hardware (11)*	+14	+24	+59	+ 5	89
Industrial Supplies (3)*	— 2	—10	....	....	....
Paper & Products (5)*	+ 5	— 1	....	....	100
Tobacco & Products (9)*	— 3	—22	— 5	+ 6	156
Miscellaneous (75)*	+ 7	+ 7	+46	+ 5	101
Dist. Average (199)*	+ 7	+ 6	+38	+ 6	108

Source: Dept. of Commerce.

*Number of reporting firms.

RETAIL FURNITURE SALES

STATES	% Change Jan. 1948 from Jan. 1947
Maryland (5)*	+ 9
Dist. of Col. (6)*	+ 2
Virginia (19)*	+ 1
West Virginia (9)*	—18
North Carolina (14)*	—10
South Carolina (10)*	— 3
Fifth District (63)*	0
Individual Cities	
Baltimore, Md., (5)*	+ 9
Washington, D. C., (6)*	+ 2
Richmond, Va., (6)*	— 7
Charleston, W. Va. (3)*	—22
Charlotte, N. C., (3)*	—25
Columbia, S. C., (3)*	+ 7

*Number of reporting stores

DEPARTMENT STORE TRADE

	Richmond	Baltimore	Washington	Other Cities	District
Percentage chg. in January 1948 sales, compared with sales in Jan. 1947:	— 2	— 2	+ 6	+ 2	+ 2
Percentage chg. in stocks on Jan. 31, 1948, compared with Jan. 31, 1947:	— 7	+ 8	+ 1	+13	+ 3
Percentage chg. in outstanding orders Jan. 31, '48, from Jan. 31, '47:	—15	—11	0	+ 3	— 6
Percentage chg. in receivables Jan. 31, 1948, from those on Jan. 31, 1947:	+53	+15	+25	+14	+26
Percentage of current receivables as of Jan. 1 collected in January:	29	50	48	49	44
Percentage of instalment receivables as of January 1 collected in Jan.:	17	23	18	27	20

	Maryland	Dist.of Col.	Virginia	W. Va.	N. Carolina	S. Carolina
Percentage chg. in January 1948 sales from January 1947 sales by States:	— 2	+ 6	+ 2	+ 4	— 3	0

NATIONAL SUMMARY OF BUSINESS CONDITIONS

(Compiled by the Board of Governors of the Federal Reserve System)

Output and employment at factories and mines continued to show little change in January. Value of department store trade declined by more than the usual seasonal amount in January and the early part of February. Prices of farm products and foods decreased sharply in the early part of February, while prices of most groups of industrial products showed little change.

Industrial Production

Industrial production was maintained in January at the level of the preceding two months, and the Board's preliminary seasonally adjusted index was 192 per cent of the 1935-39 average.

Activity in durable goods industries showed a slight decline in January. The decline reflected mainly some curtailment in production at steel and automobile plants in the latter part of the month owing to adverse weather conditions, which continued in the early part of February. Activity in nonferrous metals industries continued to increase in January; deliveries of copper and zinc to fabricators were at the highest level since the spring of 1947. Output of lumber and stone, clay and glass products was maintained at exceptionally high levels for this season.

Output of most nondurable goods recovered in January from the December decline. Activity at cotton textile mills reached the highest rate since the spring of 1947. Production at paperboard mills and printing establishments also increased. Petroleum refining activity rose further in January under the pressure of exceptional demands for fuel oil. Output of most other nondurable goods was maintained at the December rate or increased somewhat.

Production of minerals in January continued at the December rate. Bituminous coal output was restricted by weather influences on transportation and was 7 per cent smaller than in January 1947. Crude petroleum production continued to gain and was 14 per cent larger than a year ago.

Employment

Employment in nonagricultural establishments was reduced by 1,100,000 persons from mid-December to mid-January, mainly because of the usual large seasonal reduction in trade and Federal post office activities. Construction employment was curtailed more than is usual in January, owing to exceptionally severe weather conditions. Employment in manufacturing industries showed about the usual small seasonal decline.

Distribution

Department store sales showed more than the usual seasonal decrease in January and the Board's adjusted index declined to 282 per cent of the 1935-39 average, as compared with 303 in December and an average of 285 for the year 1947. Value of sales in the first half of February was 3 per cent above a year ago.

Total shipments of railroad revenue freight early in January equalled the volume for the corresponding period of 1947. In the latter part of January and in early February, however, loadings of most classes of freight were substantially curtailed as a result chiefly of weather conditions.

Commodity Prices

The general level of wholesale prices declined about 4 per cent from the middle of January to the latter part of February, reflecting mainly sharp decreases in prices of farm products and foods. Prices of hides, print cloth, and some other industrial materials also showed marked declines. Prices of semifinished steel and worsted fabrics, however, were raised and prices of most other groups of industrial products showed little change.

Retail food prices declined about 4 per cent in February from the record level of 210 per cent of the prewar average reached in January.

Bank Credit

Seasonally large Treasury receipts from tax collections and sales of savings bonds resulted in a substantial transfer of deposits from private accounts at commercial banks to Treasury accounts at the Reserve Banks during January and the first three weeks of February. Accompanying drains on bank reserves were met out of excess reserves, from funds received from the post-Christmas return of currency and further gold inflows, and from funds supplied by market purchases of Government securities by the Reserve Banks.

Sale of Treasury bonds by commercial banks and other investors continued in January and the first three weeks of February, and the Federal Reserve System purchased substantial amounts of these issues. Total holdings of Government securities by Reserve Banks declined, however, reflecting sales of bills and certificates in the market, as well as Treasury retirements of securities held by Reserve Banks out of surplus cash receipts.

Government security holdings at member banks in leading cities declined somewhat in January and the first half of February as continued sales of Treasury bonds were offset only partly by purchases of bills. Loans to businesses showed little further change, but real estate and consumer loans continued to expand.

Effective on February 27, 1948, the Board of Governors raised from 20 to 22 per cent the reserve requirements to be maintained on net demand deposits by member banks in central reserve cities.

Security Markets

Common stock prices, which had moved downward during most of January, declined more sharply in the early part of February. Corporate bond prices were stable; yields on high-grade issues averaged about 2-7/8 per cent.