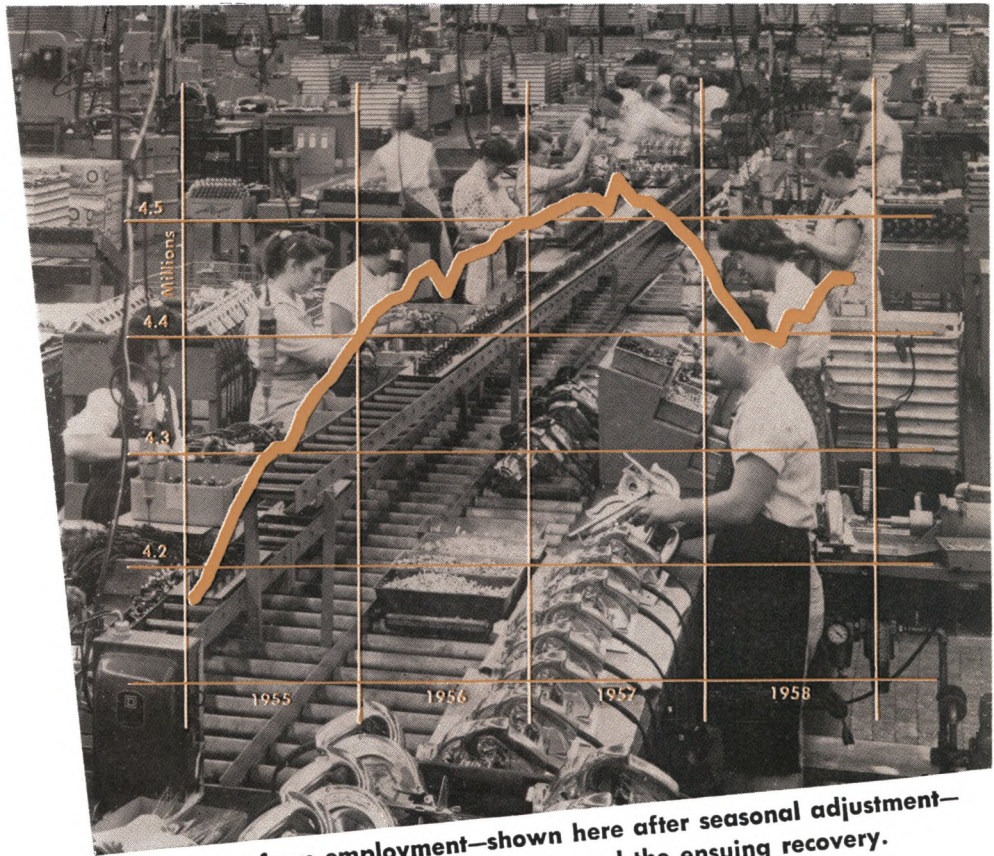


MONTHLY REVIEW



Fifth District 1958

Like the Greeks, the economists have a word for it—1958, they say, was a year of economic “crosscurrents.” Business activity in the Fifth District ran all over the charts plotted by analysts. It entered the year in a downtrend amidst declining orders, drooping employment, and flagging hopes for an early recovery. It reached the end of its 1958 page in economic history with productive operations at the year’s highest levels, unemployment near the lowest, and hope springing anew for full employment, stable values, and sustainable growth.

During the year the District’s various sources of employment and income shifted from recession to recovery at varying rates of progress. The textile industry, after a few false starts, marched toward recovery at a rather slow pace. Not until late in the year did the rate of improvement accelerate. In the construction industry, on the other hand, the recovery that set in last spring proceeded in leaps and bounds to reach boom-like proportions during the summer. Similarly, other economic indicators reflected diverse patterns: department store sales showed no consistent strength over the year; agriculture had a banner crop year with considerable improvement in the financial condition of District farmers; the recession was marked in the furniture industry, but completely absent in the cigarette industry.

These general trends of economic activity paralleled similar movements in the national economy, but there were significant differences for much of the District. The decline in output that started

in the fall of 1957 had by last April brought a 4.6% drop in nonagricultural employment for the country as a whole, but total numbers employed in the District shrank by less than 3%. Actually the District picture was even better than this other than in West Virginia, where a dip of nearly 8% reflected a substantial curtailment of mining and manufacturing activity.

The appreciably better performance in recession reflects key characteristics of the District economy that differ from the national averages. The manufacture of durable goods, for example, provides employment for one in ten nonfarm workers in the District and one in five in the United States. This was the economic group hit hardest by the recession, and its downward pressure in the District was naturally smaller than in the country as a whole. Government employment was also a factor of strength in the District, where it is relatively greater than in the U. S.; its slight increase during the recession months provided an offset to losses.

The recovery that started in the spring, however, rested on more than public payrolls. Coming ultimately to include the textile industries and many other manufacturing lines, it encompassed construction and the service industries as well. Farmers, after slim pickings in 1957, found their cash receipts mounting in 1958 as prices improved and harvests produced astounding yields. By year-end the recession had passed into history and a record of broad recovery had been written in the last half of 1958.



The year will be remembered as a banner crop year for Fifth District agriculture. The nearly ideal growing season and generally favorable harvesting conditions joined forces to bring about a bountiful harvest. Production gains over 1957 ranged from slight to spectacular for most major

District crops, and new peaks in yields per acre were marked up for corn, soybeans, cotton, peanuts, and most types of tobacco. Good to excellent pasture conditions were also widespread, and livestock production continued high.

High yields brought corn and soybean crops to

the largest totals ever produced in the District. Record yields for cotton, however, failed to offset acreage reductions, and the crop was the smallest since 1878.

Improvement in the flue-cured tobacco crop, so important to the agricultural economy of the Carolinas and Virginia, was of special significance. Record high yields per acre brought a 10% larger crop. Prices also averaged higher, and cash receipts from the golden weed were one-seventh above the year before. This was in sharp contrast to 1957, when price increases only partially offset a

one-third cutback in production and farmers' income from the flue-cured crop dropped one-fourth below the previous year.

Other farm prices generally averaged higher than in 1957. So also did farm costs. Cost per unit of production was lower, however, and there was an improvement in cost-price relations.

This combination—a bumper harvest, high rate of livestock production, relatively good prices, and a slackening in the “cost-price squeeze”—brought about considerable improvement in the general financial situation of Fifth District farmers in 1958.



District production of bituminous coal for the year was down 22% from 1957. This figure summarizes a period of disappointment for the industry and lower levels of employment for miners.

The decline started in the closing months of 1957, and that drop, together with the outlook for lower operations of important industrial customers, led to forecasts of a year of lower production. Instead of the small decline that was foreseen a year ago, however, the country's total bituminous output shrank from 493 million tons in 1957 to 400 million in 1958. More than one-fifth of the drop was due to customers' pulling down their inventories instead of making small additions as in the preceding year.

Beyond this inventory adjustment, however, declines were reported in nearly every category of use. Some declines reflected lower rates of industrial activity and are expected by coal spokesmen to be reversed in the year ahead, but others pointed to changes in basic demand factors.

Export shipments, for example, fell by nearly one-third, with significant effects for District mines and ports. Part of the drop was in Canadian purchases—expected to rise again this year—but most of it was in ship loadings for overseas markets, principally in Europe. A moderate decline in economic activity there brought accumulations of coal stock. Restrictions were placed on coal imports as a means of helping domestic producers,

and the result was the cancellation and postponement of coal contracts in this country. Marketers in this country now expect overseas sales this year to be down further, perhaps to one-half the 1957 level.

Sales for coking purposes—principally for steel-making—showed a substantial decline last year, as steel production dropped from the levels of the year before. The shrinkage in coal consumption was 30 million tons, the greatest drop in any category of use. Higher rates of steel operation during the closing months of 1958 led to industry hopes of regaining something approaching the 1957 rate of coal use in steel.

A significant 5% decline was registered in use by electric utilities. Good water conditions produced an unusually high volume of hydro power, which reduced fuel needs, but bituminous coal also lost out slightly to competing fuels. Since electric utilities took nearly two-fifths of the year's production, the small percentage loss was important. Forecasts look to recouping the loss and adding some further gain in the new year.

Of importance in appraising the outlook for 1959 is the price increase expected to take effect this month. Under a new contract with the United Mine Workers, miners' daily wages go up \$1.20 this month and \$.80 more on April 1. Coal marketing firms indicate that they look for a better demand and expect to pass along at least a portion of their increased costs in higher prices.

RETAIL TRADE



Department store sales last year set a new seasonally adjusted high in August after having dropped in February to their lowest level since 1954. The low point was a special case, coming in a month of extremely bad weather, but sales for the early months of the year were generally disappointing to merchants in many lines.

By midyear, however, an upturn was clearly evident. August sales at department stores soared as economic conditions improved—with an extra boost undoubtedly from the substantial retroactive pay increase received then by 300,000 Federal Government workers in the Fifth District. While the sales total fell to a lower level in the months that followed, it turned up again in December to make that the third best month in the history of the department store series.

Furniture store sales traced very much the same

pattern as did department store totals with two important differences: the fall decline was to the levels of the first half of the year, and the year as a whole was appreciably below 1957, which in its turn was down from 1956. If, as trade analysts indicate might be the case, the downward trend in furniture sales was due to shrinking home construction activity, the small sales improvement that came in the closing months of 1958 may well reflect the pickup that occurred in home construction last year.

Automobile sales, as reflected in new registrations within the District, made their poorest showing of any year since 1952. Production delays for the new models were important in the fall months, however, and December figures may provide confirmation for the optimistic outlook reflected in the statements of auto dealers.

MANUFACTURING



The manufacturing industries of the District traced out a pattern of 1958 activity that conformed closely to the recession-recovery sequence for the over-all economy. The peak in the seasonally adjusted manufacturing man-hour figures had come in early 1956—when the important textiles started downward—but the bottom was reached last April in keeping with the movement of broader economic events. The upturn was widespread and well-nigh simultaneous—nearly every major industry in the District showed an increase of man-hours within two months of the April low point of the total measures.

Of particular importance was the improvement

in the hard-pressed textile industry. In its own private recession long before aggregate demand slumped in the second half of 1957, textile manufacturing was at a very low ebb at the outset of 1958. The characteristic trade report throughout a large part of the year described a quiet, slow demand for cotton gray goods, with buying cautiously limited to immediate and nearby needs.

A strong but transient surge in orders for cotton gray goods occurred in July, but it was not until October that a continuing improvement was realized. A steady, unspectacular growth in demand had, by late November, brought across-the-board strength in markets for synthetic fabrics, finished

cotton fabrics, and unfinished cotton cloth for apparel and industrial uses.

There was no doubt that the situation was definitely better at year end. The significant and unanswered questions, however, were, "How much better will it get?" and "Is it a lasting recovery?" Other problems, from the viewpoint of the mills, were the possibility of some operators expanding to a six-day week and upsetting the tenuous balance between supply and demand, the possibility of a wage increase in the industry during the second quarter of 1959, and the effect on forward buying of the expectation that a larger cotton crop will lower staple cotton prices during the year.

Hosiery manufacturers shared in the improved conditions. Seamless ladies' hosiery continued its inroads on full-fashioned, resulting in capacity operations in the fall for seamless producers. A novelty item proved an important business pro-

ducer for the knitters, black and bright-hued "leotards" or knitted tights. Although 1959 prospects were not clear, the knitting industry closed out 1958 with operations near capacity rates, inventories at low levels, and with comfortable backlogs of orders.

Other District manufacturing industries had diverse records. Cigarette manufacturing, shaky for several years after a series of health scare crises, turned in a record year's production. Plants in this District, accounting for four-fifths of the nation's output, posted a year-to-year increase of slightly more than 5%.

Furniture manufacturers found a brighter situation in the closing months of the year as their new orders and backlogs increased. Production, which had started its downward movement early in 1957, made a significant recovery to give a year's total perhaps 5% above the preceding year.

CONSTRUCTION



The early months of 1958 gave little indication that the year was to be a record one for District construction as measured by the value of contracts let. Awards for public works and public utilities showed impressive percentage gains over late 1957 levels, but they were inadequate to meet the declines in both residential and nonresidential building. In fact, home-building gave an indication at that time of being in a sustained downward movement.

Spring brought a quick reversal of this decline, however, and at midyear awards soared to a new high level: the July-September totals, after allowance for seasonal factors, were the highest sustained level of awards for any three-month period in the history of the series. While some retreat from these figures occurred in the closing quarter of the year, it was clear that the construction industry had put a notable volume of work on its books and in place.

The availability of mortgage money played an important part in the increased level of home-building. As other interest rates declined in early

1958, mortgage charges fell also, and there was an increased willingness on the part of lenders to commit their funds to loans on new houses. Builders, encouraged by an improving demand for homes, took advantage of the improved supply of mortgage money and expanded their operations. The result was the upsurge in District home-building.

The high level of awards for public works and utilities continued into the closing months of the year. It contained a substantial volume of contracts for work on highways in the District, much of it a part of the expanded Federal highway program. During the year more than \$100 million of Federal projects were completed, and starts were made on an estimated \$300 million more. Both figures include land acquisition and other costs as well as large outlays for construction. The nearly one-half billion dollars' worth of Federal highway work under way in the District at year-end promise a continuing high level of activity for the road builders, as do the \$326 million of Federal funds authorized for roads in District states in the fiscal year beginning next July.

Forecasts of the business outlook—particularly at this time of the year—are top news. The analyst expresses his predictions of the nation's health in terms of statistical series which are becoming more numerous and more comprehensive as our economy grows in size and complexity. Certain of these statistical guides, however, have come to be recognized as key economic indicators. For the businessman with little time to delve into the scope of all the series, these brief descriptions of the most used statistics provide

KEYS TO THE FORECASTERS' VOCABULARY

GROSS NATIONAL PRODUCT

measures the nation's output of final goods and services at market prices. GNP is the sum of expenditures by four broad groups of purchasers—consumers, business firms, foreigners, and government. "Personal consumption expenditures" include what people spend for durable goods, primarily household equipment and autos; their purchases of nondurable goods, chiefly clothing and food; and their outlays for services, such as rent, domestic help and transportation. "Gross private domestic investment" represents the change in business inventories and expenditures for new plant and equipment—primarily by business firms although residential construction is included. The third major category of the GNP accounts—"net foreign investment"—measures the net change in international assets and liabilities arising out of transactions between the U. S. and foreign countries. "Government purchases of goods and services" are subdivided into those by Federal Government and by state and local governments. The GNP quarterly estimates are expressed in annual rates, adjusted for seasonal variation, by the Office of Business Economics of the U. S. Department of Commerce.

PERSONAL INCOME

measures current income received from all sources by individuals, unincorporated businesses, and nonprofit institutions, including private pension, trust and welfare funds. The types of income published are wages and salaries—by broad classes of industries and by government, other labor income, proprietors' and rental income, personal interest income and dividends, and transfer payments—income for which services are not currently rendered. This series is part and parcel of the Department of Commerce's quarterly series on the nation's economic accounts: major components directly related are disposable personal income—income less individual taxes, personal consumption expenditures, and the difference between these two figures—personal savings. Personal income estimates are also available on a monthly, seasonally adjusted basis.

INDUSTRIAL PRODUCTION INDEX

measures changes in the physical output of the nation's factories and mines. The major components of the over-all index are durable manufactures, non-durable manufactures, and minerals. These broad categories are further subdivided into individual industries or products, major industry groups and combinations of these major groups. Over 200 indexes are published monthly by the Board of Governors of the Federal Reserve System. The relative importance of each subdivision is given: minerals account for 10%, durable and nondurable manufactures for 45% each. The base used for the index is the average working-day production per month for the years 1947-49. In addition to the adjustment for differences in working schedules, the major industry groups and a few individual industries are adjusted for seasonal variation.

NONAGRICULTURAL EMPLOYMENT

covers all full and part-time employees in nonfarm establishments who worked or received compensation for any part of the pay period ending nearest the 15th of the month. Excluded are proprietors, self-employed persons, members of the armed forces, unpaid family workers, and domestic servants. Employment figures are available for over 200 individual industries and industry divisions. The major categories are durable manufacturing, nondurable manufacturing, mining, contract construction, wholesale trade, retail trade, transportation and public utilities, finance, insurance and real estate, services, and government, each seasonally adjusted. The related series on production workers is seasonally adjusted for each of the major manufacturing groups, and in addition to estimates on the number of persons employed, the series includes estimates on their earnings and their hours of work. Also state and local area data on employment, hours and earnings are available but in less industry detail than the national series. These estimates are prepared by the Bureau of Labor Statistics, U. S. Department of Labor in cooperation with state agencies.

LABOR FORCE UNEMPLOYMENT

covers persons, 14 years and over, who are not working and are looking for work during the week containing the 12th of the month. Also included are those persons not looking for work because of temporary illness or belief that work is not available and those waiting either to be recalled to a job or to report to a new job within 30 days. This series is an integral part of the civilian labor force series: the other side of the coin is employment. Considered as employed are persons working for 15 hours or more on a family farm or business, even if not paid. Seasonal adjustment factors are published for the total labor force; employment—total, agriculture and nonagricultural industries; total unemployment and the rate of unemployment. This series is estimated by the Bureau of the Census, U. S. Department of Commerce.



Broiler contracts generally call for furnishing chicks and supplies to the farmer and paying a specified amount for broilers raised.

Contract Farming

Farming by contract is not new. Many fruit and vegetable growers have contracted with processors for years, as have sugar beet farmers. And poultrymen have produced hatching eggs under contract with hatcheries for a long time, too.

But the outstanding example of contract farming in recent years has been in the production of broilers. More recently it has made some headway in the production of table eggs and hogs and in the feeding of beef cattle. However, the dramatic results associated with the growth of the broiler industry by this means and the efforts to apply similar methods to other farm commodities have raised questions as to how far this practice will go and what the results will be. Both hope and concern have been aroused.

CONTRACT FARMING DEFINED Just what is contract farming? Perhaps it can best be defined as an arrangement by which the production, processing, and distribution of farm products are linked closely by contracts or agreements. The arrangement may be an agreement between a farmer and a business firm or between a farmer and his co-

operative. In any case, the farmer is only one link in the chain of production and marketing.

Here's how it works: A farmer contracts to produce broilers for a feed dealer or processing plant. Under this arrangement he agrees to provide the broiler house, equipment, and labor to raise the birds. The contractor in return agrees to furnish the chicks, feed, medicine, vaccine, fuel, litter, and technical supervision or advice. As with most contracts, the contracting firm keeps the title to the chickens. Specific terms for sharing the returns from the enterprise are also spelled out in the contract. Customarily the grower receives a flat fee per bird or per pound sold. Under some contracts the grower also shares in the profits or receives a bonus based on production efficiency.

Contract production of turkeys tends to conform to the pattern set by the broiler industry. But contract arrangements used in producing fruits and vegetables, eggs, hogs and other commodities take a variety of forms. The essential thing is that both parties to the contract must have an interest in the farm production process and a

share in the management decisions. Thus, a sales contract concerned only with the sale of a product already produced does not constitute contract farming.

WHY IT HAS DEVELOPED Contract farming has come about as an outgrowth of the big changes taking place on farms and in the market place. One of the major changes has been the development of the big food chains and supermarkets—now the major retail outlets for farm food products. They seek to provide Mrs. Consumer with the food she wants, when, where, and in the form she wants it, and at a price she feels is a good buy. To do this, these mass merchandisers try to keep unit costs low. They emphasize both volume buying and volume selling. And they require uniform quality products to back up their sales promotion and aggressive advertising. To maintain volume sales of quality products, they of necessity must have a dependable source of supply.

To meet Mrs. Consumer's demands at competitive prices, more and more of these big retailers are resorting to contract arrangements. Sometimes they form contracts with farmers. Frequently they enter into contracts with processors who in turn contract with farmers or farmer cooperatives. By so doing, the contracting firms virtually assure themselves of adequate and dependable supplies of uniform quality products.

The growth of specialization in the production and marketing of farm products has been another major factor in the development of contract farming. Time was when farmers performed all the tasks necessary in producing and marketing a product. If, for example, a farmer produced table eggs, he raised his own layers and replacement flock, grew his own feed, and delivered the eggs to the local grocery or direct to consumers.

Today, however, the producer of table eggs is a specialist who depends on other specialized firms. Unlike the egg producer of yesteryear, he probably buys started pullets from a hatcheryman who, in turn, depends upon specialized producers of hatching eggs. He buys his feed from a feed mill which specializes in producing mixed feeds. A specialized assembler picks up his eggs and delivers them to the wholesaler or food chain warehouse for ultimate sale to consumers.

As specialization increased, more people became involved in making decisions. Coordination of the activities of the many specialists became difficult. And coordination was necessary if supplies of the product produced by each specialist were

to be geared to the demand for that product. Contract farming offered a means of providing this needed coordination.

Still another important reason why contract farming has developed has been the willingness of farmers to enter into contract arrangements with the nonfarm firms.

WHAT IT MEANS TO FARMERS Production contracts between farmers and business firms have grown in numbers because their advantages appeal to farmers. What are they?

Farming by contract offers the farmer considerable protection against financial risks. Price and income uncertainty are reduced, for with a contract a farmer no longer produces a product and then throws himself on the mercy of the markets and asks, "What am I bid?" Instead, he produces a specified product for a specific market. His market, therefore, is always assured. Contract agreements also assure farmers of the supplies they need for production.

Financing furnished by contracts provides the farmer with more capital. These financing arrangements may also help young farmers to get started in farming.

Farmers are usually provided with technical assistance and supervision. They thus learn and adopt better production methods more quickly. With the adoption of these improved practices, they learn to produce more efficiently and can expand their scale of operations. Further, the quality of their product generally both improves and becomes more uniform. This pays dividends in subsequent handling and storage.

The growth of contract farming in some areas has also brought about the coordinated development of new farm enterprises and new farm-related businesses needed for processing and marketing the products. This sort of thing has been especially beneficial to areas with limited nonfarm employment opportunities.

But contract farming has some disadvantages for farmers, too. A farmer under contract has less freedom of action. His role as manager is shifted to or shared with the contracting agency, depending upon the kind of contract involved. Some agreements, for instance, call for a few decisions by the contractor, while others relegate the farmer to a pieceworker role. The farmer must frequently accept a smaller income as the price of management assistance and partial protection against financial loss.

*Earnings of Mutual Savings Banks
1957
In Millions*

| | |
|----------------------------------|---------------|
| <i>Interest and Dividends</i> | <i>\$ 904</i> |
| <i>On loans</i> | <i>374</i> |
| <i>On securities</i> | <i>24</i> |
| <i>Other operating income</i> | <i>1,302</i> |
| <i>Total Current Income</i> | <i>223</i> |
| <i>Less: Current expenses</i> | <i>13</i> |
| <i>Taxes</i> | <i>906</i> |
| <i>Dividends paid depositors</i> | <i>54</i> |
| <i>Net current losses</i> | <i>\$ 106</i> |
| <i>Net Income</i> | |

About Mutual Savings Banks

When Reverend Henry Duncan established the first mutual savings bank in 1810 in Scotland, he scarcely could have guessed the impact his actions would have upon the financial world. Today—less than 150 years later—institutions of the type he founded flourish across much of the globe.

His ideas spread rapidly to this country with the founding in 1816 of two savings banks—The Provident Institution for Savings in the Town of Boston and The Philadelphia Saving Fund Society—both of which are now among the nation's largest savings banks.

All told there are presently 519 U. S. mutual savings banks, serving over 22 million depositors and holding assets exceeding \$37 billion. They range in size from tiny institutions with deposits of \$1 million or so to eleven financial giants with deposits of \$500 million to \$1.5 billion.

Almost all savings banks are located in New England and the Middle Atlantic states. Six other states—Indiana, Minnesota, Ohio, Oregon, Washington, and Wisconsin—have a few, but thirty-one states and the District of Columbia have none. Their real strongholds are New York, Massachusetts, Connecticut, and Pennsylvania, where savings banks hold about 87% of the industry's total deposits. Maryland's seven banks are the only ones in the Fifth Federal Reserve District.

THEIR SUM AND SUBSTANCE The main business of mutual savings banks is collecting and channeling savings deposits of small investors into mortgages, Government bonds, stocks, and other securities. In general, they do not accept demand

deposits and hence cannot conduct many ordinary commercial banking operations. They do, however, offer safe deposit facilities, sell travelers' checks, and collect funds for their customers. New York, Massachusetts, and Connecticut savings banks are permitted in addition to issue various types of low cost, over-the-counter life insurance. In late 1957, there was almost \$1 billion of such insurance in force.

All mutual savings banks are state-chartered, state-supervised, nonstock institutions owned entirely by their depositors. Earnings are distributed quarterly or semiannually to savers in the form of dividends. Requests from depositors for withdrawals customarily are paid in full on demand and must be met within a specified length of time to avoid default.

Depositors of a mutual savings bank have no voice in management, however. Policy rests in the hands of a self-perpetuating board of trustees whose original members were selected by those who organized the bank. Trustees are usually elected for life and generally serve without either salaries or fees. Day-to-day operations—like those in any other corporation—are directed by a slate of officers chosen by the trustees.

THEIR SOURCES OF FUNDS Such familiar names as the Dime Savings Bank, the Dollar Savings Bank, and the Boston Five Cents Savings Bank suggest where the banks obtain most of their funds—from small individual investors. State laws often limit single deposits to only a few thousand dollars, and banks themselves frequently specify

limits in the absence of statutory requirements.

Savings deposits typically supply something like 90% of savings banks' funds. Surplus, undivided profits, and other minor capital accounts generally furnish about 9%, and miscellaneous sources such as borrowings from commercial banks contribute the rest.

At the end of last June, savings banks had over 17 million regular savings accounts averaging \$1,906 in size. In addition, they had some 2.5 million school accounts, 2.1 million vacation and Christmas club deposits, and a few other types of accounts. These three types together averaged only \$70 each, however, and made up scarcely 1% of total deposits.

To attract deposits, most mutual savings banks on June 30, 1958, were paying dividends ranging from 3 to 3¼%. A few had rates as low as 2%, and some paid as much as 4%.

The deposits of most mutual savings banks are covered by some type of deposit insurance. A majority of the banks belong to the Federal Deposit Insurance Corporation—a Government corporation that insures each account up to \$10,000. A substantial number in Massachusetts, Connecticut, and New Hampshire obtain instead similar—and in some respects more extensive—

deposit insurance through special state institutions.

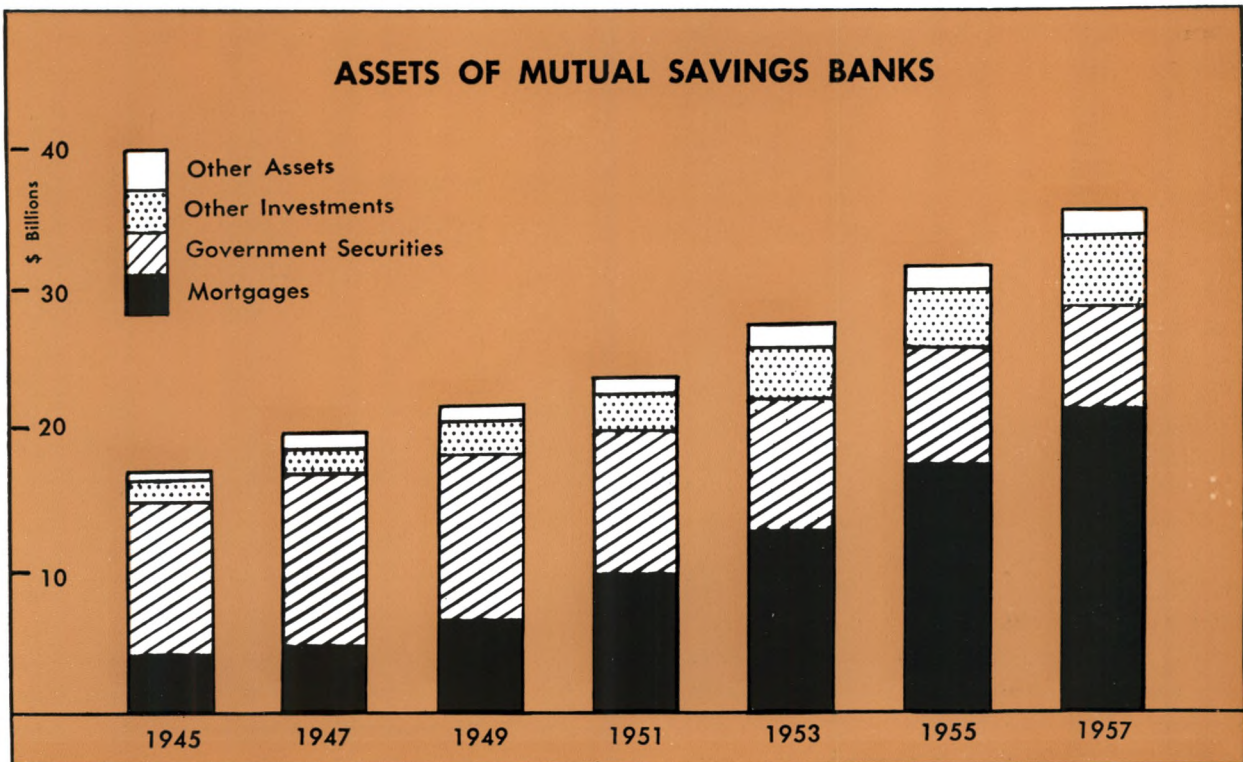
THEIR INVESTMENT ACTIVITIES Most states permit mutual savings banks to invest only in an approved list of securities prepared by the state legislature or the state agency supervising the banks. Ordinarily, this permits the purchase of securities such as U. S. Government obligations, certain municipal bonds, some Canadian bonds, obligations of the World Bank, good grade secured railroad and utility bonds, high quality industrial bonds, and "blue-chip" preferred and common stock.

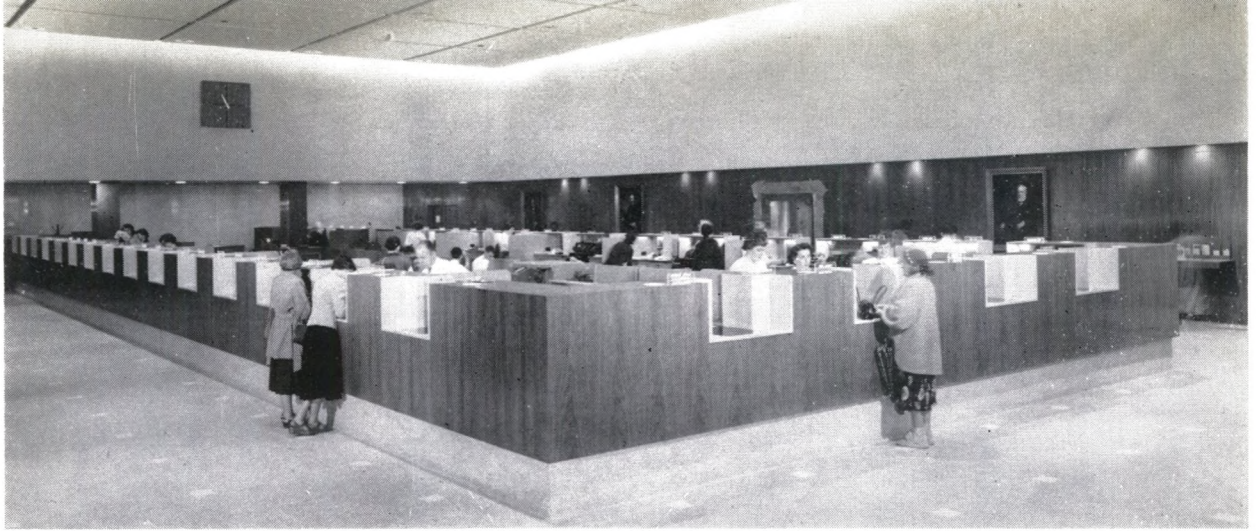
Savings banks are also restricted in their loan activities. Usually they are permitted to directly extend first mortgage loans on improved real estate, to purchase such paper from other lenders, to lend to depositors against their savings accounts, and to make several other types of loans.

Mutual savings banks are primarily mortgage lenders. Currently mortgages run around 60% of total assets, but the ratio varies from time to time according to rates, the availability of mortgages, and the attractiveness of other investments. Conventional loans are most important, but both VA and FHA loans are quite significant.

U. S. Government obligations account for about 20% of savings banks' assets. Most of these

Mutual savings banks are chiefly mortgage lenders, but they also invest actively in Government, municipal, and corporate securities.





This is the ultramodern lobby of The Savings Bank of Baltimore—the largest of the Fifth District's seven mutual savings banks.

mature after ten years, but Government securities totaling an estimated .9% of assets are less than a year from maturity. This .9%—together with 2.3% in cash and bank balances—gives mutual savings banks about 3.2% of assets in liquid funds with which to meet depositors' withdrawals. Longer term securities could, of course, be sold—although at times with large losses—to obtain cash if the need arose.

Other holdings include over 7% in corporate bonds, notes, and debentures; more than 2% in corporate stocks; and a shade less than 2% in municipal securities such as highway, school, and airport bonds. World Bank bonds, miscellaneous loans, building and equipment, and similar items make up the remaining assets.

THEIR EARNINGS Mutual savings banks are rather profitable financial institutions because of their heavy investments in mortgages and other high-yielding assets. In 1957 gross earnings of U. S. savings banks ran 3.74% of average total assets, and net earnings before taxes and dividends totaled 3.00% of assets. Taxes—most of which were state rather than Federal taxes—took income equal to just .04% of assets, leaving earnings amounting to 2.96% of average assets.

Savings banks—like savings and loan associations—have been subject to Federal income taxes only since 1952 when they were made subject to regular Federal corporate income tax rates. In computing their taxes, however, mutual savings banks can deduct all dividends to depositors and are allowed to transfer other income to bad debt reserves until surplus, bad debt reserves, and retained earnings total 12% of deposits. This naturally discourages banks from building these accounts beyond the 12% limit and encourages them to pay out most of their earnings in dividends.

THEIR SUPERVISION AND EXAMINATION Mutual savings banks are directly supervised and examined by the state banking departments or their equivalents in the states in which they are incorporated. The 239 savings banks that belong to the Federal Deposit Insurance Corporation, the 3 that have joined the Federal Reserve, and the 24 that are members of the Federal Home Loan System are also subject to further regulation from these organizations.

THEIR GROWTH Mutual savings banks have not been growing as fast as some other nonbank financial institutions in recent years, but they have by no means been standing still. Since the end of 1945, their assets and deposits have more than doubled and the number of their depositors is up by nearly a third. During the same period, the resources of the average savings bank have increased from \$31 million to \$72 million.

THEIR IMPORTANCE In terms of total assets, savings banks—though confined to scarcely one-third of the states—rank third in size behind life insurance companies and savings and loan associations among the nation's nonbank financial institutions. They are relatively most important in the home mortgage field, where last year they extended 6% of all nonfarm mortgages of less than \$20,000—about the same amount as life insurance companies made. Quite impressive, too, are their savings deposits, which come to 23% of total U. S. institutional savings accounts.

PHOTO CREDITS

Cover—The Black and Decker Manufacturing Company 8. Virginia Department of Agriculture 12. The Savings Bank of Baltimore.