This clothing business is partly financed with funds from The Business Development Corporation of North Carolina.
A New Look In Business Finance

The sweet potato, Mr. Webster says, is "a large, thick, sweet, and mealy tuberous root, which is cooked and eaten as a vegetable." To the people of Williamston, a small Eastern North Carolina town, it's much more than that. It's a source of 110 jobs and weekly payrolls of $8,000 several months of the year and a means to a more profitable use of nearby farm land.

Here's how it all came about. A few years ago Williamston—like so many other small towns—was scoring zero in its efforts to attract new industry. There were several small manufacturing plants, but jobs were scarce. Workers were leaving town, and tobacco acreages had just been cut drastically. Townspeople, farmers—everyone—agreed that new industry was needed and needed badly. The trouble was that no one knew exactly what to do.

Then the people decided to grab the bull by the horns and establish their own factory. The result was Martindale Foods, Incorporated—a successful Eastern Carolina owned sweet potato canner whose market area already covers most of Southeastern United States. And there's more to come. Already Martindale plans to double in size through the sale of new stock, the acquisition of another plant in adjoining Halifax County, and the addition of more vegetables to the company line. Almost everyone in the area has felt the beneficial effects of its operations.

A typical success story? To a large degree it is, but the establishment of the Martindale factory involved an interesting new angle—a loan from the privately owned Business Development Corporation of North Carolina. Conventional lenders were not equipped to provide the needed risk capital, so the project threatened to bog down from lack of funds before it got rolling. The Development Corporation was contacted; it examined Martindale's prospects carefully, liked them, and extended the credit necessary to launch the operations. Within a year, their faith in Martindale had been vindicated; the loan had been fully repaid with proceeds from a larger longer term loan from a conventional lender.

DEVELOPMENT CREDIT CORPORATIONS The Martindale story typifies the work of state-wide development credit corporations—the providing of risk capital to industrial firms that are unable to meet the standards for conventional long-term credit. State development corporations are entirely privately owned and financed, but they have the quasi-public responsibility of fostering state economic development and are actively encouraged by the chartering states. Almost all aid is extended in the form of direct loans to firms, but some states also permit direct stock purchases, acquisition of plants for sale or lease to prospective customers, and loans to other development groups.

State development credit corporations should not be confused with state development credit authorities, local development corporations, or small business investment companies established under the provisions of the Small Business Investment Act of 1958. State-wide development credit authorities—such as the Pennsylvania Industrial Development Authority—have much the same purpose but are state authorities financed largely by state funds. Local development corporations—though similar in many respects—engage in more diverse development activities and confine their operations to a small part of the state. The small business investment companies will provide funds only for small businesses, will not necessarily operate over an entire state or within a single state, and may obtain a large part of their funds from the Small Business Administration.

ORIGINS AND PRESENT STATUS State-wide development credit corporations are a New England innovation. Maine organized the first in 1949; New Hampshire authorized one a couple of years later; and Connecticut, Massachusetts, and Rhode Island followed suit in 1953. New York, Wisconsin, Vermont, and North Carolina have since formed corporations.

These nine are still the only active state-wide development credit corporations, but a number of other states are about ready to join the fold. Some have already chartered their corporations, others have passed enabling acts, and still more are devoting serious thought to the idea.
The Fifth District, following North Carolina’s lead, is taking quite an active part in the movement. South Carolina has already chartered a corporation and hopes to begin accepting loan applications by midyear. A bill to charter a West Virginia development corporation is now pending before the legislature, and Maryland is actively considering establishing a corporation. An enabling bill was introduced in the Maryland legislature a few years ago, but no action was taken.

**OWNERSHIP AND CONTROL**  
Stockholders of state-wide development corporations typically include not only individuals but also businesses and other organizations interested in state economic development. The average corporation has some 313 stockholders and $311,000 in outstanding common stock, but there are large variations among states. The Wisconsin corporation, for example, has around 110 stockholders and has issued only $25,000 worth of stock. North Carolina’s development corporation—the largest of the corporations in terms of outstanding capital stock—has 1,860 stockholders and has sold all its authorized capital stock, $1,000,000. The South Carolina corporation proposes to issue $250,000 worth of stock.
Development corporations borrow substantial additional funds from commercial banks, mutual savings banks, savings and loan associations, insurance companies, and other financial institutions known as "members." These lenders pledge to extend the corporations a certain amount of credit—often at a preferential rate—and frequently donate their services in credit investigations of loan applicants. Usually development corporations' borrowings are limited to 8-10 times their capital and a single member's participation to about 2% of its capital and surplus.

The North Carolina stipulations are fairly typical. The Development Corporation is granted the right to borrow up to 10 times its outstanding capital stock at an interest rate not less than 1% above the then prevailing prime rate on unsecured commercial loans. Limits on member participation are: commercial banks, 2% of own capital and surplus; building and loan associations, 1/2 of 1% of outstanding loans; fire insurance companies, .1% of assets; other stock insurance companies, 1% of capital and unassigned surplus; and other mutual insurance companies, 1% of unassigned surplus.

Control of state-wide development credit corporations rests in the hands of a board of directors elected by both members and stockholders. Day-to-day operations—like those of any corporation—are conducted by a slate of appointed officials. As a rule, member corporations elect around two-thirds of the board members, the percentage varying from state to state. Stockholders have one vote per share; members typically have one vote plus an additional vote for loan limits in excess of a specified figure.

The North Carolina corporation has 21 directors, two-thirds of whom are elected by member institutions. Stockholders are allowed one vote per share, and members have one vote for each $1,000 in their loan limits.

MEMBER PARTICIPATION The corporations have had reasonably good success in encouraging participation by member institutions—by far their largest source of funds. At the end of 1958, the nine active corporations had 684 institutional members—an average of 76 per state. Five hundred ten of these were commercial banks, 99 were savings banks, 30 were insurance companies, and 45 were miscellaneous financial institutions. In all they had pledged to lend upon request $35.2 million, of which the corporations had called $15.2 million. Outstanding stock at the time totaled $2.8 million.

The Business Development Credit Corporation of North Carolina now has 139 members with aggregate loan limits of $4,465,000. Of this total, $2,444,000 is pledged by 92 commercial banks, $1,003,000 by 12 life insurance companies, and $1,018,000 by 35 savings and loan associations. The Corporation has already called $1,232,000 of the $4,465,000.

THE CUSTOMERS Borrowers from state development credit corporations are firms that are unable to obtain conventional financing. They must be considered good moral risks and must show reasonable promise but are not compelled to have as much capital or collateral as most lenders require. Some are large; some are small; almost all are manufacturers. A few are entirely new firms, others are moving in from out of state or establishing a branch, and the rest are state firms attempting to expand or improve operations.

Typical of these are the following companies that have obtained credit at The Business Development Corporation of North Carolina: manufacturers of industrial machinery and equipment, ceramic tile, industrial and medical gases, special metals and alloys, paper products, textiles, wood products; owners of grain storage facilities; and processors of poultry, soybeans, vegetables, meat.
and seafood, and dehydrated alfalfa. Loans have varied in size from $2,000 to $400,000.

**TYPES OF LOANS** Customers of development credit corporations borrow for a variety of purposes. Around 69% of the loans of the North Carolina corporation have been for the construction of new or expanded plants, 17% have financed machinery and equipment, 12% have supplied working capital, and 2% have provided funds for refinancing existing indebtedness.

Loan terms vary considerably to meet the needs of the individual borrower. North Carolina loans have averaged $83,000, about typical of those in other states. Ordinarily, loans are secured by first and second mortgages on real estate, chattel mortgages, assignment of accounts receivable and life insurance, securities, and various other assets. Some, however, are not secured. Loans generally run for 5 years or more and are often repayable in monthly or quarterly instalments. Interest rates vary but usually are in the neighborhood of 6-7%, plus in some cases certain additional service costs the first year.

**OPERATING EXPERIENCE** Development credit corporations so far have had quite good loan experience, to a large degree because of their careful screening of loan applications. By December 31 last year, they had made 398 loans totaling $28.9 million and had incurred only 5 losses—a mere $94,015. Maine, New Hampshire, and Connecticut were the only states that had experienced any losses at all. None of the North Carolina loans even have delinquent instalments at the present time.

Aggregate loans outstanding at the end of last year were $19.1 million, several times the level a few years ago when only a small number of corporations were in operation. Massachusetts had the largest volume of loans—$7.0 million—quite a bit ahead of the second place New York's $5.9 million. North Carolina—with over $2 million—fell third in line.

Development corporations would undoubtedly be larger if they did not place economic development ahead of profits. They do not compete with other lenders, they make every effort to place loans with conventional financial institutions so as to conserve corporation funds, and they encourage borrowers to shift financing to other lenders once the operation becomes a suitable risk for such institutions.

Most development corporations—despite the low interest rates they charge—have been able to report profits in recent years as a result of efficient operations, low borrowing rates, free credit assistance from members, and in some cases state tax remission. The North Carolina corporation, for example, has been in the black every year since it began operations.

The corporations so far have added nearly all profits to loss reserves, and no corporation has yet paid a dividend. Because of the public service nature of their operations, many authorities doubt that dividends will ever be paid. Most stockholders expect none.

**THE FUTURE** The growth in the number of development credit corporations seems assured for some time. Most states have considered the idea, and several corporations will probably launch operations before long. It seems less likely that existing corporations will expand much because of the increasing difficulty in selling stock. Although all are quite small, some are now near their loan limits so that further growth will require the sale of additional stock, transferring “seasoned” loans to conventional lenders, increasing permissible member contributions, or going “public” by borrowing from the Small Business Administration.

Other major questions concerning their future include the effect of small business investment companies upon their operations, their abilities to withstand a protracted business decline should one develop, and the extent to which they encounter competition from Government lending agencies.
HOUSING STARTS The number of houses started began an expansion in April 1958 which reached a four-year high by year-end. Demand for new houses strengthened just as the recession reached bottom and provided a timely contribution to the gathering forces of recovery. Home construction thus reaffirmed its role as a counteracting force to economic decline, having cushioned recession and abetted recovery in 1948-50 and 1953-55.

Value of mortgages of $20,000 or less recorded per month from August 1957 through October 1958

Monthly value of new residential construction, August 1957—December 1958, in seasonally adjusted annual rates

Spending for residential building in three recessions is shown in monthly percentage changes, accumulated from the beginning of each recession.
Millions

1.4
1.3
1.2
1.1
1.0

Number of new houses started each month from August 1957 through December 1958, expressed as seasonally adjusted annual rate

MORTGAGE RECORDINGS

Investors found mortgages to be increasingly attractive outlets for their funds in late 1957 and early 1958 as interest rates on corporate and Government securities declined. Greater availability of mortgage credit proved vital in accelerating home-building activity in 1958, as it had in the two earlier postwar recessions.

RESIDENTIAL CONSTRUCTION EXPENDITURES

Spending for new residential construction put more money to work in the economy in 1958 than in any prior year except 1955. Expenditures on home construction began to expand last summer and contributed to recovery from the 1957-58 recession. In the two earlier periods they began to increase as recession progressed, thus providing an offset to declining activity.
The story of Fifth District cotton is a story of change—long-run growth and more recent decline. Last year's crop was the smallest since 1878. Yields per acre were at an all-time high, but the acreage from which the crop was produced was the smallest since the records began in 1866.

**AN EARLY CROP** Cotton was first grown in the Fifth District by the Jamestown colonists, and from their experimental plantings, cultivation of the crop gradually moved southward into the Carolinas. Despite this early beginning, cotton was grown primarily for home use throughout the colonial period and did not become a major crop until after the Revolutionary War.

Production then increased in response to rising demand. The English invention of power weaving and spinning machinery had created a growing demand for raw cotton from England's textile mills, and the American invention of the cotton gin, making possible faster separation of the seed from the lint, made it easier to supply this new demand with American cotton. Tobacco, principal District crop of the colonial period, had begun to decline because the soil had become exhausted from the constant planting of tobacco. Indigo and rice, other important colonial crops, had become increasingly unprofitable. The labor which had been used in growing these crops could be profitably used in producing cotton, and farmers eagerly seized the chance to produce the new crop.

As cotton production expanded, the cotton-growing area became a one-crop economy devoted almost exclusively to the production of cotton as a source of income. The expansion was temporarily interrupted by the War Between the States, which disrupted production, freed the slave labor force, and brought in its wake the breakdown of the plantation way of life. The needs of cotton production led to the development of the farm tenure system. The former slaves became sharecroppers providing the labor, the landowners furnished the land, and the merchants advanced the credit for supplies.

Production of the fiber increased under this new farming organization, and it became so important to the economy as to gain the title of "King Cotton" in the 1880's. It reigned supreme for several decades, and it was during the time cotton was king that production in the Fifth District hit an all-time high at 2.8 million bales. This was in 1911.

District acreage planted to cotton continued to expand, however, until 1918. That year the 4.3 million acres of cotton harvested represented slightly more than one-fifth of total cropland harvested. During cotton's monarchy, farmers in Virginia and the Carolinas produced one of every five bales of cotton grown in the nation. The number of cotton farmers hit a high of nearly 350,000 in 1924, when 44% of all farmers in the District were growing cotton. District farmers that year received nearly one-third of their income from the sale of cotton and cottonseed.

**COTTON PRODUCTION DECLINES** A succession of events has led to a steady downtrend in the District's production of cotton since the peak of 1911. The first was the boll weevil which invaded the southern tip of South Carolina in 1917 and gradually migrated northward to Virginia's cotton area by 1922. Heaviest boll weevil damage occurred in 1921 and 1922, when there was severe infestation in South Carolina. Per-acre yields in that state dropped nearly one-half in 1921 and another one-sixth the following year. These low yields, coupled with low cotton prices, forced many farmers into the production of food and feed crops and other alternative enterprises, with a sharp decline in cotton acreage. District production in 1922 was nearly 1.2 million bales below the 1920 crop.
In the Great Depression of the early 1930's market prices plummeted. Lower use of fertilizer caused per-acre yields to drop sharply. Cotton returns were so low that many farmers were again forced into the production of food and feed crops. By 1932 District cotton acreage was nearly 20% below the 1929 level.

Despite the events which had brought temporary cutbacks in both District and national production, a cotton surplus had developed prior to the beginning of the depression in 1929. This led by 1933 to the establishment of the first of many government programs designed to reduce acreage and control production.

These programs have taken a variety of forms. Farmers were paid in 1933 to plow up cotton that was already growing. A crop control law enacted in 1938 limited the acreage a farmer could plant in cotton. This legislation, which established a system of acreage allotments, marketing quotas, and penalties for noncompliance, was in effect from 1938 through 1943 and again in 1950. These same control measures were reimposed in 1954 and have been in operation each year since.

The Soil Bank program made still further attempts to reduce cotton acreage in 1956, 1957, and 1958 by paying farmers for each acre of their cotton allotment not planted. Even before the Soil Bank era, however, many District farmers under-planted their allotments each year. This resulted in further reductions in the acreage allotted to each District state in subsequent years.

**COSTS AND MARKETS** District farmers' average yields and returns from cotton are low compared with those of western growers. This factor has been important in the decrease in cotton production in this area.

Comparison of changes from 1947-49 to 1957 in yields, costs, and returns on cotton farms in the southern Piedmont and those on irrigated cotton farms in the High Plains of Texas indicate that cost advantages there may be increasing. Crop yields per acre have risen 13% on southern Piedmont farms since 1947-49, compared with a 31% rise on the irrigated farms in the Texas High Plains. Total cost per unit of production has jumped 15% here as against a 7% increase in the Texas area. An 11% gain in net income on southern Piedmont cotton farms about equals the 12% increase on the irrigated Texas farms, but the return per hour of work to the Piedmont farmer and his family is presently 33 cents compared with $3.07 to the Texas farm family.

Loss of markets to competitors has also been significant in the decline of home-grown cotton. Foreign growers are now producing around three-fourths of the world's cotton crop contrasted with 30% in the 1890's, and they are offering great quantities of cotton on world markets. As a result, this nation's share of the world cotton market has declined from about three-fifths of the total during the 1920's to little more than one-third in the 1950's.

American cotton also faces keen competition from paper and synthetic fibers, products which now are found in many uses for which cotton alone was once considered uniquely suitable. Cotton's biggest loss has been the industrial market, espe-
cially the market for tire cord and bags. It has also lost ground relatively in the home furnishings market. Because of its losses to man-made fibers, cotton’s share of the nation’s mill consumption of all fibers has fallen from around 85% in the 1920’s to two-thirds of the total today.

RESULTS OF THE DECLINE Since cotton was de-throned, its position in the District’s economy has changed considerably. Last year’s cotton crop was one-fifth that of the peak year’s production in 1911. Cotton acreage last year was one-seventh the highest ever harvested and represented just 4% of all cropland harvested. District farmers in 1958 produced only one of every twenty bales of cotton grown in the nation, and the small cotton crops of the past couple of years have contributed little more than 5 cents to each cash dollar of the District’s farm income stream. In 1954—year of the most recent count—cotton was grown by only one-fourth of all farmers in the District, and this proportion has likely fallen since then.

With the decline of cotton, the District has gradually revamped its economy. Permanent pastures and hay crops are now growing on many of the acres once planted to cotton. The production of beef and dairy cattle has followed this change to grassland farming. Small grains and corn are now being grown on other fields formerly devoted to the white fiber, and other types of livestock—hogs, broilers, laying flocks, and turkeys—have come with the growing of these grains. Pine trees stand tall on many acres once white with cotton.

Cotton’s decline has brought with it a decrease in the number of farmers. And it has helped bring about an even greater drop in the number of tenant farmers. Industrial plants in fields that once produced cotton now provide off-farm work for many part-time farmers and full-time employment to many who have left the farms.

COTTON FIGHTS BACK The demand for cotton remains large. Compared with the newer synthetics, cotton fabrics have many inherent advantages that make them still much desired by the consumer. They are said to be cooler, more absorbent, and to take dye better than competing fabrics.

In addition, textile research has developed new processing methods which overcome some of cotton’s inherent disadvantages. With these new finishes have come wrinkle-shed cottons and wash-and-wear cottons that require little or no ironing and have many stay-clean features. Still another development has brought the combining of cotton with the newer man-made fibers to produce the blended fabrics that have the advantages of both types of fibers.

As cotton looks to the future, it can take hope from the fact that during the past ten years cotton’s proportionate use in the apparel market has increased, thus regaining some of the ground it had lost to the man-made fibers. This is especially true in the manufacture of women’s and misses’ wearing apparel.
Recent reports make it clear that the Fifth District economy has continued to expand its operations. Seasonally adjusted nonfarm employment reversed its December decline in January to show increases in virtually all major categories; the total was up 0.6%—a sizable month-to-month gain. Manufacturing man-hours, compounded of employment and hours worked in the midmonth week, rang up similarly broad and even larger increases, particularly in the industries producing durable goods.

The indications of these comprehensive measures were confirmed by detailed information on individual lines of endeavor. Textiles have passed through a state of some market confusion arising from wage increases and expectations of lower priced cotton; demand pressures have apparently resolved the issue, and recently orders have been written as far ahead as for the fourth quarter's output. The furniture industry reports January and February as months of excellent sales, and cigarette manufacturers produced at a seasonally adjusted record high in December, which was probably exceeded in January.

**BITUMINOUS COAL**  The chief exception to the general upward movement was the coal industry. Through the first half of February, mine production continued at a rate above the recession lows of a year ago but still considerably below the highs of recent years. Current rates of steel production and of other industrial activity are expected to produce an improved demand for the fuel, but it has not yet been reflected in coal output.

Competition from residual fuel oils has led to recent price cuts on coal for eastern utilities. Other coal prices show stability or upward movement, some having been marked up in January and others—particularly coal for metallurgical uses—reported as having increases in sight.

An interesting development was the recent proposal by eastern railways to give a New York City utility a preferential hauling rate on coal in excess of 3,000,000 tons per year if total purchases amounted to at least 5,500,000 tons. The company's coal burning plants call for 3,000,000 tons per year, it is understood, and the additional 2,500,000 tons represent the fuel demand for which coal competes with fuel oil. The 50 cents per ton reduction in freight on this tonnage would improve coal's competitive position—and, it is hoped, keep the hauling business for the railroads.

**RAILROAD EARNINGS**  The principal coal-hauling railroads of the District (Chesapeake and Ohio, Norfolk and Western, and Virginian) showed 1958 operating revenues off about one-fifth from the year before. This was due primarily to a decline of one-third in foreign coal shipments through District ports during the year.

The Atlantic Coast Line and Seaboard Air Line, still looking to a possible merger, showed decreases in operating revenues of 8% and 6% respectively. The Southern had a better year, relatively speaking, than other major District roads with operating revenues off just 4%.

**TEXTILES**  Early last month mills throughout the textile industry announced wage increases. The initial reaction in cotton textile markets was one of considerable confusion as buyers and sellers
alike hesitated to do business in the face of much price uncertainty.

Since then, however, much of the confusion and apparently all of the hesitation have been removed. The first development was mill declarations of intentions of passing along at least part of the increase in wage costs by raising prices on a wide variety of fabrics. These increases held firm as demand remained strong for immediate and nearby deliveries. The next development was an increasing volume of orders for delivery in the second quarter. Still, some buyers continued to bet that prices would weaken under natural market forces—the second quarter is normally a slow season in cotton textile mill sales—or under the impact of increased output if mills went from the five-day workweek to a six-day week.

Confidence in lower prices, however, appears to have waned, as the latest development is the receipt of orders for third and fourth quarter deliveries. Volume so far has not been heavy, but interest and inquiries are accumulating. This is a significant development since it is a sharp break with the policy and practice, long adhered to, of buyers’ restricting their orders to cover only immediate and nearby needs.

As orders have mounted for second quarter shipment and as buyers have reached out to the second half of the year, supply for nearby delivery has become tight for a number of fabrics. This, in turn, has strengthened indications of further higher prices, particularly for a number of print cloths. The price increases that have been made on a wide range of cotton gray goods have spread also to finished fabrics, to cotton yarns, and to synthetic cloth.

Knitting mills continue very busy with every indication that this condition will hold through the first half. Producers of women’s seamless hosiery report fairly heavy order backlogs. The demand for full-fashioned hosiery, following a strengthening in January, has settled down at a lower but still relatively satisfactory level.

FARM INCOME Bumper crop yields, continued high livestock production, and improved prices combined to bring about an 8% gain in District farmers’ cash returns from marketings during 1958. Equal percentage increases in receipts from livestock and crop marketings joined forces to record the $156 million upturn. And for the second straight year, farmers received 44 cents of each cash dollar from the sale of livestock products.

Cash receipts from farm marketings rose in all District states, but the biggest gain—14%—occurred in North Carolina, hardest hit by the decline in 1957. The Tar Heel state’s increase, in fact, accounted for more than three-fourths of the total increase realized in the District. A 32% jump in broiler income and improvement in income from tobacco—chief of the state’s cash crops—were important factors in the upturn.

CONSTRUCTION January construction contract awards in the District reversed the 5-month decline that had closed out 1958 and showed a two-thirds gain over December after seasonal adjustment. Most of the improvement came in public works and utilities which rose to an all-time high. Nonresidential building awards also rose substantially over the December level, while residential awards declined 7%.

DEPARTMENT STORE SALES Early reports of February department store sales indicate that it was another month of high-level activity. If preliminary figures are confirmed, the three months, December, January, and February, will show a record seasonally adjusted level of sales for three consecutive months. In fact, their average will be higher than any single month previous to this period except for the peak total of August 1958.

BANKING Business loan demand perked up markedly in February after a slow January start. There were a few soft spots as always, but increases for important types of business loans in the first three weeks of February contrasted with declines during the like weeks of most recent years.

Other types of loans showed mixed trends. Real estate loans lost at least temporarily their claim to being the boomiest part of the loan picture, as outstanding stayed fairly sharply the first three weeks of February. Consumer loans also slipped downward, but the drop was much less than ordinarily occurs this time of the year. Other kinds of loans—loans to banks and agricultural and security loans—showed less than their normal February vigor.