MONTHLY REVIEW

Increased community pride is an important part of rural development programs.

FEDERAL RESERVE BANK OF RICHMOND JULY 1959

Rural Development

Town and country folk living in North Carolina's "land of the sky" around Asheville serve as shining examples of what can be accomplished when people in low-income rural communities work together to improve their level of living.

Community after community in this 18-county area has had its face lifted. Homes have been painted, kitchens remodeled, bathrooms installed, and other home improvements added. Churches have been remodeled and painted; neglected cemeteries cleaned off and landscaped. Attractive welcoming signs have been erected at the entrance to many communities; mailboxes painted and improved. Over 40 community centers have been built, and many youth programs launched.

NEW SOURCES OF INCOME And that's not all! New sources of income—both on and off the farm—have been developed. Specialty crops are being produced, and a more intensive type of agriculture is being practiced. Farmers' cash receipts from marketings have doubled—jumping from $38 million in 1950 to $76 million last year. Gross farm income climbed 70% during this same period.

The biggest farm income gain has come from poultry, primarily from the production of broilers and hatching eggs. Totaling $28 million in 1958, poultry receipts are now more than six times the 1950 level. Broiler production last year reached an estimated 16 million birds compared with 1.4 million in 1950. Breeder hens in hatching egg flocks now total over 1 million birds, and sales of hatching eggs—once only a pin-money business—exceeded $13 million last year.

Production of Grade A milk has also shown tremendous gains, and the section has grown from a milk importing to a milk exporting area. Sales of milk by dairy farmers are now two and one-half times what they were in 1950 and bring in about $10 million annually.

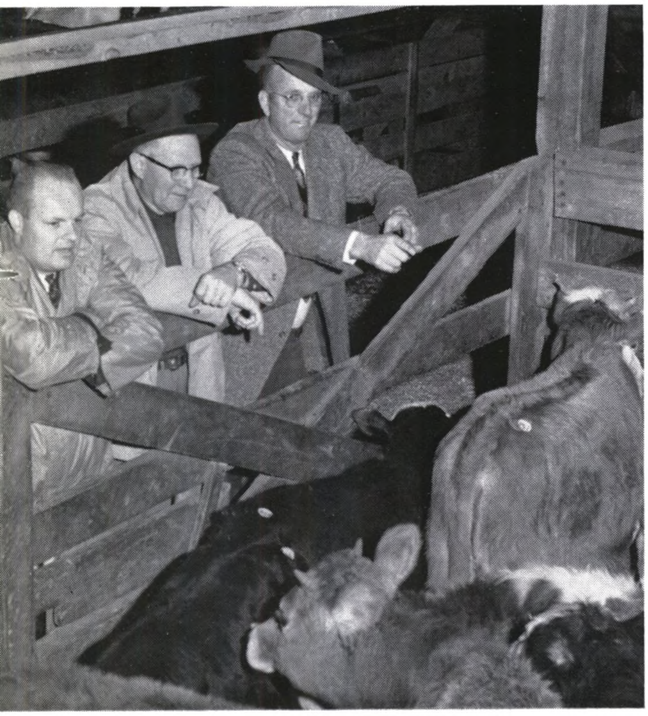
Marketings of cattle and other livestock have more than doubled in recent years. Asheville has become the largest cattle marketing center in the Carolinas, with nearly 100,000 head of cattle moving through the markets annually. Livestock sales returned more than $11 million to the area's farmers last year—nearly 60% above 1950's sales.

The business community has shared in the economic progress. The happenings on the farms have speeded up industrial growth. The number of livestock auction markets in Asheville has grown from one to three. Chick hatcheries now number four, contrasted with only one in 1950. Four new feed mills have been built. A $2 million dairy plant was erected two years ago, and a multi-

Above: Many farm families in low-income areas have turned to the poultry and egg business for a new source of income.

Left: Agricultural agents provide the guidance and technical know-how needed to promote better farming practices.

Below: Cattle numbers and cattle markets have both increased under western North Carolina's area development program.



million dollar baby foods plant is being built in Buncombe County. This latter plant, which will employ 700 people when it reaches capacity, will buy most of its fruits and vegetables in this area.

TOWN-AND-COUNTRY TEAM These accomplishments haven't just happened. They are the result of determined effort on the part of farm, business, and industry leaders to recognize some of their problems and opportunities and do something about them. Strong programs to promote industrial development and tourist trade had brought good results. "What about the agricultural sector?" they asked. Over half the population lived in rural areas. Farms were small, with much of the acreage in woodland. Cropland harvested per farm averaged about 10 acres. Incomes were low.

To get to the roots of the situation, these leaders—spearheaded by the Asheville Chamber of Commerce—hired one of the country's top farm-management firms to study the entire 18-county area and to outline a program of action. Formation of the Agricultural Development Council followed. This was in 1949.

Under the Council's sponsorship, the Western North Carolina Rural Community Development Program was inaugurated. Businessmen teamed up with the rural people and agricultural agencies

Right: Rural area development has encouraged the building of craft shops to provide market outlets for handicrafts.

Opposite page: Volunteer labor—spurred on by organized community development efforts—is building this 30-bed hospital.

to form a "partnership for progress," as they called it. These business and civic leaders have given many thousands of dollars and hours of time to help promote the program. Agricultural agencies have provided guidance and technical know-how. Desires of the people for better homes and communities and a higher standard of living have been whetted. Today, a decade later, 120 organized rural communities are participating in the program. In 1950 only three took part.

A NATIONAL PROGRAM Pioneers in this approach to the promotion of balanced farm, industry, and community development, the people of western North Carolina have helped point the way to the national Rural Development Program now operating in more than 100 pilot or "demonstration" counties in 30 states. Sixteen of these counties are located in the five-state Fifth District.

Launched in 1955, the program's objective is to improve living standards in underdeveloped rural areas through balanced economic development. It is based on the theory that rural people can do things to help themselves if they are provided with leadership and financial resources. Aim of this program is threefold: (1) to help those who have the ability and desire to farm to obtain the tools, land, and skills needed to farm successfully; (2) to broaden the range of off-farm job opportunities; and (3) to provide rural people with facilities for better job training and better health.

Operation of this coordinated plan is under the direction of national, state, and local committees. Work of the state and local committees is undergirded by the national committee, composed of representatives of the U. S. Departments of Agriculture, Commerce, Labor, Interior, and Health, Education, and Welfare, the Small Business Administration, and the President's Council of Economic Advisors. Representatives of these agencies at the state level, plus other agencies in agriculture, education, industrial development, and so on, make up most state committees.

Workhorses of the program, however—and the keys to its success—are the local county committees. These local committees—the farm, business, banking, school, church, and civic leadership of the counties—manage the program at the grass roots level. Though provided with broad guidance and technical know-how by the participating federal and state agencies, it is the local people who must provide enthusiasm and stimulate interest, decide on what courses of action to take, and determine the priority of the tasks to be undertaken.

PILOT COUNTIES AT WORK Plans and projects being carried out in this District's demonstration counties cover a wide range of activities. Agricultural and marketing developments, for instance, have taken varied forms. Production of fruits, vegetables, poultry, eggs, and other products, heretofore of little commercial importance, has been greatly expanded. Soil testing campaigns have been successfully conducted, and farmers are fertilizing their crops on the basis of these soil tests. Use of improved varieties and better quality seed is also being stressed. These are but a few of the farm practices that are being changed.

Go, if you will, to Watauga County, North Carolina, and there you will find that broiler production jumped from 1 to 2 million birds in one year. Or travel to Chesterfield County, South Carolina. There can be found a new poultry and egg business. The number of layers grew from 8,000 to 100,000 in an 18-month period. The newly organized poultry producers' association provides a market outlet for the eggs, and the new enterprise has developed into a million dollar business.

People of Bertie County, North Carolina, led by their rural development committee, raised $40,000 to build a new produce market. To keep the market supplied, farmers planted sizable acreages of sweet potatoes and watermelons—new commercial crops in that county.

Two separate "farm and home markets" have been established by the farm women of Garrett

County, Maryland. Here they sell handicrafts, preserves, and farm produce to summer visitors and tourists. These market outlets provide some farm families with as high as $40 a week in increased income during the late summer.

Obtaining new industries to increase off-farm employment opportunities and bring additional income also has a big place in the development program of several counties. Resource and manpower studies in Berkeley County, South Carolina, for instance, helped program and business leaders establish several small industries which brought 200 new jobs to the county.

In Virginia's Cumberland County the local committee, with the assistance of the extension service, other agencies, and a local power company, has worked out a long-range plan for industrial development. They have surveyed industrial sites and assembled data on natural resources, manpower skills, agricultural potential, and so on. Printing and publication of this economic survey was financed by the power company, and it is being used to publicize the county's resources.

Much emphasis is also put on community development. Community centers have been established, community development clubs organized, and home improvement contests conducted.

Educational improvement is another community project frequently tackled by local committees. Take Cumberland County, Virginia, as an illustration. After making an appraisal of the county's school needs, the development group recommended that several of the county's one- and two-room rural schools be consolidated. Members of the committee, in cooperation with teachers and school officials, also reviewed the high school curriculum, with the aim of improving the training and college preparation of the county's young people.

These pilot counties taking part in the national Rural Development Program are serving as laboratories for organizing and promoting balanced economic development at the grass roots level. They are pointing up some of the problems involved and some of the challenges that must be met. But perhaps more important, they are showing that rural development pays.

NEED FOR ACTION The need for rural area development programs is great. More than 70% of the District's farm families earn less than $2,500 a year in gross income from farming. These families produce only about 20% of the farm products marketed in this five-state area. For the country as a whole, some 56% of the farmers produce less than 10% of the marketed farm products. These farmers have small farms and are chronically underemployed. They sometimes resist change. They make very little money. As a consequence, they spend very little to help their farms produce, to fix up their houses, or to provide for better health and education.

Neighbors of these low-income farmers—the rural nonfarm families in the surrounding communities and towns—all too often have low incomes, low levels of living, and are underemployed, too. This, of course, is due to the fact that they depend partly on farmers' spendings for their earnings. Their future well-being is also dependent upon the balanced growth sought by the rural development programs.

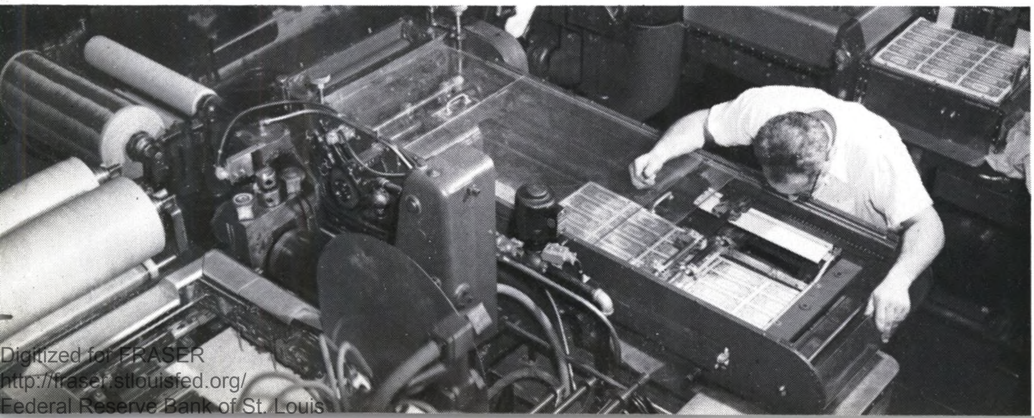
Where Does Your Money Come From?

An important reason for establishing the Federal Reserve System was to provide a flexible currency that would respond readily to the public's changing needs. Today currency flows so smoothly into and out of circulation that it is hard to realize currency shortages were once a serious national problem.

Virtually all currency and coin gets into the hands of business firms and individuals through commercial banks. Banks cash checks to convert their customers' deposits into pocket money. You may cash a check at your neighborhood drugstore, of course, but what you are really doing is asking the druggist to go to the bank for you.

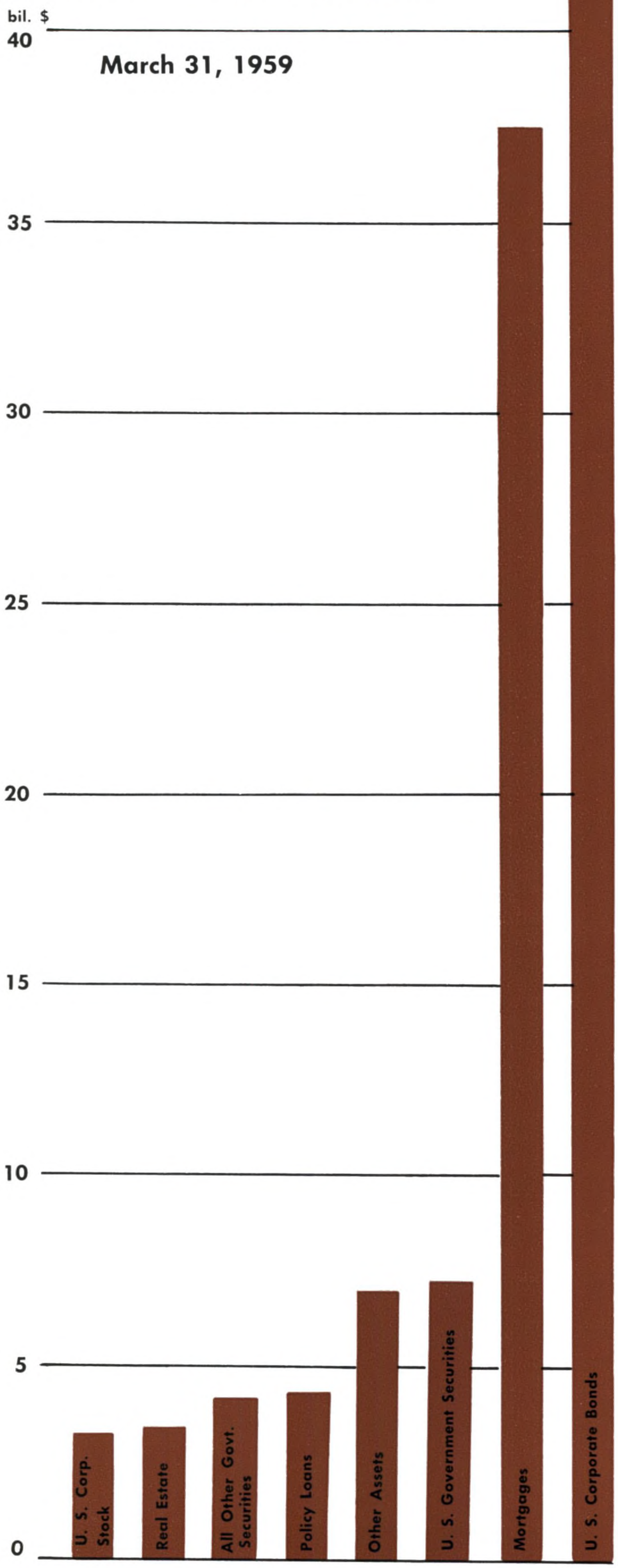
Where do the banks get cash? As the cash in their vaults is reduced in meeting their customers' demands, member banks of the Federal Reserve System "cash a check" at the Federal Reserve Bank. Nonmembers obtain their cash primarily through member banks, cashing checks on their accounts much as other depositors do. Cash is delivered to the banks by armored car, registered mail, or express.

Through the shipping cage of the Federal Reserve Bank flow several kinds of money: coin, silver certificates, U. S. notes, and—most important in dollar totals—Federal Reserve notes. The Reserve Bank gets Federal Reserve notes from an agent of the Federal Reserve Board after the pledge of specific items of collateral as required by law. The notes become the Reserve Bank's liabilities when issued.

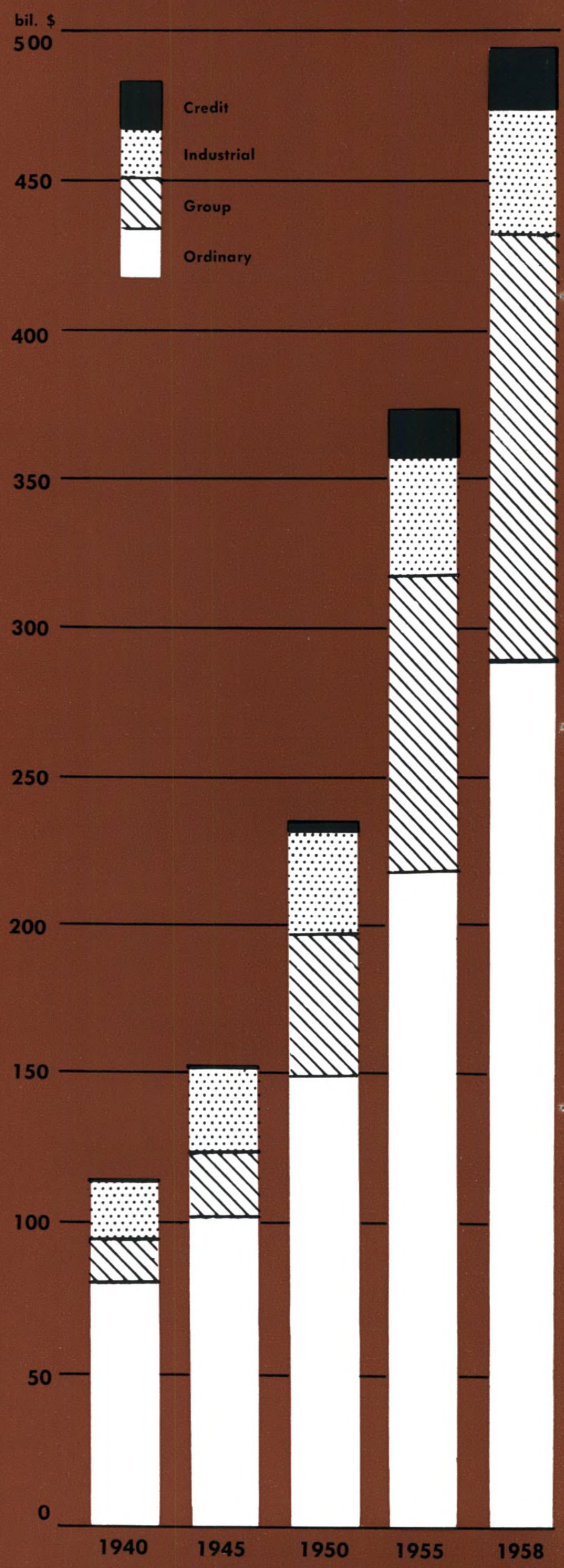


All paper money is the product of the Federal Government's Bureau of Engraving and Printing. New Treasury currency is delivered to the Reserve Banks by the Treasurer of the United States. Coins are requisitioned by the Reserve Banks from the Bureau of the Mint. Both are paid for by credit to the Treasury's account at the Reserve Banks.

Assets of U. S. Life Insurance Companies



Life Insurance in Force in the United States *



* With legal reserve companies.

200 Years of Life Insurance

". . . in this world nothing is certain but death and taxes." So wrote Benjamin Franklin 170 years ago, and few people have had cause to quarrel with his observation. Life insurance companies are prepared to go even further and argue that the time as well as the certainty of death is predictable.

A NEW TWIST TO AN OLD ADAGE Here's how their version of Mr. Franklin's principle works. They know, of course, that they can't pinpoint the date any particular policyholder will die, but they have found that they can estimate quite accurately from mortality tables how many policyholders of each age will die every year. Consequently, they know in advance about how large their total benefit payments will be. The time of death—a major uncertainty for an individual—thus becomes a certainty for an insurance company.

All a company has to do is set premiums at levels that enable it to cover these predictable risks. Policyholders who die prematurely get their insurance at a bargain. Those who live a long time pay part of the insurance costs of those who are not so lucky. The group as a whole about "breaks even" if the mortality assumptions are correct.

In the process of providing death benefits, life insurance companies accumulate vast amounts of "policy reserves" by charging premiums that exceed the cost of benefit payments during a policy's early years. These reserves—which are not needed until the benefits fall due—are invested, and the income is used mainly to reduce the net amount of premiums a policyholder must pay. Such earnings represent "interest" on the policyholder's savings—the amount of reserves back of his policy.

Each class of policy involves different degrees of saving for the policyholder. Endowment insurance—the kind that matures at death or at the end of a specified period if the policyholder still lives—is mostly savings since provision must be made for pre-death benefit payments. Twenty or thirty year limited pay life also has a high percentage of savings since premiums can be collected for only a few years. Straight life represents still less, and so on down the line to term insurance—the kind that lapses at the end of a designated period. Even term insurance is partly savings, however, since its equal or "level" premiums more than cover policy benefits during early years.

A REAL SUCCESS STORY Only 200 years have elapsed since the nation's first life insurance company, "The Corporation for Relief of Poor and Distressed Presbyterian Ministers and of the Poor and Distressed Widows and Children of Presbyterian Ministers," opened its doors for business. The number of companies has since skyrocketed to over 1,300, assets have climbed to $109 billion, and investments have topped $104 billion. Measured by total assets, life insurance companies are now half as large as all commercial banks, twice as large as all savings and loan associations, and three times as big as all mutual savings banks. Sixteen life companies have resources exceeding $1 billion, and eight of these have more than $3 billion. The largest—the Metropolitan—has $16 billion and holds down the runner-up spot among the nation's largest corporations. The Prudential's $15 billion makes it the country's third largest business.

As indicated in the accompanying chart, Americans at the end of last year had nearly half a trillion dollars' worth of life insurance with legal reserve companies—the ordinary type of insurance company. Insurance with fraternal societies, the U. S. Government, mutual savings banks, mutual aid groups, burial funds, and the like, totaled another $55 billion.

WHERE DOES THE $109 BILLION COME FROM? Such success naturally raises this question: Where do insurance companies get such tremendous sums of money to invest? The answer is quite simple. Practically all comes from one source—policyholders' savings in the form of policy reserves. At the end of 1958, such reserves totaled nearly $90 billion—82% of all company liabilities. Net worth—typically unimportant for life insurance companies as for most other savings institutions—was just 8% of liabilities. Companies also obtain limited funds from such sources as bank loans, dividends accumulating at interest, and amounts set aside for policy dividends.

WHO BORROWS FROM LIFE COMPANIES? Because benefit claims are fixed in dollars, safety of principle must be the companies' prime investment objective. Certainty and stability of income come next since a fixed return is assumed in computing premiums. Within these limits, companies aim for maximum investment income compatible with sufficient liquidity to meet maturing claims.

These sorts of objectives dictate that companies lean heavily upon fixed income obligations. Their favorites are U. S. corporate bonds and mortgages, as indicated in the accompanying chart. Together these total nearly 73% of assets—much, much more than their 7% in Government bonds. Investments also include municipal bonds, foreign stocks and bonds, real estate, corporate stocks, and similar investments, but none of these runs as much as 4% of assets.

HIGHER EARNINGS HELP POLICYHOLDERS Last year U. S. life companies netted 3.85% on their invested funds before Federal income taxes—the highest rate earned since World War II. Earnings have now risen for eleven straight years as a result of the general uptrend in interest rates and heavier emphasis on higher yielding investments.

No matter how you figure it, high income spells good news for the companies' 112 million policyholders. The more earned on company investments, the less a customer must pay for death protection. He gains either through a lower initial premium or through a premium kickback in the form of larger policy dividends. It's that simple.

COMPANIES, POLICIES, AND POLICYHOLDERS Life insurance companies come in all sizes but in only two basic types. About 38% of the $494 billion of life insurance in force is with stock companies—ordinary business corporations owned and controlled by regular stockholders. The rest has been sold by mutual companies—corporations in which ownership and control is vested in the policyholders themselves. Most of the largest companies are mutuals, but stock companies at mid-'58 outnumbered mutuals 1,158 to 156.

Policies are either "participating" or "nonparticipating." Participating policies—the kind usually associated with mutuals—frequently carry higher initial premiums but return part of the premium as policy dividends based upon actual mortality and investment experience. Stock companies almost always write nonparticipating insurance—policies that fix the premium in advance and pay no policy dividends. A few companies sell both types. In some cases, nonparticipating insurance turns out to be cheaper; in others, a participating policy is a better buy for the same coverage. No one can tell at the time of purchase.

Policies come in all shapes and sizes. Basically, there are four types: ordinary, industrial, group, and credit. Ordinary—the kind most people have—is the typical $1,000, $5,000, or $10,000 term, straight life, limited pay life, or endowment policy with monthly, quarterly, semiannual, or annual premiums. Industrial insurance comes in small denominations with weekly or monthly premiums usually collected at the insured's home by an agent. Group insurance covers a number of people—usually employees, union members, or similar groups—under a single policy issued without medical examination. Credit life insurance is individual or group term insurance sold borrowers to cover loan payments in event of death.

John Q. Public is very much life insurance-minded. At last report, he was sinking nearly 4% of his after-tax income into premiums—the highest percentage since 1941. Over 70% of the population was insured at the close of 1958, and it is estimated that six out of every seven families had one or more members owning insurance. Average policy sizes ran: industrial, $380; credit, $610; ordinary, $3,220; and group, $3,740.

SOME ASPECTS OF REGULATION Life insurance companies are regulated from head to toe. The Supreme Court has defined the sale of insurance over state lines as interstate commerce, but so far most regulation has been by the states.

Regulation covers the licensing of companies and agents, incorporation, business practices, methods and assumptions used in calculating reserves, permissible investments, and many other phases of insurance operations. Life insurance companies must file detailed reports of operations, and their records are periodically examined by representatives of the insurance supervisors of the states in which they sell insurance.

SOME JOHNNY-COME-LATELY DEVELOPMENTS Congress has just hiked companies' Federal income taxes by about 60%. The regular 52% corporate tax rate still applies, but a higher percentage of companies' investment income and about half of their previously exempt underwriting profits are now subject to tax.

A recent New Jersey law permitting the sale of variable annuities also has the industry in a stir. Variable annuities—touted as a form of inflation hedge—offer a holder payments fluctuating with the value of stock investments back of his policy instead of the fixed dollar payments of an ordinary annuity. A few small companies are already legally selling such policies in scattered states but without specific legislative sanction. One fairly sizable organization—The College Retirement Equity Fund—has been selling variable annuities to college and university employees for several years.

The Fifth District

The first half of 1959 closed with the economy of the Fifth District producing goods and services and earning an income at rates increasingly indicative of boom conditions. Not all the ground lost in District manufacturing employment during the 1957-58 recession has yet been regained, however, and relatively large pockets of unemployment are still found in some areas. These are located principally in West Virginia but exist also at scattered points of other District states.

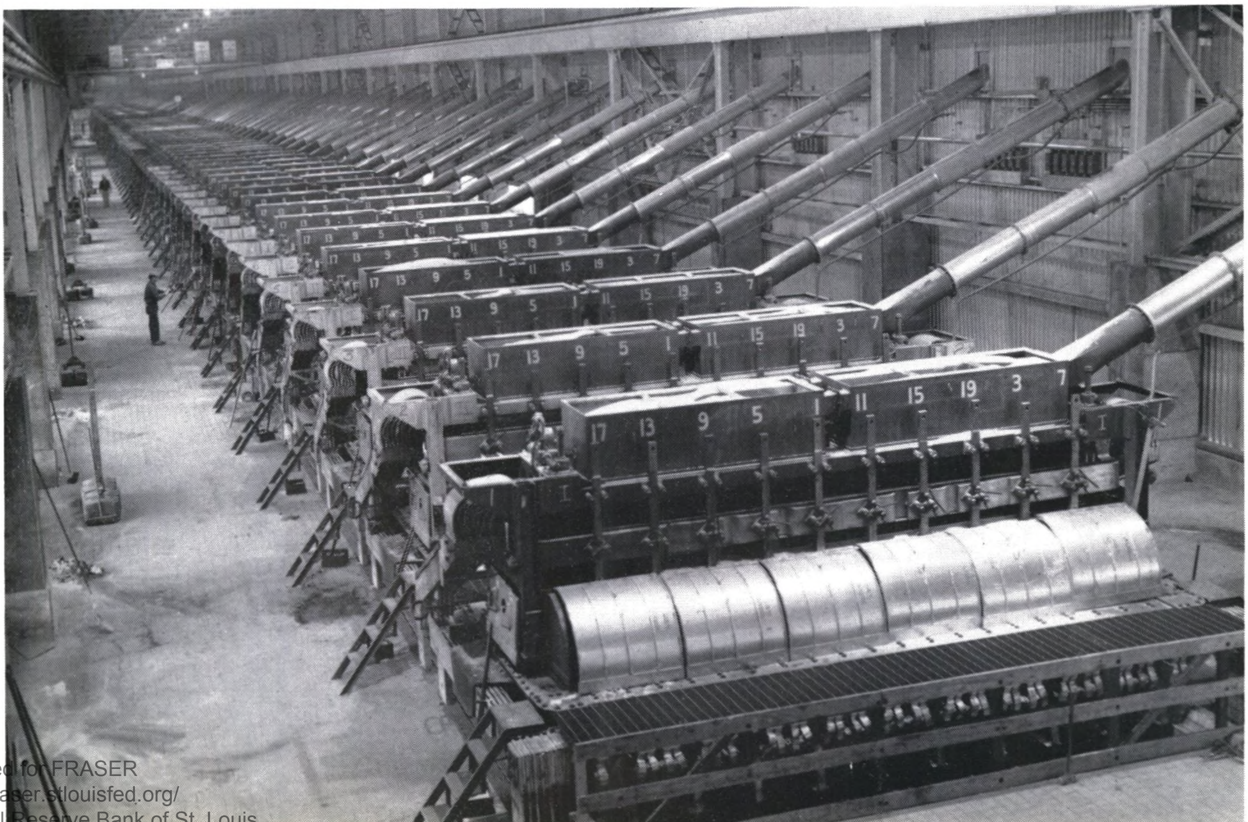
RISING EMPLOYMENT Increased job openings occurred almost across the board in the District in May. Manufacturing, trade, public utilities, financial businesses, and service organizations all reported increased employment. The only declines from the preceding month were in government and mining. The gain was prevalent Districtwise; only West Virginia deviating with a slight decline. Manufacturing payrolls were boosted also by longer work-weeks in some lines. Total man-hours in District manufacturing plants rose a little less than 1%. Again, increases occurred in all states of the District except West Virginia, where a drop in man-hours in chemical plants and in stone, clay and glass factories were principal causes of a slight decline in the state total.

ALUMINUM Continued rising demand for aluminum has enabled producers to achieve a series of production records so far this year. Two major producers have primary aluminum facilities in the District—Aluminum Company of America at Badin, N. C., and Kaiser Aluminum and Chemical Corporation at Ravenswood, W. Va. Kaiser is presently operating at 100 per cent of the 145,000-ton annual installed capacity at its Ravenswood plant. It expanded this plant's reduction capacity on May 1 and again on June 1. Employment in the reduction plant now totals about 860 workers.

Alcoa's Badin facility is currently operating at approximately 60 per cent of an annual rated capacity of 47,150 tons. Work has been started on the new hydroelectric development at Tuckertown to increase the power supply for the Badin plant. Remodeling of the reduction plant has been partially completed, but metal from the first modernized potline—smelting unit—is not expected until fall of 1961. There are 620 persons employed at the Badin plant.

TEXTILE STRENGTH One of the most significant indicators of continuing industrial expansion in the District is the large backlog of unfilled orders held by textile mills. With production heavily sold ahead and with factory inventories at very

District aluminum output has increased in recent months as additional potlines—aluminum-making units—were brought into operation.



low levels, the District's vitally important textile industry is in the strongest position experienced in a number of years.

Among significant developments last month were announcements that mills were planning shorter vacations than last year as a consequence of the large volume of forward ordering by mill customers. South Carolina mills were limiting vacation closings to one week. For North Carolina mills the vacation period would likely not be extended beyond 10 days and possibly not beyond a week in many cases.

Although the volume of new orders received for cotton cloth made for industrial uses declined seasonally last month, production was fully maintained by the substantial backlogs of orders for third quarter shipment. This is significant since a major factor in textile industry prospects will be the maintenance of industrial markets for cotton fabrics at the levels reached during recent months.

Mills weaving fabrics from man-made fibers are also heavily sold ahead. In fact, orders in hand for some types of cloth are sufficient to absorb output for the rest of this year. Forward ordering of popular Dacron-cotton blends has extended shipment schedules as far ahead as the first quarter of 1960. As in the case of cotton gray goods, recent price increases for rayon yarn and for fabrics made of synthetic yarns have been fully accepted and maintained in the market.

VOTE OF CONFIDENCE A seasonal upturn for many lines of knitted goods gets under way this month. With the main exception of full-fashioned hosiery, District knitting mills have substantial backlogs of unfilled orders for delivery through the current quarter and have taken some orders for fourth quarter shipment.

The strong recovery of the textile industry since last fall is finding its influence and reflection in plans for capital outlays for new plant and equipment. This is clearly shown in the recently released national survey of appropriations for new plant and equipment conducted by the *National Industrial Conference Board* under the sponsorship of *Newsweek*. Whereas all manufacturing companies boosted capital appropriations in the first quarter 37% above the same period last year, appropriations approved by boards of directors of textile companies rose an impressive 64%.

GOOD SHOW The latest data covering District furniture makers show a substantial rise in new orders received in May. With shipments easing slightly, backlogs of unfilled orders rose to very much better proportions than in May of last year. If trade reports and comments about the summer furniture market held last month in Chicago are reliable indicators, the improvement in new orders in May should be continued in June. Heavy buying in most categories of furniture was reported, and exhibitors in general felt that this was one of the most active markets in recent years.

BITUMINOUS COAL District coal production in the week ended June 13 again set a new 1959 record. In the four weeks ended June 13 output was 5% above the previous four-week period and 7% higher than the same weeks last year. Overseas shipments of coal through District ports during this period were up slightly from the preceding four weeks but remained one-third under a year ago. Recent reports show that coal stocks in Western Europe at the end of May were the largest ever with France and Germany showing the greatest gains.

The National Coal Association now estimates that the nation's coal production in 1959 will be 433 million tons, 7% above 1958 but well below the 493 million tons mined in 1957 and the 501 million tons in 1956. This means that with or without a steel strike, output in the last half of 1959 should exceed that of January-June.

BANKING District banks continue to experience a heavy loan demand resulting from the step-up in business activity. Total loans of weekly reporting banks—already up sharply in May—accelerated still more the first three weeks of June. Loans have now climbed 7% since December 31—an even larger jump than had been chalked up by this time during the boom year of 1955.

The three most important loan categories—business, consumer, and real estate—are still turning in better than seasonal performances. Consumer loans—the boomiest of them all—are rising even more rapidly than during 1955. Real estate and business loans continue upward at about the 1955 pace.

PHOTO CREDITS

Cover—Asheville Citizen-Times and Asheville Agricultural Development Council 2. North Carolina Department of Public Instruction 3. South Carolina Agricultural Extension Service - Asheville Citizen-Times and Asheville Agricultural Development Council 4. University of Maryland 5. Asheville Agricultural Development Council 7. The Bank of Virginia - Brink's, Incorporated - Bureau of Engraving and Printing 11. Kaiser Aluminum & Chemical Corporation.