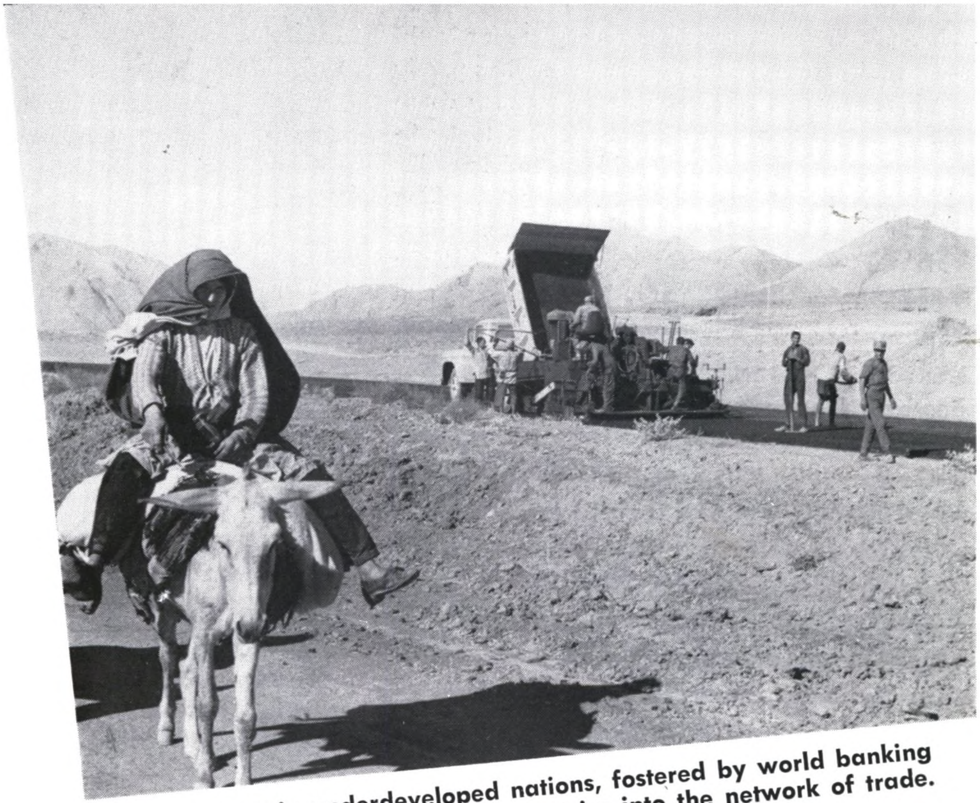
MONTHLY REVIEW



Investments in underdeveloped nations, fostered by world banking facilities, will help bring these countries into the network of trade.

FEDERAL RESERVE BANK OF RICHMOND MAY 1961

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World banking is essential to world progress. It can mean better equipment and wider markets for the Pakistani construction worker, the Ethiopian seamstress, and the tea harvester in Kenya.

The United States in world banking

Wherever there is trade, there is a place for banking—and this goes for international as well as purely domestic transactions. In commerce between countries there are always goods and services to be financed, payments to be made, and loans to be repaid; to meet this need, elaborate international banking relationships have evolved over the years. Since World War II circumstances have singled out the United States for the lead role in world banking, and the ensuing responsibilities have been fully accepted.

BANKING SERVICES IN INTERNATIONAL TRADE For the most part, international banking services are provided by institutions whose principal interest is in domestic trade. A few large banks do a primarily international business, and others maintain sizable international departments organizationally separate from their domestic activities. Some even have impressive networks of foreign branches. For most banks, however, the international business is distinctly subordinate to domestic operations.

The international activities of banks can be thought of as bridges among the world's many national banking systems, bringing them into a loose, but vitally important interdependence. The "international banking system" thus formed is therefore not a separate entity. However, the international relationships among the banks involved differ in some important respects from their domestic relationships.

ORGANIZATION: DOMESTIC AND INTERNATIONAL While many features of modern domestic banking systems have developed simply as a result of more or less spontaneous responses on the part of the banking community to the changing requirements of the business world, these systems reveal quite clearly the impact of conscious legislative action. This coordinating influence has not, of course, been present in the growth of international banking. Rather, the international banking system has "grown like Topsy," so to speak.

To insure provision of adequate banking services domestically, an intricate system of interbank relations has been developed. These involve holding deposit balances and maintaining a variety of other correspondent arrangements with other banks, as well as meeting the reserve requirements of a central bank. The most important feature of all, perhaps, is the degree of control over bank reserves exercised by the central bank in its capacity as a sort of system overseer of the adequacy of bank-provided finance and the smooth functioning of the bank-provided payments mechanism.

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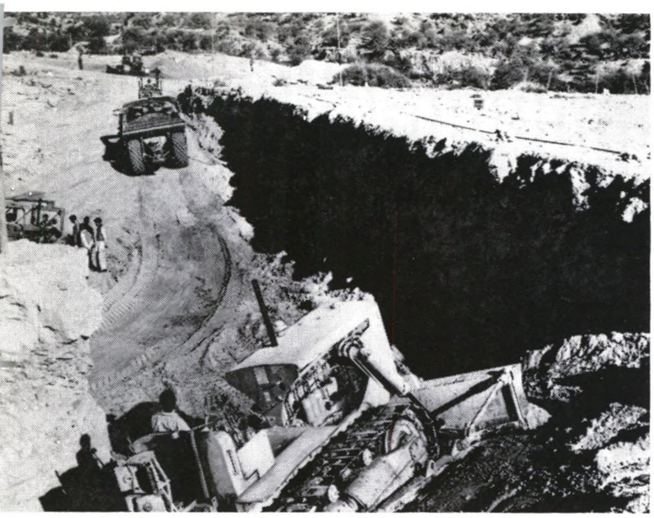


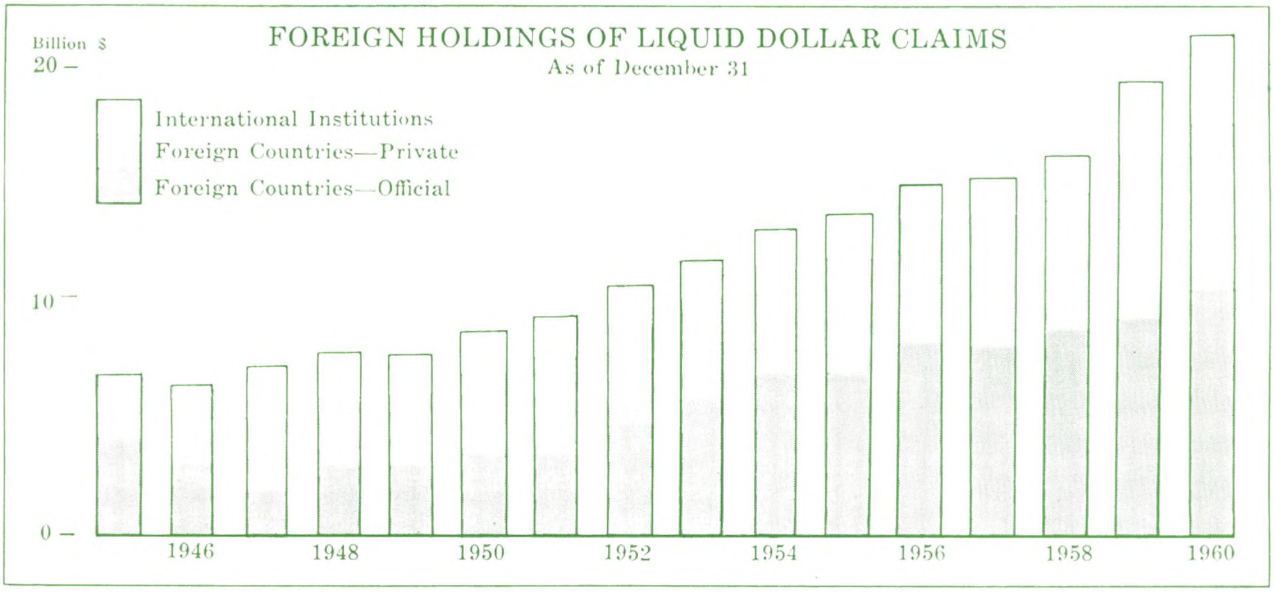
Extensive interbank relations are also typical of international banking. Banks engaged in an international business have close correspondent connections in foreign countries and are likely to hold deposit balances in several different countries. These balances are held in the form of foreign money and constitute the basis for most foreign payments. A trader having a foreign payment to make usually makes it by arranging a transfer of bank-owned foreign deposits to the credit of the foreign seller. This is done ordinarily through a bank draft, which is simply a check drawn by a banker on his deposit account with another bank. Understandably, business and personal checks are not as readily negotiable between countries as they are domestically, and in international trade bankers' "checks" are usually bought and transferred instead.

In international banking no institution comparable to domestic central banks has evolved. No single agency undertakes to guide the machinery of international payments so that it will function smoothly and provide the right amount of financing in support of international trade. However, a rather definite set of arrangements to achieve these ends has been developed over the years.

CENTRAL BANKS IN INTERNATIONAL FINANCE Individual central banks play a crucial role in these arrangements. Taken individually, however, their capacity to influence international banking is not comparable with the degree of influence they exercise upon their respective domestic systems. A given central bank, for example, can influence directly and specifically only that portion of international financing that emanates from its own domestic system. And even here its power may be seriously constrained by the impact of its actions on its country's balance of payments.

Various actions can be taken by central banks to assist in smoothing the operations of the international payments mechanism. International payments, it will be remembered, rest ultimately on bank holdings of foreign money balances in various countries. Central banks can and do undertake responsibility for seeing that such balances are available to their domestic banks. They do this through holding reserves of gold or foreign currencies. Quite naturally, their foreign currency reserves will normally be limited to currencies which can readily be converted to any of the other currencies of the world.

But even in this particular the power of any individual central bank is severely limited. Changes in its holdings of gold and foreign currency reserves are closely related to its country's balance of payments with the rest of the world. This balance might be



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such that these basic reserves are not sufficient to insure continued payments except on terms drastically different from the customary ones. In such eventualities, it may become expedient to call on other central banks or governments for help.

INTERNATIONAL COOPERATION It should be clear from the above that continued smooth functioning of the international banking system requires cooperation among the governments and the central banks of the countries participating in world trade. International cooperation in this area has been practiced for centuries, but in recent years it has taken on a new dimension. Today the connections between the central banks of the world are probably stronger than at any time in the past. But apart from this, cooperation has increasingly taken the form of the establishment of new international institutions.

Since 1945 the International Monetary Fund, a cooperative venture to which 68 nations have now subscribed, has played an important role in insuring the smooth operation of the international payments machinery. Among its other functions, this institution serves as a foreign currency reservoir on which member nations may draw, up to prescribed amounts, when experiencing difficulties in providing the foreign currency balances needed to maintain continuing payments.

Other international agencies, such as the Bank for International Settlements and the International Bank for Reconstruction and Development, represent cooperative efforts to improve international banking services. However, none of these institutions, nor any combination of them, is comparable in function to domestic central banks.

AMERICA IN INTERNATIONAL BANKING The United States was instrumental in setting up international financial institutions, and figures importantly in their operations. But in many important respects, and quite apart from its participation in these international ventures, the United States has assumed a role of unique significance in international banking.

On its own the United States has established important financial institutions specializing in financing foreign trade and channeling capital funds into production destined sooner or later for international markets. Such an institution, for example, is the Export-Import Bank, which is engaged in financing exports and imports as well as in providing long-term capital funds for foreign investment. More recently, this country has taken the lead in setting up specialized international investment institutions like the International Development Association and the Inter-American Development Bank.

But perhaps the most important role played by the United States in international banking has to do with the provision and custody of the reserves needed to insure adequate international banking services. As noted earlier, central banks hold reserves of gold or of foreign currencies readily convertible into any other foreign currency. These reserves provide the basis for international payments and can be called the heart of the international payments mechanism.

Developments since the end of World War II have placed the United States in a position of strategic importance respecting these foreign bank reserves. At the close of World War II the dollar was the only major currency of the world freely convertible into gold or any other of the world's currencies. Quite naturally, foreign central banks increasingly sought dollar reserves. In the course of the past fifteen years, their acquisitions of dollar reserves have been very large and today an important part of the monetary reserves of principal trading countries are held in this country as dollar balances. In an important sense, this development has made the United States the banker for much of the world.

FOREIGN DOLLAR BALANCES The chart on page 3 shows the increase in liquid dollar claims of foreigners on the United States since 1945. Only part of these claims are held as demand deposits. The greater part of the claims shown in the chart represent time deposits, short-term obligations of the United States Treasury, acceptances, commercial paper, and other liquid earning assets.

These balances are owned by foreign central banks and governments, by international institutions like the International Monetary Fund, by foreign commercial banks, and by other private foreign interests. Balances owned by foreign central banks and governments, generally referred to as *official foreign* balances, represent about half the total. These constitute an important fraction of foreign central bank reserves. Balances held by foreign commercial banks are stocks in trade enabling these institutions to deal in foreign currencies. Those held by international institutions are owned chiefly by the International Monetary Fund and represent part of that institution's pool of foreign currencies held to provide emergency support for the international payments mechanism. Balances held by other private foreign interests are chiefly working dollar balances owned by foreigners with continuing economic or financial interests in this country.

GROWTH OF FOREIGN DOLLAR HOLDINGS Foreign holdings of liquid dollar claims, as the chart shows, declined slightly between December 31, 1945

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and the end of 1946—from $6.9 billion to $6.5 billion. During the next three years these claims varied between $7.1 billion and $7.6 billion. These were critical years for the international payments mechanism, and its functioning at this point was assured only after extensive grants of credits abroad by the United States. Marshall Plan assistance and slow but steady recovery of foreign export industries led to new dollar acquisitions by foreigners, especially Europeans, in the last years of the 1940's, and at the close of 1950 foreign dollar balances had grown to over $8.5 billion.

Economic recovery in Europe and Japan accelerated sharply after 1950. European and Japanese sales in world markets, and hence the earnings of foreign currencies by these countries, increased commensurately. Large amounts of these earnings went into a build-up of dollar balances held in this country. Liquid dollar claims held by foreigners increased by $3 billion between 1950 and 1953. West Germany, experiencing a remarkable recovery, accounted for much of the increase. Large gains were also registered by Italy, Austria, and Japan.

With continued recovery and expansion in foreign economies, world trade has boomed since 1953. World exports have included ever-increasing quantities of goods from European countries, from Japan and India, from Africa, and from Latin America. Paralleling this, the dollar and other foreign currency earnings of these countries have increased sharply, and larger and larger balances of dollar reserves have been accumulated. By the end of last year these balances had grown to the impressive total of $21.4 billion, an increase of 83% since the end of 1953.

FOREIGN GOLD ACQUISITIONS Besides gaining dollar claims, many European countries have succeeded in increasing their gold stocks through purchases from the United States. In the first half of the 1950's this country sold about $2.8 billion of gold to foreign central banks. These gold losses were not viewed seriously at that time. They were recognized as a necessary and desirable rebuilding of foreign monetary gold stocks. Foreign countries and central banks sold gold to the United States on balance in 1956 and 1957. Their sales, however, were associated with large purchases of American petroleum during the Suez crisis and were recognized as temporary. After 1957, foreign gold purchases resumed and in the three years ending last December amounted to $4.7 billion. Virtually all of this, plus a part of world gold production during the period, went into the reserves of foreign central banks and governments.

A NEW ROLE FOR THE UNITED STATES As custodian of a large part of the world's reserves, the United States has assumed a strategic position in the international banking structure. The continued functioning of the traditional machinery for making international payments and for financing international transactions depends closely upon this country's ability to continue in that role. In turn, the willingness of foreign governments and central banks to hold large reserves in dollars rests upon their confidence in this important monetary unit.

To maintain continuing confidence in the dollar abroad, the United States has followed the policy of redeeming in gold, on demand, dollars held by foreign governments and central banks. Thus foreigners are constantly assured of a high degree of stability in the value of the dollars on which they have come to rely. It is for this reason that the United States has sold over $7 billion of gold to foreign countries since 1950.

RECENT GOLD LOSSES Exchanges of gold for foreign-held dollars have recently stimulated much discussion both at home and abroad. Out of this discussion has come an appreciation of the fact that this country's new role in international finance imposes new responsibilities and new constraints. Among the new responsibilities is that of maintaining foreign confidence in the dollar. Practically, this requires continuing redemption of dollars in gold, and avoidance of too rapid a build-up of foreign dollar holdings. These holdings grow as a result of balance of payments deficits run by this country, and their build-up can be arrested only insofar as such deficits can be avoided. Thus, the balance of payments deficits which have persisted over much of the last ten years pose a threat which must be met if the new United States role in international banking is to be preserved.

Its new role also places important constraints upon this country's freedom of action in coping with its internal economic problems. For instance, inflation would hinder the competitive position of American goods in world markets, tending to produce deficits in its international accounts and further increases in foreign dollar claims. Furthermore, interest rates must be watched to see that they bear a reasonable relationship to those in effect abroad. Otherwise, capital shifts to take advantage of opportunities for higher returns might lead to losses of gold. Wise policies at home and reasonable cooperation abroad should enable the United States to meet the challenges of changing economic conditions without adversely affecting the established procedures of international banking.

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Monthly Review Looks At - - -

THE SHENANDOAH VALLEY

In "apple blossom time," Winchester, Virginia goes all out for the Shenandoah Apple Blossom Festival. The entire community supports it—farmers and city dwellers alike—for in the rolling country of the northern Shenandoah Valley, apples are big business. A major horticultural center, Frederick County in Virginia's northwest corner raised three and a half million bushels of apples in 1959—more than a quarter of all the apples produced in the entire state.

The Shenandoah Valley—a strip of fertile farmland between the Allegheny and Blue Ridge Mountains—has a farming tradition that goes back to the earliest settlers. Grain was once a crop of major importance; during the War Between the States the Valley was called "the granary of the Confederacy" for it produced most of the grain that fed the Army of Northern Virginia.

Later, when the center of grain production shifted to the Great Plains, many Shenandoah farmers turned to dairying. From the turn of the century onward, the number of dairy cattle in the Valley steadily increased—from 33,000 head in 1910 to a high of 46,000 in 1950. In the past decade, dairy herds have diminished slightly, but the value of milk sold has greatly increased, from five million dollars in 1949 to over ten million dollars in 1959.

In recent years, the Valley has become a poultry producing center. Rockingham County developed into the "turkey capital of the nation" in the mid-fifties and now produces three million turkeys annually. Rockingham also leads the state in broiler production; in 1959 it raised 12 million of Virginia's 41 million broilers.

As farming conditions have changed, the Valley has changed, too—not in ways that might alter its essentially agricultural character, but in methods and types of farming that insure its continued growth and prosperity.

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Wall Street's Nineteen Billion Dollar Baby

Shares	Stock	Market Value	Percent of Net Assets
44,000	International Harvester	$2,233,000	1.9
40,000	Standard Oil of Calif.	2,245,000	1.9
15,000	American Tel. & Tel.	1,865,625	1.6
40,000	North American Aviation	1,825,000	1.5

Last month Mary Jones owned no corporate stock. Today, she has three shares in a mutual fund. Next month she plans to buy three more. By this time next year she hopes to have 36 shares.

Similar purchases by other small investors have converted the investment company business from a $2 billion dwarf at the close of World War II to a $19 billion giant today. In the same short span, membership in the National Association of Investment Companies, to which most such companies belong, has climbed from 110 to 186. Stockholder accounts of member companies have soared from less than one million to more than five million. The expansion has been phenomenal.

OPEN-END OR CLOSED-END? The investment company—or investment trust, as it is often called—is a device for pooling and investing the funds of a number of investors in a wide variety of securities so as to obtain diversification and portfolio management at a reasonable fee. Securities are held for income or profit—not to control other companies as in the case of a holding company. Earnings come from dividends and interest on security investments or from the sale of securities at a profit, and shareholders receive their returns as dividends paid either from income or from capital gains.

Most investment companies are regular corporations controlled by boards of directors elected by stockholders. Some, however, are common-law trusts operated by trustees for the benefit of holders of transferable trust certificates that closely resemble corporate stock. Trustees are generally elected by certificate holders, but there can be exceptions in the case of trusts established prior to 1940.

There are two kinds of investment companies: open-end and closed-end. Open-end companies—or mutual funds, as they are usually called—have a constantly fluctuating volume of shares. Such funds stand ready at all times to repurchase their own shares from investors and usually issue as many new shares as the public wants. Closed-end companies, however, have a fixed number of shares, and investors must buy their stock from other investors rather than from the company itself.

THE LIABILITY SIDE The liability side of an investment company is usually quite simple. Mutual funds have only one type of security—common stock—or, if they are trusts—trust certificates. Some borrow from banks, but most use no borrowed funds at all. Current liabilities are generally held to a bare minimum, and net worth is practically identical with total assets. Closed-end companies may issue both preferred stock and bonds, but a majority have only common stock. A few issue long-term marketable warrants providing for the purchase of stock at fixed prices.

The typical investment company shareholder is a small investor. At the end of 1960, the average account was about $3,600. To attract small investors, most mutual funds have various types of accumulation plans that provide for regular investments on either a contractual or voluntary basis. Usually these plans specify that the company reinvest all dividends in additional stock so that the "compound interest rate effect" can work for the shareholder. As a rule, any investor can request that his dividends be plowed back, however, even if he is not following a regular investment plan.

ROLE OF THE MANAGEMENT COMPANY The typical investment company is run by a "management company" that sponsors the fund and handles its investments, but a few do their own investing. Quite frequently, a management company and its sponsored fund have interlocking official staffs and directorates, although the law requires that there be outsiders on the fund's board. Always the two companies are bound together by an investment advisory contract stipulating management fees and the various advisory, clerical, and other services to be provided. A number of management companies sponsor several funds, all having the same officers but investing in different types of securities.

The contract usually calls for a management fee averaging around 0.5% of the fund's net assets. The

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contract must be renewed annually by the fund's stockholders or directors and can be cancelled with sixty days' notice. The fee covers virtually all the company's investment expenses and certain other expenses plus a profit for the stockholders of the management company.

UNDERWRITING AND RETAILING The underwriting of closed-end issues differs considerably from the underwriting of open-end issues. A new closed-end issue is underwritten just like any regular security. The syndicate handling the issue buys it from the company at a fixed price, hoping to make a profit by selling it later at a higher price. Once the issue is sold, the underwriters bow out of the picture unless they later buy and sell the securities for themselves or for customers.

An underwriter for a mutual fund, however, is a selling agent that stands ready at all times to distribute and redeem securities for the fund at specified prices. Usually, a fund's underwriter—or sales company, as it is often called—is closely affiliated with the fund's management company in much the same manner as the fund itself.

Investors usually buy and sell both closed- and open-end shares through independent brokers or dealers. Shares of closed-end companies are bought and sold at regular commissions in the over-the-counter market or on securities exchanges. Most mutual funds sell their shares at net asset value (assets less liabilities divided by outstanding shares) plus a "load" usually ranging from about 8% for purchases of less than $10,000 to 2% for purchases of $500,000 or more. About one-fourth of the load goes to the underwriter for wholesaling the securities, and the remainder is retained by the dealer handling the sale. One large fund retails its securities through its own nationwide branch office system rather than through independent brokers. A few "no load" funds buy and sell their shares themselves at net asset value, employing neither an underwriter nor a local sales organization.

PORTFOLIO PRACTICES Types of portfolios vary greatly from company to company. The typical company is a "stock fund" that channels all assets not needed for liquidity into common stock. The next most numerous are the "balanced funds" that invest in common stock, preferred stock, and bonds. Still others buy only preferred stock, and some hold only bonds. No matter what the type, however, at least a small percentage of assets is kept in cash, bank balances, marketable Government securities, or other liquid assets in order to take advantage of "bargains" and provide for other liquidity needs.

There are also many specialty type funds. Among the stock funds, for example, there are those that attempt to buy only "growth stocks," those that specialize in "protective issues," and those that concentrate on "income stocks." Others confine their purchases to a particular industry such as electronics, chemicals, or utilities. A few confine their purchases to companies operating in certain localities.

In every case, diversification is the keynote. A typical stock company holds shares in a hundred or more individual companies. A single investment rarely totals more than 5% of assets, and generally it amounts to much less. Even those funds specializing in bonds or preferred stock spread their investments over a wide range in order to minimize risk.

REGULATION AND TAXATION Investment companies are among the most tightly regulated of all businesses. They are subject not only to several Federal security laws, but also to state "blue sky" acts governing the sale of securities and the activities of brokers and dealers.

Among the more important Federal laws are: (1) The Federal Securities Act of 1933, which requires full disclosure of pertinent information to purchasers of corporate stock and imposes certain responsibilities on the company's management, (2) The Federal Securities Exchange Act of 1934, requiring registration of brokers and dealers handling securities and imposing various requirements on stock exchanges and over-the-counter markets, and (3) The Federal Investment Company Act of 1940, which is designed specifically to protect shareholders of investment companies. These acts do not in any sense guarantee an investor against losses, but they do provide considerable protection against fraud.

Federal tax laws are based on the premise that shareholders of investment companies should be taxed as if they were making the investments themselves. A few companies with tax losses to carry forward have elected to be taxed as ordinary corporations, but most qualify as "regulated investment companies" and pay no taxes at all. Shareholders pay ordinary income tax rates on dividends paid from income and capital gains taxes on those paid from long-term capital gains.

To avoid taxes, a company must pay out annually to its stockholders its net income from interest and dividends and its net short-term profits from security sales. If it retains any long-term capital gains, it must pay the 25% capital gains tax for the shareholder. If the shareholder is in less than a 25% capital gains tax bracket, he can claim a refund for the excess tax paid by the fund.

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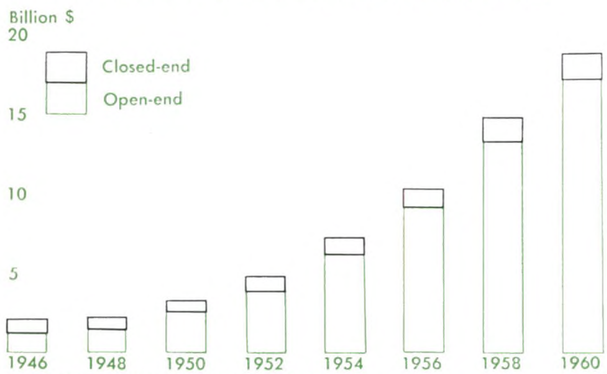
MARKET PERFORMANCE AND EARNINGS The market performance of mutual fund shares depends entirely on the behavior of the fund's portfolio, since the shares are offered at net asset value plus the load and are redeemed at net asset value. The shares of closed-end companies can fluctuate independently of changes in asset value, however, since they are traded in the open market. Ordinarily, they sell at varying discounts from net asset value, but some sell at premiums.

Market prices of the shares of most investment companies perform very much like the market averages, but some do much better, and others do considerably worse. A recent *Fortune* article, using investment company data compiled by Arthur Wiesenberger and Company, shows that the average net asset value (including reinvested dividends from capital gains) plus cash dividends of 44 common stock mutual funds rose 283% in the decade ending in 1959 as compared with a 333% increase in the Dow-Jones industrial average (including dividends).[1] The nine "growth stock" funds did better during this period—379%. Increases for individual stock funds listed by Wiesenberger ranged from 143% to 613%. Performances of closed-end funds were quite similar.

NET ASSETS OF INVESTMENT COMPANIES



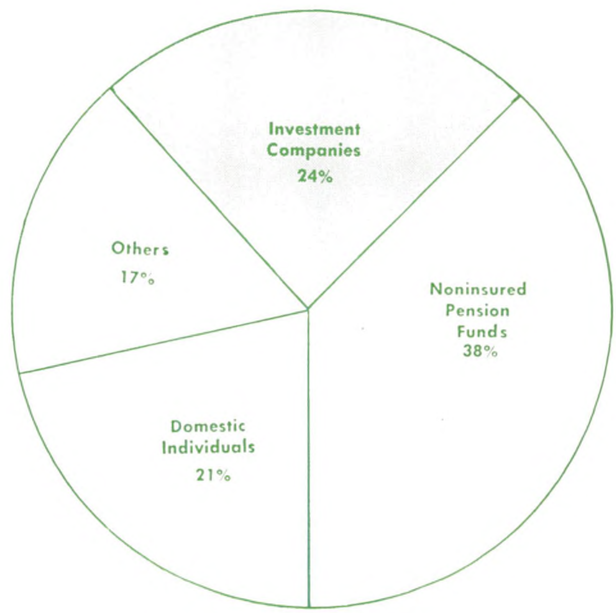
Source: National Association of Investment Companies

During 1959, yields on shares of the larger stock mutual funds surveyed by Wiesenberger averaged 1.9% on closing offering prices after adjustment for the effects of distributing capital gains. Yields on shares of eleven closed-end companies whose portfolios closely resembled those of these mutual funds averaged 2.6%. Among individual companies yields ranged from 0.5% to 3.6% in the case of mutual funds and from 1.5% to 3.8% in the case of closed-end companies.

[1]George B. Bookman, "How Good Are Mutual Funds?" *Fortune*. June, 1960.

GROWTH AND IMPORTANCE Investment companies have come a long way since King William I of the Netherlands established the Societe Generale de Belgique in 1822. Their most rapid growth in the United States dates from the passage of the Federal Investment Company Act of 1940, which gave the companies a new respectability. Part of the spectacular rise is illustrated by the bar chart, which shows the 769% rise in net assets since the end of 1946. A large part of this resulted from new sales of mutual fund shares, but much of it represented appreciation in the market value of shares.

NET PURCHASES OF CORPORATE STOCK
1959



Source: Securities and Exchange Commission

Despite the tremendous size of many investment companies, collectively they are still relatively small in comparison with the larger financial institutions. Their $19 billion in net assets at the end of 1960 was dwarfed by commercial banks' $253 billion and life insurance companies' $120 billion. They are also significantly smaller than savings and loan associations, mutual savings banks, fire and casualty insurance companies, and noninsured pension funds.

In the stock market, however, they have a relatively greater influence. As indicated in the pie chart above, their net purchases of stocks in 1959 ran second only to those of noninsured pension funds. Out of a $4.3 billion net addition to common and preferred stocks outstanding, the funds took $1.0 billion —nearly one-fourth of the total!

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THE FIFTH DISTRICT

Most areas of Fifth District industry and trade continued to gain strength during the month just past. The gains, however, were still well salted with hesitations and uncertainties, as has been the case since the recession turned the corner. This appraisal of April business conditions is necessarily based on somewhat sketchy information, but major industries and areas are fairly well represented. Tying these April reports to a definite set of business conditions requires a brief look at March, the latest month with adequate statistical coverage. The total number of workers holding nonfarm jobs in March (seasonally adjusted) was slightly above the February level and about on a par with the December and January figures. The individual changes which produced this small over-all advance in employment varied rather widely—from a rise of 1.5% in contract construction to a decrease of 0.7% in the transportation, communications, and public utilities group.

PRODUCTION RISES UNEVENLY Although April man-hour statistics are not yet available, there are indications that manufacturing activity in general has continued to rise, much as it did in the previous month. Seasonally adjusted manufacturing man-hours in March reached their highest level since last October. The rise between February and March was in excess of 1%, with durable and nondurable manufactures participating about equally. But significant declines did occur in both durable goods—fabricated metals and furniture—and nondurables—food processing, tobacco manufactures, broadwoven textiles, and printing and publishing.

Market conditions in the District have also shown considerable variation during the two months or so since the recession touched bottom. Manufacturers generally have indicated a rising volume of new orders during the past several weeks. But the furniture industry has continued to be hampered by rather weak and unstable demand, and recovery in textile markets has been slow and variable. Retail trade has fluctuated considerably and department store sales have reflected the uneven conditions. Nevertheless, sales reports thus far indicate that department store business during the first four months of this year will probably exceed that of the comparable period in 1960 by more than 1%.

TEXTILE DILEMMA Recent signs of more stable demand conditions suggest that textiles may soon join other industries on the road to recovery. But the uncertainties that have plagued mill operations for several months have by no means all disappeared. Textile manufacturers, hemmed in by adverse pressures affecting both production and distribution, have been suffering from a sort of economic claustrophobia. Briefly, the textile business—acutely competitive and slimly profitable under the best circumstances—has for months been offering its products to an uncertain market at weak and variable prices, while thoughts of expanding imports and rising domestic costs have tended to discourage hopes for any sudden change for the better.

The higher domestic support price for this year's cotton crop combined with an increase in the export subsidy (lower cost to foreign buyers) will strengthen the competitive advantages of foreign cotton goods in domestic markets. These same factors plus recent reductions in some synthetic fiber costs will tend to weaken the position of cottons as against man-made fiber goods in domestic manufacturing.

IMPORTS STIR DEBATE The significance of textile imports is certainly considerable, but hard to gauge objectively. The United States Department of Agriculture combines on a poundage basis all kinds of imported textile fibers, fabrics, and products, and compares this with a similarly computed total for domestic consumption. Measured in this manner textile imports rose from about 1% of consumption in the late 1940's to about 3% in the middle 1950's, 5% in 1959, and over 6% in 1960. Last year was particularly worthy of note because imports exceeded exports for the first time in modern history—and by nearly 15%. The imported yardage of cotton broadwoven goods increased nearly nine times between 1950 and 1960, from less than 0.5% of domestic output to nearly 4.5%. This class of imports nearly doubled in each of the last two years. In the last few months, however, while demand has been slack, imports have been down sharply.

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Transportation has many problems: growing pains for highways and airlines, but for railways troublesome declines in demand.

SPRING FURNITURE MART The semi-annual Southern Furniture and Rug Market opened April 21 in furniture centers in North Carolina and parts of Virginia. According to early reports, both attendance and buyer interest were greater this year than last, but actual business was slow. As in most recent showings, innovations of style and new uses of decorative woods and wood finishes were much in evidence. Also as usual, no fair evaluation can be made until salesmen have had a chance to gauge the market's impact on their orders as they subsequently make their rounds.

In spite of revived interest in rocking chairs, conditions during the weeks leading up to the Southern furniture show were definitely on the slow side. Furniture manufacturing was virtually the only important District industry in which activity (measured by seasonally adjusted man-hours) continued to decline right through the first three months of this year. Evidence available for April does not suggest any significant changes in that picture.

TRAVEL AND TRANSPORTATION Each new year brings an increase in the movement of people and products both through and within the Fifth District. And every recent year has brought substantial changes in the facilities available to handle the traffic. The railways continue to lose both freight and passenger business to the highways and airlines. The only consistently profitable rail operations in recent years have been those of the coal-hauling roads of the Fifth District and adjoining areas. Abandonment of unprofitable trackage and mergers continue to be the principal approaches to cost reduction.

Symbolic of progress in air travel is Dulles International Airport, currently under construction on 9,800 acres in northern Virginia about 25 miles from downtown Washington, D. C. This will be the world's largest and most modern airport, featuring "mobile lounges" which will carry nearly 100 passengers at a time to and from their planes. The operation is expected to employ 7,000 people in direct and subsidiary jobs by 1964, over 10,000 by 1970.

Motorists, bus passengers, and truckers share an interest in the progress being made in building the District's part of the national interstate and defense highway system. Some 3,300 miles of these superhighways will serve the Fifth District. About 20% of this mileage was completed during the last fiscal year and nearly 40% more is currently in process. The District's share of Federal interstate and defense highway funds amounted to nearly \$162 million in the fiscal year ended June 30, 1960, and \$180 million more are authorized for the current fiscal year. Other Federal highway aid funds raised the District's total to approximately a quarter of a billion dollars in each fiscal year.

PHOTO CREDITS

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