

MONTHLY REVIEW



Washington's new buildings achieve a forward look with traditional lines—fitting symbols of the Fifth District in 1961.

FEDERAL RESERVE BANK OF RICHMOND

JANUARY 1962

FIFTH DISTRICT

1961



Fifth District business coasted into 1961, but the slope was not steep nor the surface very slick. Many areas of enterprise had maintained firm footing through 1960 despite adverse developments and, before that "old year" ended, growing resistance to further recession had become quite apparent. The District closely paralleled the nation in this respect. For both, the recession that began in the 1960 second quarter came to an end in the second month of 1961. The nation's downward momentum, however, caused some "skidding on the turn" and a slower early recovery. For instance, District nonfarm employment, which had declined during the recession at virtually the same rate as in the nation, returned to its 1960 average level in May and went on to a new high in July. But national nonfarm employment did not re-attain 1960's monthly average until October and seemed unlikely to set any new records in 1961.

EMPLOYMENT COMPONENTS CHANGE The fact that District employment did set new records in 1961 warrants closer attention. Seasonally adjusted non-farm jobs totaled 4,708,000 at the 1960 high. The recession wiped out about 80,000 of these, but recovery soon re-established that number and then created about 30,000 more. In the process, however, there was a marked shift from four rather broad areas into four generally more narrow ones. Late in 1961, for instance, employment was below 1960 record levels by about 25,000 in manufacturing; 8,000 in mining; 10,000 in transportation, communication, and public utilities; and 7,000 in trade. But these losses were more than offset by increases over pre-recession highs of approximately 48,000 in government; 22,000 in services and miscellaneous enterprises; 6,000 in contract construction; and 7,000 in finance, insurance, and real estate. Except for contract construction, recession losses in the latter groups were negligible.

Other indicators available on a comparable basis for the District and the nation tell a similar story. Manufacturing man-hours for both were cyclically low in December 1960. District man-hours rose above 1960's monthly average in June, but the pace slowed and the May 1960 record was not reached. The recovery in national man-hours was slower still.

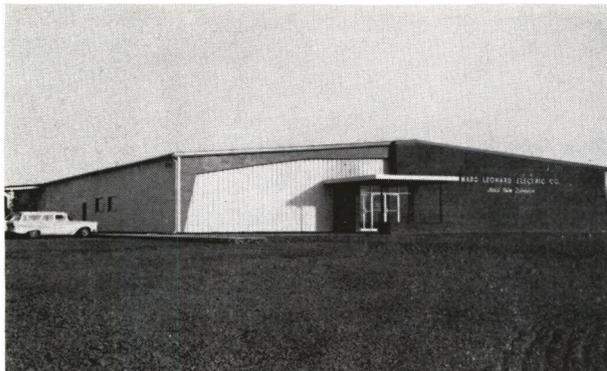
The 1960 monthly average was not equaled until November, and the previous high was clearly out of reach for the duration of 1961.

District construction contracts have frequently behaved differently from those of the nation. In 1961, however, the two were much alike. Both were cyclically low in February. The value of District awards surpassed its 1960 monthly average in April, and national awards reached this mark in June. Late in the year, however, both series were still below pre-recession levels. The broader District indicators, bank debits and estimated personal income, did reach new monthly highs during the year.

EXPECTATIONS NOT QUITE FULFILLED The year 1961 ended a recession and provided ten months of uneven business improvement. District progress, although generally more rapid than on the national plane, never built up much momentum. The 1960 decline had been comparatively mild, so mild in fact that some 1960 and 1961 annual figures show nothing more serious than below-average growth. The recovery in 1961 turned out to be less vigorous than many analysts expected, however, and many manufacturing industries remained below peak levels of activity.

The developments summarized thus far could not have been discovered as precisely nor presented as effectively without the aid of statistics. Yet, statistics alone are cold and impersonal. Behind the growth shown by averages and aggregates are real developments that constitute progress. People are justly proud of their states, cities, counties, and towns. They are proud of the business, social, and political organizations through which they unite their efforts for progress. As residents of all parts of the Fifth District toured the old, familiar places during 1961, they found many examples of new ideas materializing in ways that enrich lives and reinforce loyalties.

MARYLAND'S MODERN MILIEU Baltimore combines industry and commerce in a port city complex that ranks near the middle of the nation's top ten. Here the heart of one of the oldest cities is taking on a new look. Charles Center, largest of 14 redevelopment projects begun five years ago, progressed well in 1961 toward reshaping 32 acres of old downtown.



Maryland has many large industries but listed the growth of small enterprise as one of the most significant features of 1961.

Baltimore. Cranes and bulldozers have leveled much of this area, and foundations are already well along for the first of the new buildings, a 21-story office tower to be known as One Charles Center. The plan also includes a Federal office building; a second office skyscraper; an underground parking garage; utility, financial, and retail business buildings; apartment towers; a hotel; a theatre; and a public park.

Maryland industry generally moved forward at a rapid pace. Late last year, the Sparrows Point steel mill, the nation's biggest, was reportedly operating 28 of its 35 open hearths and ready to fire up others. The huge shipyard at the same location held contracts to build 20 ships, nearly twice as many as its biggest competitor. The Mack Truck Company relocated a former New Jersey operation at Hagerstown, bringing new jobs to an area where jobs have been scarce. Other new plants producing books, paper containers, electronic components, metal products, building materials, chemicals, and glass reflected broadly diversified growth. Small, science-related industries increased in number during 1961, continuing a ten-year trend which has steadily gained momentum. Employment reached record levels, and unemployment rates were the lowest since 1957.

CHANGING WASHINGTON Construction projects on the drawing boards, in progress, or recently completed tell most of the Washington story. The District of Columbia is gaining six Federal office buildings; a new International Bank building; two additions to the Smithsonian Institution; ten new hotels; a stadium seating 50,000; more than a dozen large, privately financed office buildings and apartments; new living, shopping, and recreational facilities in a 560-acre redevelopment; street, highway, water, sewer, and drainage improvements—all these plus expansion and remodeling of existing structures. Neighboring areas of Maryland and Virginia are being drastically changed by a ring of highways, inter-

changes, and two new Potomac River bridges. The Circumferential Highway will permit vehicles to enter the District of Columbia's maze of streets at convenient points and will carry outbound traffic quickly to airports and burgeoning suburban areas.

Over 7 million tourists and convention delegates swarmed through the city in 1961. The number of tourists was estimated to be substantially higher than in 1960; convention traffic, however, was down somewhat. Increases in tourist trade, construction paychecks, and other employment substantially boosted the flow of payments. Bank debits, virtually unchanged between 1959 and 1960, jumped more than 10% in 1961. The economy of the metropolitan area gave the appearance of buoyant good health. It was a record employment year, and unemployment rates were consistently low. Public employment grew, but private business grew even faster and, whereas the two sectors were about equal 15 years ago, there are now three jobs in private business for every two in government.

VIRGINIA'S COASTAL RESOURCES The economic activity of the District of Columbia reaches well into Northern Virginia. The Hampton Roads region also figures prominently in 1961's progress report. Work began on the Chesapeake Bay Bridge-Tunnel and on new port facilities. Industrial and commercial growth continued in Norfolk's redevelopment area and in business centers across the state.

From a point on the Virginia shore east of Norfolk, a "walking pile-driver" is wading across the mouth of Chesapeake Bay leaving rows of concrete pilings which will support the first of three trestles to be connected by two tunnels. Two bridges and a causeway will also be built to complete the 17.6-mile span northward to Cape Charles. The new crossing will be a boon to traffic moving along the Atlantic seaboard but is particularly expected to promote economic development in adjacent areas. Already



Virginia's ports will soon have large, new general cargo facilities with which to serve a broader segment of the regional economy.



West Virginia's economy improved in 1961 as new industries moved in, some existing firms expanded, and coal mining stabilized.

new industries and service agencies are looking at Tidewater sites on both sides of the Bay.

The State Ports Authority and two railroads moved quickly during 1961 to enlarge and improve Virginia's shipping facilities. Based on a survey of the potential growth of freight and passenger traffic, the Ports Authority acquired certain privately owned piers and water-front property and began work on a new 1,200-foot pier to handle every kind of packaged freight for transfer to all types of inland transportation. The railways enlarged and improved coal facilities in anticipation of bigger foreign markets. Traveling, belt-fed loaders will fill a ship's hold at rates up to 20,000 tons per hour.

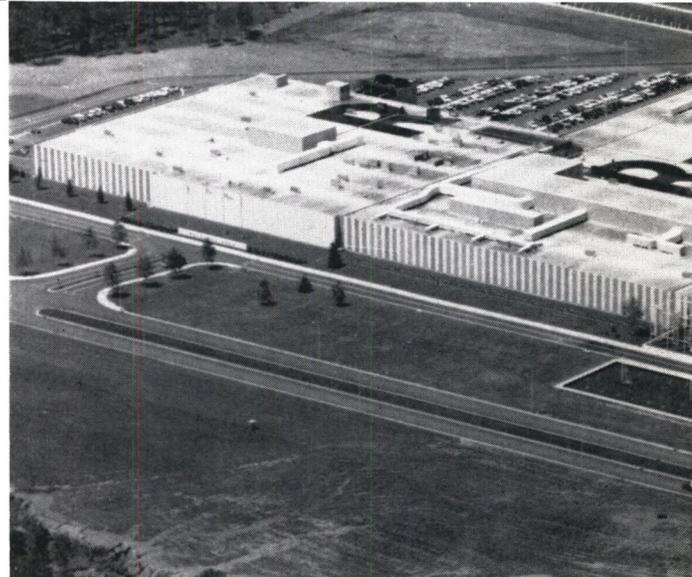
Residential, industrial, and commercial expansion proceeded at a good rate in and near most Virginia cities. Norfolk moved ahead with plans for new office buildings, hotels, parking facilities, and a medical center. Thus, 1961 brought new strength to Virginia's well-balanced pattern of economic growth.

WEST VIRGINIA TRANSITION It is perhaps surprising that measures of business in West Virginia show any growth at all, for this mountainous state has lost population each year since 1950. Yet bank debits, insignificantly higher in 1960 than in 1959, rose 2% in 1961. Nonagricultural employment did decline a little in both 1960 and 1961, reflecting reductions in mining, manufacturing, trade, and transportation, but manufacturing man-hours rose during most of 1961 and ended the year about even with 1960 on the basis of monthly averages.

Dramatic changes lie behind this rather passive statistical picture. The year under review was one of transition. Coal mining employment was virtually stable all year at levels slightly in excess of 40,000

compared with declining levels that averaged 50,000 and 56,000 in 1960 and 1959, respectively. Coal markets, fairly stable in 1959 and 1960, showed new strength both at home and overseas. A Federal Office of Coal Research was set up in the Department of the Interior to study new uses for coal. A plan was announced to build a coal "slurry" pipeline from West Virginia to northeastern markets. Experience with such a pipeline in Ohio proved that powdered coal in water can be moved in this way. Though legal complexities still exist, the idea has given the coal industry new hope for recovering some long lost business.

Meanwhile, state and local officials and private interests took steps to promote new industry. The



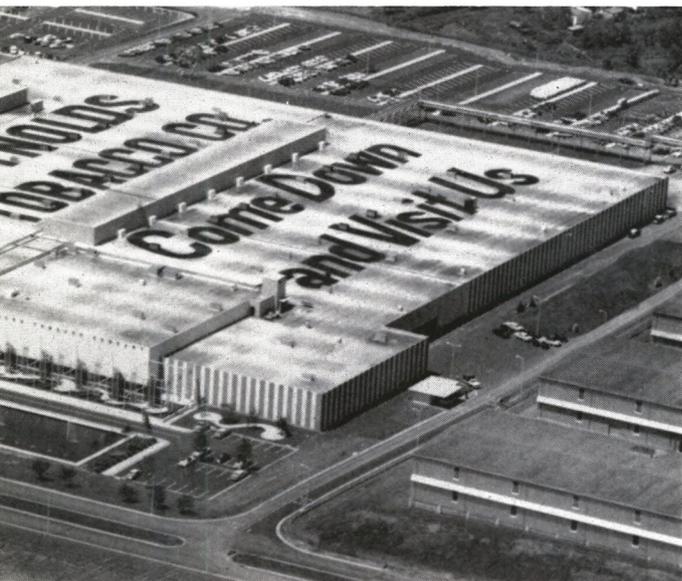
North Carolina gained many new factories during 1961, but it would t

huge South Charleston Naval ordnance plant, idle since the war, was purchased by a leading firm and is being readied for chemical production. Plastic film and synthetic fiber manufacturers and two aircraft companies took steps to locate factories in the state. A number of metal and chemical plants expanded. State officials announced plans to train workers for industrial jobs. West Virginia's 1961 progress was viewed by many as the beginning of a hopeful, new trend.

VARIETY MARKS TARHEEL GROWTH In 1961 North Carolina bounced back from recession with a wave of new growth. Although recovery was quite general—as indicated by increases from 1960 levels of 1% and 7% in nonfarm employment and bank debits, respectively—some important industries faced difficulties. The giant textile complex, in which South

Carolina and Virginia also figure, experienced uneven demand and soft prices in many lines but finished the year with most mills operating on a full, three-shift schedule. Furniture sales and production were slack for the first half of the year but picked up briskly thereafter. Other manufacturers also did a good volume of business. Concern stemmed from stiffer competition caused by expanding capacity and from rising costs attributable largely to a higher minimum wage and a boost in cotton prices. Only lumber suffered from consistently slack demand.

North Carolina's growth during 1961 occurred mainly through many small- and medium-sized companies. Exceptions to this rule, however, included a cigarette plant at Winston-Salem, an airline reser-



...eral "average" operations to match in value the output of this one.

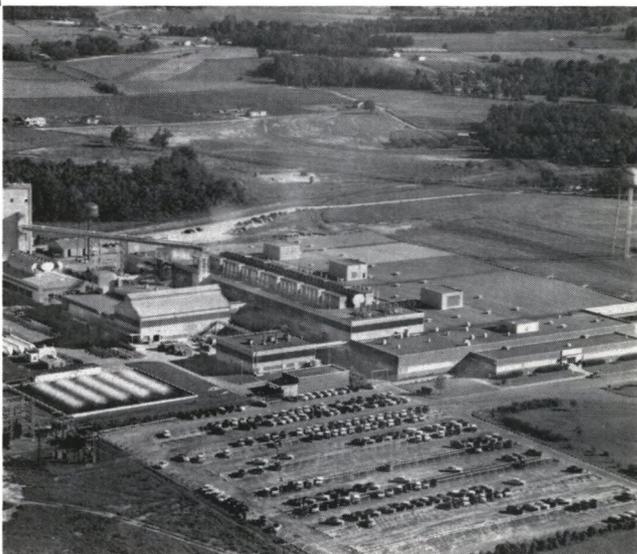
...ations center at Charlotte, and a number of large housing projects and shopping centers. More than 400 industrial projects were announced during the year, and the resulting capital investment is expected to exceed \$375 million. Significant developments of a more unusual nature included the North Carolina Trade Fair, which attracted buyers from many foreign countries, and advances at the Research Triangle, a separate organization with access to the pool of knowledge provided by Duke University, the University of North Carolina, and North Carolina State College. The Triangle's clients in 1961 included six Federal agencies, four educational institutions, two national associations, and five industrial firms. A new headquarters building, rental facilities for smaller clients, and an ultramodern laboratory for

basic research in polymer chemistry were added to its physical plant.

SOUTH CAROLINA'S SOARING SIXTIES Investment in new productive capacity, according to the State Development Board, averaged \$117 million annually in South Carolina during most of the decade of the Fifties. Then in 1959 and 1960 the figure jumped to more than \$200 million. Industrial development slowed a little early in 1961 but revived quickly, and the year ended with work on new facilities proceeding at a record pace. Diversification was 1961's outstanding feature. Expansion involved such products as glass fibers, chemicals, paper, metals, photographic materials, electrical equipment, and foods.

To aid and encourage industrial growth, state funds were appropriated during the year for industrial training. The program will aim to strengthen industrial arts and vocational training in high schools, to train high school graduates for specific technical jobs, and to give others an opportunity to learn or improve industrial skills.

Many factors attest to South Carolina's rapid growth. Bank debit figures have increased relatively more in South Carolina during the last decade than in any of the other Fifth District states, and employment in nonmanufacturing enterprises gained in nearly every year during the period. Occasional setbacks in manufacturing employment have been due to the changing fortunes of the dominant textile industry. Industrial diversification, which progressed so well in 1961, will reduce the state's heavy dependence on a single market.



South Carolina's industrial diversification made rapid progress in 1961, expanding product lines from foods to glass fibers.

Concentration of Fifth District B

Nearly two-thirds of the Fifth District's total bank deposits at last report (June 15, 1960) were concentrated in its metropolitan areas—18 centers of business, industry, and government covering less than 10% of the District's land area but occupied by almost one-half of its total population.*

Over one-third of the District's bank deposits were located in the Baltimore and Washington metropolitan areas alone. But the centralization was even more marked. Together, banks in the cities of Baltimore and Washington held over one-fourth of total bank deposits in the Fifth District, slightly more than three-fourths of the combined deposits of their metropolitan areas. The proportion of District deposits held by banks in the other metropolitan areas varied from 6% in Richmond to 0.6% in Durham.

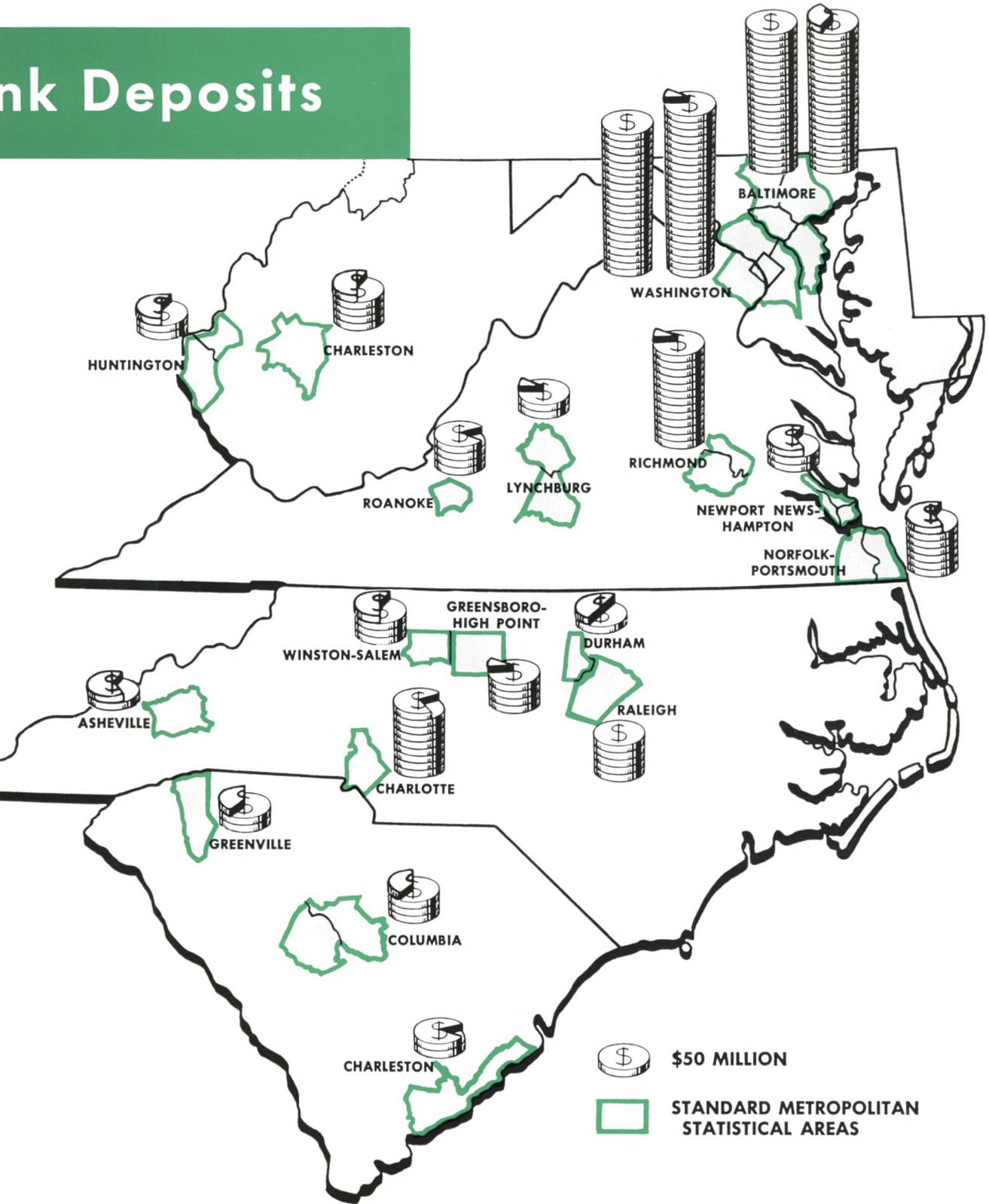
In addition to the metropolitan areas, there were five other major deposit centers: Frederick, Washington, and Allegany Counties in Maryland and Harrison County in West Virginia, each with deposits of between \$70 million and \$80 million, and Charlottesville, Virginia, with deposits of over \$85 million.

As the deposit size ranges decreased—\$60-\$70 million, \$50-\$60 million . . . \$20-\$30 million—the number of counties and cities in each became progressively larger. Only two areas (Mercer County, West Virginia, and Danville, Virginia) had deposits of from \$60 million to \$70 million. In four counties (Spartanburg, South Carolina; Gaston, North Carolina; Wood, West Virginia; and Wicomico, Maryland) deposits were between \$50 million and \$60 million. By far the greatest number of District counties and cities—nearly 250—had deposits of less than \$20 million, and in approximately one-third of these deposits were below the \$5-million mark. At the very lowest end of the scale stood four counties in Virginia and North Carolina where deposits amounted to less than \$1.5 million.

Approximately 5% of United States bank deposits were held by Fifth District banks. Demand deposits of individuals, partnerships, and corporations comprised just over one-half of the District total, their time deposits about one-third. The remaining portion, about one-sixth, was made up of government and inter-bank deposits.

*In this survey, deposits of branches were reported according to actual location of the branch offices.

Bank Deposits



 \$50 MILLION

 STANDARD METROPOLITAN STATISTICAL AREAS

A PERSPECTIVE ON SILVER

On November 28, 1961, President Kennedy issued an executive order stopping Treasury sales of silver. In so doing he focused public attention on an aspect of this country's monetary system which over the past quarter-century has been of interest chiefly to monetary technicians and to a handful of silver-producing states. What was behind this Presidential move, and what is its implication for the future of this country's monetary system? Answers to these questions can be best developed in the light of the historical evolution of the role of silver in this country's monetary structure.

EARLY SILVER MONEY Silver provided most of the metallic money in use in this country until the 1830's. Silver coins from abroad, chiefly from Spanish America, found their way into this country via trade and even after the founding of the U. S. Mint in 1793 provided the chief metallic circulation. Some were recoined into standard American silver dollars and fractional silver coins, but large quantities remained in circulation and in bank reserves in their original form. The predominance of Spanish silver money in early American monetary experience is reflected in this country's adoption of the Spanish dollar rather than the English pound or shilling as the standard monetary unit.

BIMETALLISM IN THE UNITED STATES This country's first monetary laws, dating from the early 1790's established a bimetallic system, basing the country's money on both silver and gold. The standard dollar was defined as equal to 24.75 grains of gold or 371.25 grains of silver, and both metals were coined at the U. S. Mint on a free and unlimited basis. The provisions of the first coinage law made an ounce of gold 15 times ($371.25 \div 24.75$) more valuable than an ounce of silver for monetary purposes.

In the open market, however, gold in this period commanded nearly 16 times its weight in silver. Consequently, owners of gold fared better by selling this metal on the market than by sending it to the Mint for coinage. Moreover, it was profitable to sell gold coins for their metallic content. Thus the owner of \$1,000 of gold coins could melt this coin into bullion, sell it on the market, and use the proceeds to buy silver which could be coined into roughly \$1,060 at the Mint.

Under these circumstances, which illustrate the

principle familiar to monetary students as Gresham's Law, gold coins were soon driven from circulation, leaving silver as the only metallic money. Until 1833 gold money was rarely seen in this country. Coins in circulation and in bank reserves were chiefly silver, and many of these were of foreign origin.

To encourage the use of gold as money, Congress in the 1830's reduced the gold content of the dollar by about 6%, to 23.22 grains. This made gold worth almost 16 times its weight in silver at the Mint, corresponding roughly to the relative valuation of the two metals in the open market. The incentive to use gold as money was thus restored. For the next 15 years gold and silver coins circulated side by side, with little incentive for either the one or the other metal to be withdrawn from monetary use.

SUBSIDIARY SILVER This situation was changed by the great gold discoveries in California and Australia at mid-century. Large new supplies soon reduced the value of gold on the open market, and in the early 1850's gold commanded only a little more than 15 times its weight in silver, as compared with 16 times at the Mint. This reversed the situation existing between 1790 and 1833. It now became profitable to sell silver coins on the market for their bullion value. By 1853, silver coins had virtually disappeared from circulation. This created a critical shortage of small change which seriously inconvenienced retail trade.

To remedy this situation, Congress passed in 1853 the Subsidiary Silver Coinage Act, which reduced the silver content of fractional coins by enough to eliminate the incentive to sell these coins as bullion. Free coinage of fractional silver coins was abolished, and the Treasury was given the task of providing these coins at its own initiative from silver bought in the open market at prevailing prices.

The standard silver dollar continued to be coined for 20 years after 1853. However, the silver content of 371.25 grains could be sold on the market for \$1.02 to \$1.04 in this period, and many silver dollars were sent abroad for sale in the bullion markets of Europe and the Far East.

Recognizing this situation, Congress in 1873 dropped the silver dollar from the list of coins eligible for free coinage and provided for the issue of a special silver coin—the so-called "trade" dollar—for export. Shortly afterward, the legal tender power

of all silver coins, including the silver dollar, was limited to \$5.00.

These Congressional actions drastically altered the position of silver in the monetary system. Silver could now be introduced into the money supply on a limited basis only and in the form of coins whose face value was greater than their value as bullion. Moreover, these coins had only limited legal tender rights. By contrast, gold coins could be introduced in unlimited amounts, had unlimited legal tender rights, and were of a face value equal to their value as bullion. For practical purposes, the nation was now on a gold standard, with silver in a decidedly subsidiary role.

THE "CRIME" OF '73 The 1873 change found much support among disillusioned observers of the country's experience under bimetallism. Nevertheless, it aroused little public attention at the time. Soon afterward, however, there began a sequence of events which in the course of ten years was to make this one of the most controversial Congressional actions of the late nineteenth century.

First in this sequence was the discovery and exploitation of rich new silver veins after 1875. Concurrently, a number of European countries, like the United States earlier, reduced silver to a subsidiary status in their money systems. At about the same time, India and China, long important silver buyers, began to reduce their purchases.

This combination of increased supply and reduced demand drove the price of silver down sharply. The bullion value of the silver dollar declined from ap-

proximately \$1.03 in the early 1870's to under 70 cents in the early 1890's.

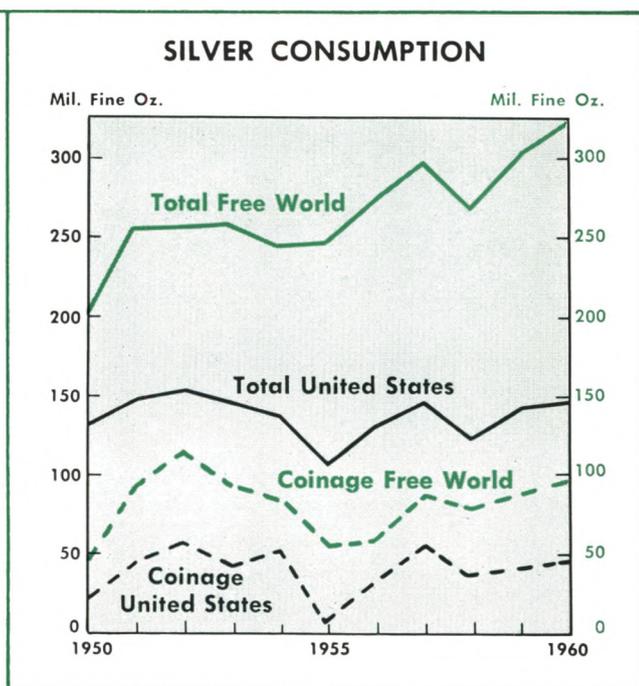
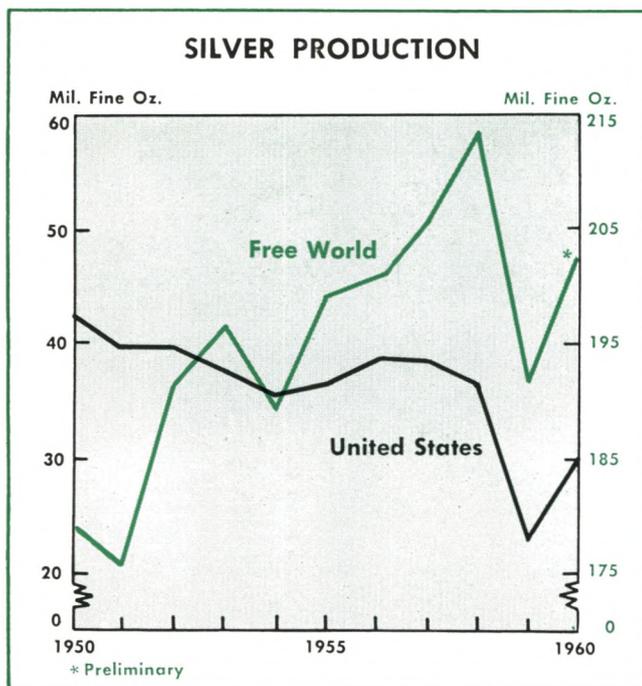
Under these circumstances, owners and producers of silver would have realized large benefits from the right to coin silver freely at the old rate. Moreover, given this right, silver would flow to the Mint in great quantities, and the money supply would grow commensurately. The 1873 Act dropping the silver dollar from the coinage list thus proved a frustration both to silver-producing interests and to important political groups favoring inflation. With these groups, the Act of 1873 soon became the "Crime of '73." This became a rallying cry for one of the most important popular movements of the late nineteenth century, the Free Silver Movement.

THE SILVER ISSUE The Free Silver Movement aimed at restoring free coinage of the silver dollar at a rate of 371.25 grains. The movement found its greatest support in the midwest and the west and enlisted not only the silver-producing interests and the inflationists but also many who believed that a bimetallic system was superior to a single standard. While failing in their larger aim, Free Silver supporters were instrumental in securing passage of two important silver purchase acts: the Bland-Allison Act of 1878 and the Sherman Silver Purchase Act of 1890.

Under the provisions of these acts the Treasury bought limited amounts of silver and introduced it into the money supply at 371.25 grains to the dollar. Under the first Act, slightly over \$300 million of new



Silver certificates payable to bearer on demand were issued against silver dollars coined under provisions of the Bland-Allison Act of 1878 and placed on deposit with the Treasurer of the United States. Certificates proved more convenient than the heavier silver pieces.



Free world production of silver has increased in recent years but has lagged behind consumption. United States output has fallen off.

As the world's chief user of silver, the United States has regularly accounted for one-half or more of total free world consumption.

silver money was created, chiefly in the form of silver certificates such as those shown on the preceding page, which were issued against silver dollars held in Treasury vaults. Under the second Act, some \$150 million of Treasury Notes of 1890 were issued in payment for silver which was then stored in Treasury vaults.

The silver money introduced by these Acts was something of an oddity, for it was in practice redeemable in gold. Efforts by holders to redeem it figured in the Panic of 1893, during which the new silver purchase policy was abandoned.

The Free Silver Movement reached a climax in the presidential election of 1896, when the movement's champion, William Jennings Bryan, was decisively defeated by William McKinley. New gold discoveries in Alaska and South Africa in the 1890's opened up the prospect of monetary expansion on a gold base and cut much of the ground from under the silver inflationists. In 1900 Congress placed this country definitely on a gold standard, formalizing the end of the Free Silver Movement.

SILVER'S ROLE, 1900-1933 Since 1900 silver has figured in the monetary system primarily as a subsidiary coinage metal. Between 1900 and 1933 silver money took the form of fractional coins and silver dollars and silver certificates issued under the pre-1900 silver purchase acts. Some Treasury notes of 1890, which were much the same as silver certi-

ates, also circulated. Limitations were placed upon the legal tender rights of silver money, however, and law required the Secretary of the Treasury to maintain all forms of silver money at parity with standard gold money. Gold money was the only standard money by law, and only gold possessed full legal tender rights. Silver served the subsidiary role of providing, for the public's convenience, fractional coins and small-denomination currency.

In this period, silver figured in public policy only briefly at the close of World War I. A critical silver shortage in the years 1918-1920 led to passage of the Pittman Act, which authorized the Treasury to retire silver certificates and to supply the silver thus released to the market. Under this authorization, the Treasury retired some \$270 million of silver certificates. Most of the Treasury silver freed by this move was sold to Great Britain to help that country ward off monetary disturbances in India. Part, however, was supplied to markets in 1919-1920 to keep the price of silver from rising to levels which would make it profitable for private citizens to sell silver coins in the bullion market.

This crisis passed quickly, however, and by 1921 silver prices were falling rapidly. The silver certificates retired under the Pittman Act were replaced in the 1920's. The Treasury purchased silver at \$1.00 an ounce, well above the market price, to make the replacement.

SILVER POLICY SINCE 1934 The Great Depression of the 1930's provided the occasion for the last major change in United States silver policy. The Free Silver program, along with numerous other proposals for monetary reform, cropped up again temporarily in this period. In 1933 Congress authorized the President to re-establish bimetallism, but this authority was never exercised. The President chose rather to employ an alternative authority to buy silver in the open market and to monetize it on a limited basis.

In 1934 Congress passed the Silver Purchase Act which, as amended in 1939 and 1945, provides the legislative basis for all Treasury action respecting silver since that time. The 1934 Act directed the Treasury to add to official stocks of silver through purchases at home and abroad until the monetary stock of silver equaled one-third that of gold. The Treasury could pay no more than 50 cents an ounce for silver located in the United States on May 1, 1934, and no more than the monetary value of silver (\$1.29+ per ounce) for silver from any source. Subsequent amendments raised the Treasury's purchase price for domestic silver, first to 71.11 and then to 90.5 cents.

FREE SILVER The Treasury's stocks of silver never achieved the proportion to gold envisaged in the 1934 Act. But since that year the Treasury has bought more than 3 billion ounces of silver at an average price well under the metal's monetary value.

The silver dollar contains about three-fourths of an ounce of silver, and a dollar's worth of fractional silver coins contains still less. This means that an ounce of silver can be converted into money by the Treasury at a rate of between \$1.29 an ounce to \$1.38 an ounce. However, the Treasury has followed the policy of monetizing silver at cost rather than at the higher rates allowed by law. Thus, an ounce of silver purchased at 90.5 cents is converted into exactly 90.5 cents worth of money. With existing coinage laws, however, this much silver money can be supported by only about two-thirds of an ounce of silver. The remaining one-third ounce is thus not needed as monetary backing and becomes what is called *free* silver. Millions of ounces of free silver were piled up by the Treasury in the first 25 years of operations under the Silver Purchase Act of 1934. The silver purchase laws authorized the Treasury to sell this free silver in the open market at a price not below 90.5 cents an ounce, plus handling.

SILVER PRICES Until recently, the Treasury's purchase price for silver has been well above the free market price. In 1933, the year in which the Treasury began buying silver at 64.64 cents an ounce, the

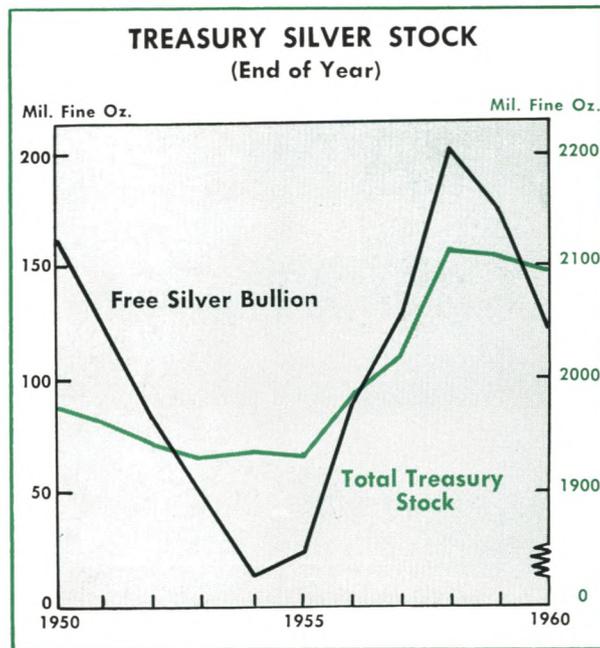
commercial price of bar silver in New York averaged about 35 cents. In 1939, when the Treasury's purchase price was raised to 71.11 cents an ounce, the market price was under 45 cents. Pressure of war-time demand raised the price in the early 1940's to around 50 cents. In 1946, the official price was raised to 90.5 cents, and the market price for that year rose to an average slightly above 80 cents. It receded from this level in the late 1940's but began to rise again in 1950. By 1956 it approximated the Treasury's buying price, and in 1959 it moved above this level.

These movements in price reflect, of course, changes in the over-all supply and demand situation in the market for silver. Supplies were large relative to demand in the 1930's, and had it not been for the Treasury's purchases prices would have been below the 30-50 cents range prevailing in most of that decade.

Since World War II, however, the industrial demand for silver has increased as new uses for the metal have developed. Moreover, since 1950 major countries abroad have made increasing use of silver in their coinage. Consumption has outpaced production since 1950, and the upward trend of prices represents a response to this situation.

OUTPUT AND USE IN THE 1950's By the end of the 1950's annual consumption of silver in the free world exceeded production by over 50%. Annual consumption in commercial and industrial uses rose

Free stocks fell below 25 million ounces in late 1961. Remaining Treasury silver is needed to support outstanding certificates.



from 157.4 million ounces in 1950 to 226.0 million ounces in 1960. The rate of increase of silver consumption in coinage was even greater, free world coinage systems raising their annual consumption from 44 million ounces in 1950 to 86 million ounces in 1960. Total free world consumption in 1960 amounted to roughly 320 million ounces, as compared with production of approximately 203 million ounces.

By far the largest single consumer of silver in the free world is the United States. Over the past ten years, annual United States consumption in industry and the arts has averaged around 100 million ounces. Consumption in coinage operations has run 40 to 50 million ounces annually. Total consumption in this country in 1960 came to 146 million ounces, just short of half the total for the entire free world.

Free world production of silver has actually declined since the late 1930's. Average annual production of under 200 million ounces in the 1950's compares with an annual average of over 250 million ounces in the late 1930's. Production has fallen off especially rapidly in the United States, declining from an annual average of some 65 million ounces in the late 1930's to about 35 million ounces in the 1950's.

Two important sources of silver have made up the excess of consumption over production and have tempered the price increase. One of these is the Treasury stocks of free silver, which have been sold in large quantities since 1958 at about 91.5 cents an ounce. The other is large and long-standing hoards of silver in Red China. The Red Chinese government has sold millions of ounces in recent months as a means of earning foreign exchange with which to pay for food imports.

The Presidential proclamation of November 28 halted sales of free silver and formally closed that source. At present, the second source is of questionable magnitude, but it is clear that Chinese silver hoards, however large, cannot last long at the rates at which they have been disgorged in recent months.

THE TREASURY'S SILVER STOCK Under the arrangements prevailing before November 28, a market price for silver above the Treasury selling price of 91.5 cents made it profitable for silver users to buy silver from the Treasury rather than in the market. Similarly, suppliers profited more by selling in the market rather than to the Treasury. Since 1958 the market price has consistently been above the Treasury's price, and it is not surprising that the Treasury's silver stocks have declined.

The Treasury's stocks of free silver have been subjected to an especially heavy drain over the past

three years. Free stocks of 202 million ounces at the beginning of 1959 were reduced to 123 million ounces in January 1961. The drain accelerated during the year, and in late November free silver holdings were under 25 million ounces. This drain provided the backdrop and the immediate occasion for the President's order stopping Treasury sales.

MONETARY IMPLICATIONS Because of the subsidiary position of silver in the United States monetary system, these developments in the silver market have no serious implications for the country's monetary system. However, they will require some action in addition to the proclamation halting sales of free silver. The Administration has indicated that it will seek repeal of the Silver Purchase Act and restoration of a free market for silver. Adequate supplies of silver to meet coinage requirements can, and probably will, be provided through retiring silver certificates. Such a move would work only a minor change in the country's money system.

The silver certificates withdrawn can be easily replaced with other forms of currency, notably with Federal Reserve notes, which account for more than 80% of outstanding currency and coin in the country. Such replacement would free almost 2 billion ounces of silver now held by the Treasury, and at present rates of usage this amount would meet United States coinage needs for perhaps 40 years. Even if only the higher denomination silver certificates were replaced by Federal Reserve notes, the Treasury silver freed (an estimated 410 million ounces) would meet coinage requirements at present rates of usage for perhaps eight years. Thus, there is no reason to expect any currency or coinage difficulties as a result of the present situation.

Replacing silver certificates by Federal Reserve notes would have one effect worthy of some attention. Since Federal Reserve notes require a 25% gold backing not required for silver certificates, such a replacement would increase the amount of gold needed to support the outstanding money supply. This would, of course, correspondingly reduce the excess amount of gold available to meet claims of foreigners on the dollar.

PHOTO CREDITS

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