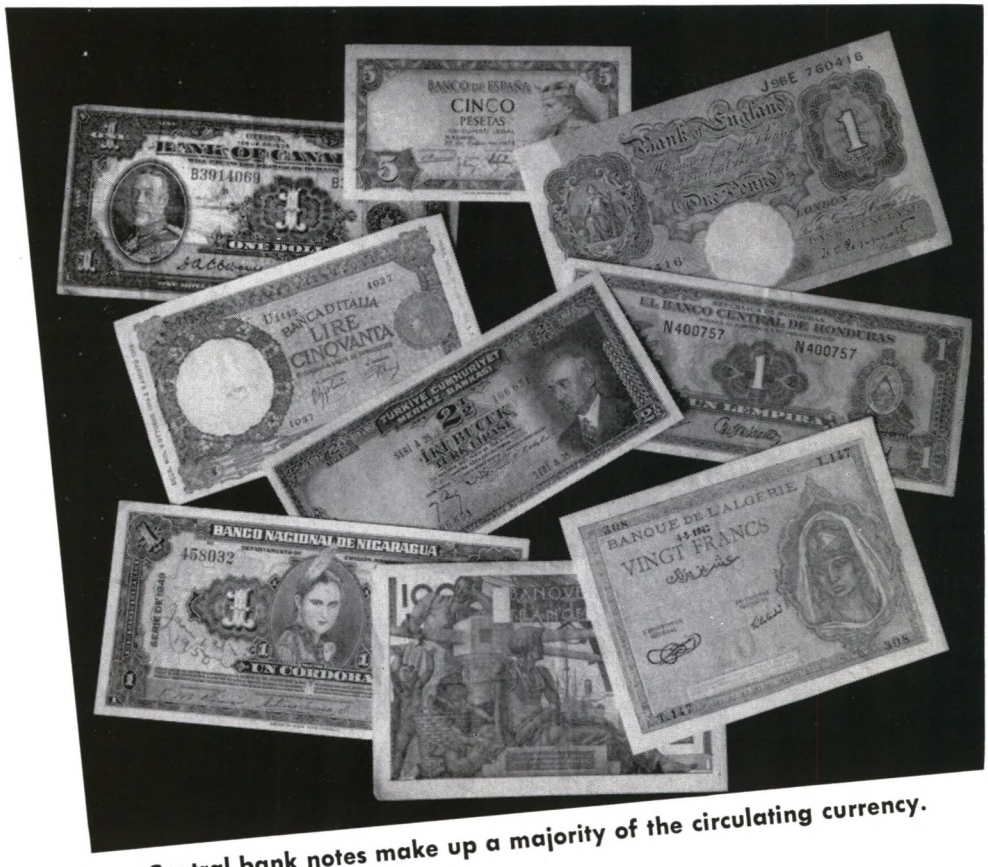
MONTHLY REVIEW



Central bank notes make up a majority of the circulating currency.

FEDERAL RESERVE BANK OF RICHMOND JULY 1962

The Note Issue Function of . . .

CENTRAL BANKS

This discussion of the note issue function, with special reference to the Federal Reserve System, is the second in a series of articles on central banks.

The function of issuing bank notes is almost universal with central banks. In most cases the banks have had this privilege from the beginning; indeed, in many instances the primary purpose of establishing the bank was to provide a paper money issue, and often the term "bank of issue" was used synonymously with "central bank." One scholar has stated that "The primary definition of central banking is a banking system in which a single bank has either a complete or a residuary monopoly of the note issue."

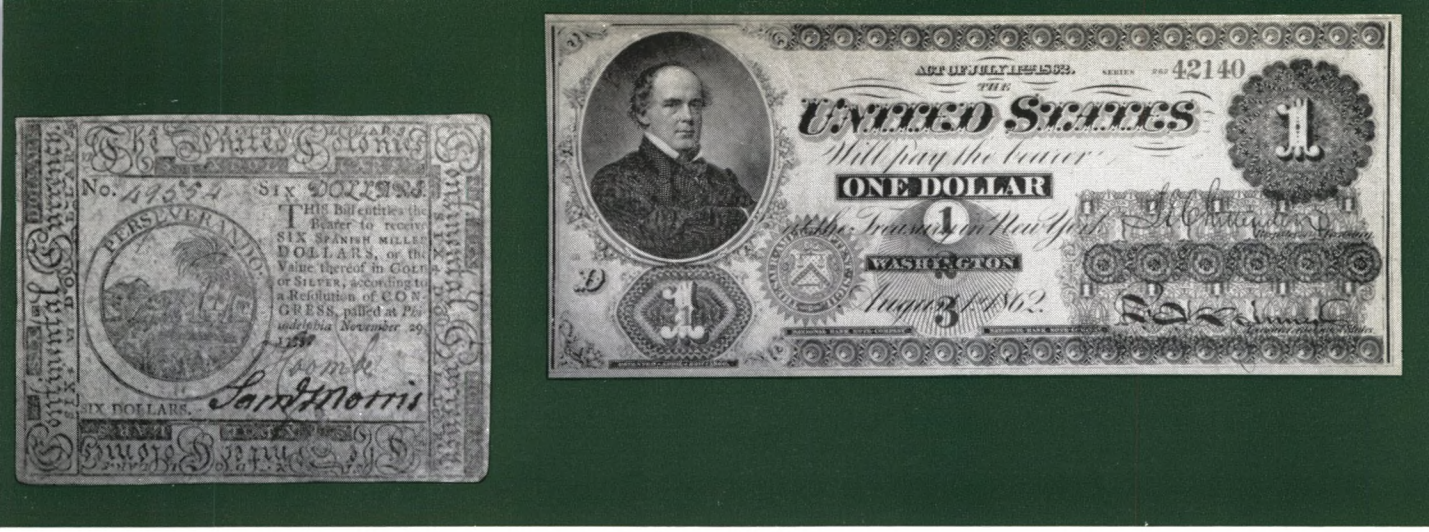
The importance of the note issue function has varied greatly over time and among countries. It is a major function of virtually all central banks since their notes make up a very large part of the circulating currency. It is the dominant function in those countries where the note issue is the dynamic or determining element in the total money supply. In the more advanced countries of the Western World, however, demand deposits make up the bulk of the money supply and are the medium through which most changes in that supply are brought about. The note issue function is correspondingly less important in such countries.

DEVELOPMENT OF BANK NOTES The modern bank note had its beginning in the seventeenth century at about the same time the earliest central banks were being established. In the more densely populated and economically advanced countries, use of the notes spread rapidly because paper offered obvious advantages over the heavy and bulky coins of the day. And, of course, banks promoted the trend since assets acquired by the issue of notes were the major source of their profits.

Early bank notes often ran into competition from another form of paper money—treasury notes issued by governments. Such government issues proved to be a convenient substitute for taxation and were usually made by governments in pressing need of funds. The size of the issues bore no relationship to the economy's monetary requirements, but rather depended on the size of the issuing governments' deficits. Monetary students soon noted two important disadvantages of such money. First, the issues seldom reduced the governments' deficits. Instead, by driving up the prices of the things the governments bought they tended to perpetuate the deficits, thereby requiring further issues, which frequently led to an inflationary spiral. Second, such issues were not "elastic"; that is, they contained no features which caused them to expand when the monetary needs of the economy rose or to contract when those needs declined.

On the contrary, under a properly regulated system, bank notes were paid out only when there was a demand for them—when the economy required more money. If requirements declined, the notes were brought back to the issuing bank for redemption or for use in repaying bank loans. In either case the notes were retired from circulation for the time being.

Over the years repeated instances of inflation caused a loss of confidence in treasury-issued paper money and a realization that a well-regulated system of bank note issue provided a superior monetary arrangement. Slowly and in various ways systems of bank note issues came to replace, at least in large part, treasury paper issues.



DEFECTS OF COMMERCIAL BANK NOTES The arrangements under which banks came to issue notes developed differently in different countries. In some there was no central bank for a long time and notes were issued solely by commercial banks. Where central banks had been established, they usually had no monopoly of the note issue but rather issued notes which competed with those of commercial banks.

Many difficulties and problems developed with note issues by commercial banks. Without adequate regulation, some banks abused the issue privilege, overissued notes, and failed. Even when the notes were redeemable at par by the issuing bank, they sometimes fell to a significant discount at distant points if there were no arrangements for redemption at convenient locations. This was quite important in large countries, especially those with inadequate communication and transportation facilities, because it resulted in varying values for different components of the money supply. Further, the notes frequently were not uniform as to size, shape, color, or quality of printing or engraving. These differences often encouraged counterfeiting which sometimes became a major problem. Moreover, systems of commercial bank note issues failed to provide for "emergency elasticity"; that is, arrangements for suspending for short periods of time the normal regulation governing note issues to allow larger amounts to be issued to meet public demands caused by panics or other abnormal situations. Long and painful experience has shown that such arrangements are essential, especially if there is less than complete confidence in the banking system.

Finally, as the theory and practice of central banking developed another problem emerged. The ability of a central bank to control the total money supply (including demand deposits) depends in part on the supply of coin and currency, which includes note issues. When a large part of the currency supply is made up of commercial bank notes, that supply is subject to erratic and unpredictable fluctuation depending on actions taken by the banks and whims of the public resulting from changes in confidence or other factors. Thus, the use of commercial bank notes complicated the principal task of central banks.

WHY A CENTRAL BANK MONOPOLY? The disadvantages described above can, in large measure, be overcome by giving the central bank a monopoly of the note issue. The central bank will not fail, so note holders will not lose for that reason. In addition, the notes are usually made legal tender and guaranteed by the national government. The best facilities and workmanship available are used in printing and engraving the notes so that counterfeiting is discouraged. If redemption is permitted and is significant, redemption points are established at various places so that the notes do not go to a discount because of distance. Emergency elasticity is provided because the central bank can safely be entrusted with the power to suspend normal regulations for limited periods of time. The power to control the note issue, even though incomplete, simplifies the central bank's task of controlling the whole money supply. Finally, since the note issue is the source of large profits, which come from the exercise of one of the sovereign powers of government, it is generally

believed that it should be concentrated in one organization not operated for profit and closely supervised by the government so that the bulk of the profits can more easily be recouped by the government.

The desirability of concentrating the note issue in the central bank came to be realized slowly, mostly during the nineteenth century. But accomplishing that step was not an easy matter. The commercial banks wanted very much to retain the right to issue notes, both because of the profit it conferred and because of the prestige it carried. The process of transferring the note issue power was long and involved. One method was to deny the note issue to new commercial banks and allow the central bank to assume any issue powers possessed by banks which went out of existence.

THE UNITED STATES EXPERIENCE In the United States commercial banks issued notes until 1935. The First and Second Banks of the United States, which functioned to some extent as central banks, issued notes along with state-chartered banks. From the end of the Second United States Bank (1836) until the Civil War, state bank notes were the only paper money in the country. While some states devised safe and sound systems of note issue, many states were lax in their regulation and many banks abused the note issue privilege, causing losses to the public.

In 1863 the National Banking System was established, providing for a safe and uniform bank note issue under Federal supervision and secured by the pledge of certain United States Government bonds which had the "circulation privilege." A Federal tax on state bank notes first levied in 1865 soon drove them out of existence, leaving the note issue solely to national banks. The only other form of paper money then in circulation was the United States note ("Greenback") but the gold certificate and silver certificate were added a little later.

National bank notes represented a great improvement in that they were uniform and safe. They were greatly lacking, however, in elasticity, both ordinary and emergency. This, along with other defects in the system, was primarily responsible for the recurring money panics which scourged the country from 1870 until 1907. Those panics did much to stimulate the reform movement which culminated in the establishment of the Federal Reserve System in 1913.

Federal Reserve Banks issued notes from the beginning, and it was expected that those notes would soon displace national bank notes. Provisions were made whereby national banks could retire their notes easily without loss, but they were not required to do so and few did. In fact, in 1932, when the Reserve Banks were experiencing difficulty in meeting the great demand for currency caused by widespread bank failures, national banks were allowed to increase their note issue substantially for a short time. Only a few banks took advantage of the law and the increase in notes was modest. Shortly afterwards the regulations governing the issue of Federal Reserve notes were liberalized so that Reserve Banks could meet the currency need. In 1935 all United States bonds with the "circulation privilege" were retired and national banks ceased issuing notes. Since then the notes have been gradually retired and now Federal Reserve Banks have a monopoly of the issue of bank notes.

REGULATION AND COLLATERAL In the past the most important features of a system of bank note issue were provisions setting the maximum amount

that could be issued, insuring the security or value of the notes, and giving elasticity to the issue. Where notes constitute the largest and most dynamic part of the money supply, those provisions are still of major importance. Also, in countries which maintain any form of the gold standard it is generally considered necessary to require some reserve against notes in the form of gold or gold certificates, or, in many countries, foreign exchange assets.

METHODS OF LIMITING VOLUME Various methods or devices, together with modifications and combinations of them, are employed to limit the maximum amount of notes which may be issued.

In many gold-standard countries it is customary to require a minimum reserve in the form of gold or gold certificates. The remaining collateral may be in the form of discounted paper, government bonds, or general assets of the bank. The gold reserve requirement sets a limit to the total amount of notes which may be issued.

Another method, long used in England, is to provide for a limited "fiduciary" issue of notes secured by government bonds and to require that all notes beyond that be fully backed by gold. That system was quite inelastic and is not used anywhere today.

Still another method is to require that the notes be secured by certain specific issues of government bonds which are limited in amount. This method was used in part to limit the volume of national bank notes in this country.

A widely used method of control is for the government to prescribe a maximum amount of notes which may be outstanding. The government, of course, is free to raise or lower that maximum from time to time as it sees fit.

Finally, reserve and collateral requirements may be abolished or indefinitely suspended, leaving the notes subject to the same regulation as the deposits or other liabilities of the bank. This means that the amount of notes outstanding is left to the discretion of the central bank or, more likely, to the automatic operation of the banking system as explained below. This situation prevails in many countries of the world today.

SECURITY AND REDEEMABILITY PROVISIONS Most bank notes are now issued by central banks, and there are few problems in insuring their security since a government cannot allow its central bank to fail or to default on its obligations. In fact, in most countries it might be said that there can be no problem of security or redemption since no meaningful redemption is allowed and the central bank note is in practice the ultimate form of money.

Usually various forms of collateral are pledged to secure the notes. If no specific assets are so pledged, note holders have a claim against the general assets of the bank, and may have a preferred status, ahead of depositors. Further, the security of central bank notes (in terms of the country's monetary unit) is further assured by the fact that they are usually made legal tender and are guaranteed by the national government. Where necessary, the maintenance of the notes at a uniform value throughout the country is assured by the establishment of a number of redemption centers.

THE FEDERAL RESERVE NOTE The Federal Reserve note was designed to add "automatic elasticity" to the uniformity and safety which had characterized the national bank note. This was to be accomplished by requiring "eligible paper" as the principal form

(Continued on page 8)

The Labor Force

A nation's most important economic resource is its manpower. Thus, in estimating the country's output of goods and services, forecasters consider the nation's manpower potential, in numbers and in composition. In 1961, "consumer" purchases were 65% of gross national product and "compensation of employees" accounted for 70% of national income. On both the expenditure and receipt side of the nation's economic accounts, therefore, the labor force is the most dominant factor.

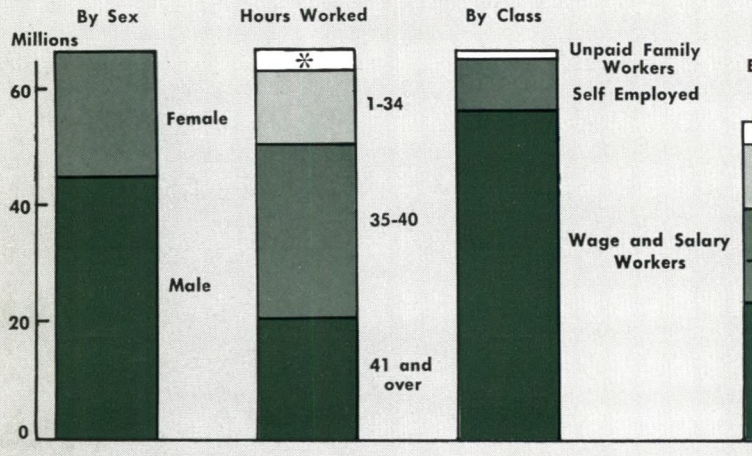
Information on the utilization and characteristics of the nation's human resources is available from three main sources—a household survey on the status of the labor force, a survey of nonfarm business establishments, and the official records of unemployment insurance programs. The three series are complementary, but proper interpretation of the storehouse of employment statistics requires an understanding of the definitions and methods used in compiling each series.

This article will discuss primarily the series as related to the employed; the other side of the coin—the unemployed—will be the subject of the next article in this series.

STATUS OF THE LABOR FORCE In the monthly survey of a sample of households, each individual, 14 years of age and over, is classified as *employed*, *unemployed*, or *not in the labor force* according to his "activity" during the week of the survey. Strict criteria are used by the interviewer in classifying each individual into one of these three groups. Sufficient detail, however, is published to permit an analyst to construct an alternative classifica-

CHARACTERISTICS OF THE EMPLOYED, 1961
(Average of Monthly Figures)

Employed Persons 14 Years of Age and Over



Employees on Payrolls at Nonfarm Establishments

By Industry	Hours Per Week	Weekly Earnings
Contract Construction	36.8	$117.37
Trade	38.8	72.84
Manufacturing	39.8	92.34
Durables	40.2	100.10
Nondurables	39.3	82.92

*With a job but not at work.

**Includes employees in mining (667); transportation and public utilities (3,923); government (8,831); finance, insurance, and real estate (2,748); and services and miscellaneous (7,514).

tion to meet his special needs. Persons in institutions—hospitals, prisons, and the like—are entirely excluded from the series.

The sum of the *employed* and the *unemployed* comprise the *civilian labor force.* An estimate of the *total labor force* is obtained by adding the number of persons in the Armed Forces, regardless of where stationed, to the civilian labor force estimate. Students, housewives, retired or disabled persons, those doing less than 15 hours of unpaid family work, and the voluntarily idle are classified as *not in the labor force* by the household interviewer.

TOTAL EMPLOYMENT DEFINED In the household survey, persons are considered employed if during the survey week they were "at work"—received pay or worked without pay at least 15 hours on a family farm or business—or were "with a job but not at work" for temporary reasons such as bad weather, industrial disputes, vacations, or illnesses.

TOTAL EMPLOYMENT DESCRIBED The household survey develops a mass of detail on the employed. For example, separate figures are published for agricultural and for nonagricultural workers, by sex, color, marital status, age, class of worker, and hours worked. Personal characteristics of those "not in the labor force" are also collected, thus giving the labor market analysts some indication of the nation's "labor reserve."

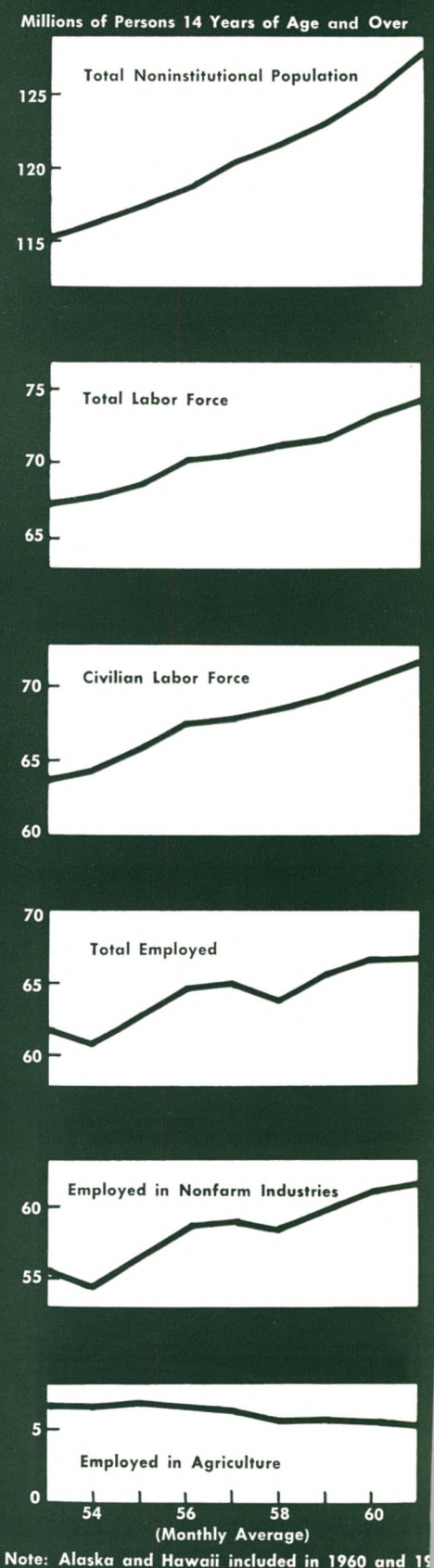
For nonfarm workers employed "part-time"—working less than 35 hours a week—separate figures are given for those who usually work part-time and those who ordinarily work full-time on their present jobs. For each category, those employed part-time for purely economic reasons are reported separately. The survey also supplies information on the occupations of workers, such as professionals, clerical workers, and carpenters. Only limited statistics are available by industry groups and geographical areas.

ESTABLISHMENT SURVEY For detail on industry classification and geographical location of the employed, the analyst uses the statistics derived from nonfarm establishment payroll records. The payroll survey also furnishes aggregate statistics on average weekly hours worked and gross earnings of production and nonsupervisory employees for individual industries. Statistics on manufacturing industries include labor turnover rates—total accessions, new hires, total separations, quits, and layoffs.

EMPLOYMENT SERIES COMPARED Payroll employment data differ in amount and concept from the nonagricultural employment figures obtained from the more inclusive household survey. The latter survey includes the self-employed, private household workers, unpaid family workers (working at least 15 hours a week), and individuals "with a job but not at work," whether paid or not. The establishment survey relates only to wage and salary workers, full- or part-time, who received pay during the survey payroll period. Also, each individual is counted only once in the household survey, whereas in establishment records a multiple jobholder is counted each time his name appears on a payroll.

SEASONAL ADJUSTMENT Major components of both the household and the establishment surveys are adjusted for seasonal variation. For the employment figures in the labor force series, separate seasonal factors are computed for the total, by sex, age group, and type (agricultural and nonagricultural worker) and for each type of worker, by sex. In the nonfarm establishment survey, seasonally adjusted figures are given for the number of employees and average weekly hours of production workers by industry division and for selected industrial groups.

EMPLOYMENT STATUS



Note: Alaska and Hawaii included in 1960 and 19

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of collateral. Eligible paper represents primarily short-term business loans which commercial banks make to their customers. The theory was that when there was need for more money commercial banks would make more such loans and would, in turn, rediscount more of the paper with Federal Reserve Banks, which would then have the necessary collateral to enable them to issue more Federal Reserve notes. When the need for money declined the reverse would happen.

Originally, there was a reserve requirement of 40% in gold *plus* a collateral requirement of 100% in the form of eligible paper. This was soon changed, however, to a *minimum* of 40% in gold and the *remainder* in eligible paper, which permitted combinations of collateral including 60%, 80%, or even 100% in gold. Also, changes were made which allowed collateral other than eligible paper to be pledged, but until 1932 United States obligations could not be so used.

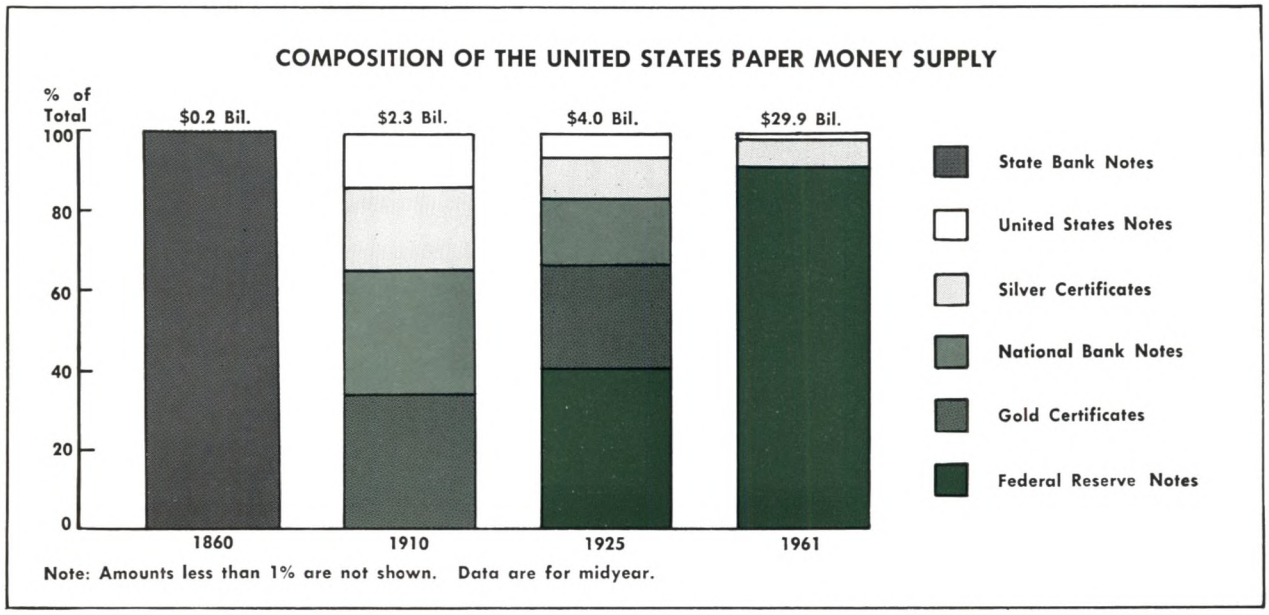
With the onset of the Great Depression after 1929, commercial banks held less and less eligible paper, and the amount of such paper held by Reserve Banks declined. At the same time, widespread bank failures caused depositors to convert more and more of their deposits into currency. When the Reserve Banks bought United States obligations in the open market in an effort to ease credit, the rediscounting of eligible paper declined further. The Reserve Banks had plenty of gold and the ratio of gold to notes outstanding rose to a very high level. A severe crisis developed, however, when substantial amounts of gold left the country after England suspended the gold standard in 1931. The demand for currency continued to grow and the Reserve Banks had difficulty meeting it, not because of a shortage of gold but because of a deficiency of other collateral, since their chief earning asset—United States obligations—could not be pledged as collateral for the notes.

To relieve this situation Congress first permitted a temporary increase in national bank notes as noted above. When this proved ineffective, the Reserve Banks were permitted, in 1932, to pledge United States obligations as collateral. During most of the period since that time, Government obligations have constituted the principal collateral for notes.

During World War II the gold certificate reserve requirement was reduced from 40% to 25%. At present the reserve held behind nearly $30 billion of Federal Reserve notes is composed of approximately $8 billion of gold certificates and over $23 billion of United States obligations.

In this way the original theory of automatic elasticity in the note issue was tested, found wanting, and abandoned. Automatic elasticity is now provided in another way.

AUTOMATIC ELASTICITY TODAY It is axiomatic today that provisions must be made to allow holders of



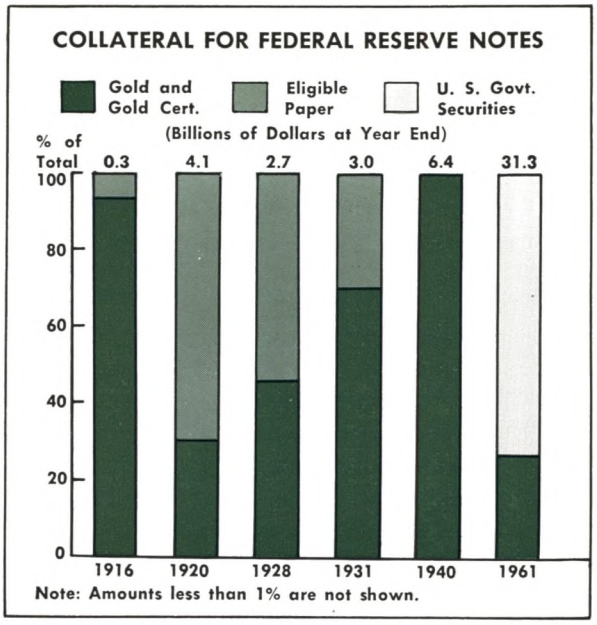
demand deposits to convert those deposits into currency in any amounts they wish. It could not properly be otherwise. If depositors feared that they might not be able to convert, large numbers of them would immediately demand conversion. If the currency were not available, there would be a panic and the financial system would be paralyzed.

Today most central banks are in a position to meet any probable demand for currency, either because there is no limit on the note issue or because the banks have the authority to suspend any such limit temporarily. If neither of those situations exists, it is quite likely that, in an emergency, the national government would act quickly to enact the necessary legislation.

In general, it is safe to have such arrangements because, in the more advanced countries of the world, demand deposits are the dominant form of money and the demand for currency is closely related to and derived from those deposits. Given proper regulation and control of demand deposits, the amount of bank notes in circulation can safely be allowed to find its own level without elaborate regulation as to limits and collateral. On the contrary, it is not feasible, in a modern economy, to regulate the total money supply by strict regulation of the note issue. As one authority has expressed it, ". . . the law was clutching at a slippery eel when it sought to apply a rule of thumb to the monetary situation by regulating the issue of bank notes alone."

EFFECTS OF A LARGE INCREASE IN NOTES To some it might appear that indefinite or nonexistent limitations on bank notes could be inflationary by permitting a large increase in their issue. Is this a real danger? On the contrary, it is probable that under present conditions a large increase in central bank notes would be deflationary for two primary reasons. First, the notes can be obtained only by surrendering demand deposits, thus exchanging one form of money for another and leaving the total money supply unchanged at the moment. The reason for such a conversion presumably would be some uncertainty or lack of confidence causing the depositor to want to have in his possession the ultimate means of payment. He would not want currency for the purpose of making an immediate payment or purchase; he could do that with a check. In short, he would want the notes so that he could hoard them, which would be deflationary.

Secondly, a sharp increase in notes would greatly reduce bank reserves. Suppose notes increased by $3 billion. Commercial banks would have to obtain them by drawing down their reserves at the central



banks by approximately that same amount. The required reserves of the commercial bank would also be reduced but by only about one-sixth as much. This would leave a large reserve deficiency which could be eliminated only by the central bank creating new reserves through open market purchases or rediscounting or by the commercial banks reducing their deposits by several times the amount of the increase in notes. The latter would be very deflationary and the former would happen only to the extent that the central bank considered it sound to do so.

SUMMARY In summary, bank notes usually make up a large majority of all paper money. Central banks customarily have a monopoly of the note issue privilege, although there are numerous but usually minor exceptions to this generalization. Bank notes are important but they are not the dominant and dynamic form of money they once were, having been displaced in this respect by demand deposits. In the Western World the demand for notes is normally derived from and dependent on the volume of demand deposits; if the deposits are properly regulated, the volume of bank notes can safely be allowed to find its own level. Where any effective connection with the gold standard remains, a country must maintain gold or gold certificate reserves against both the deposits and the notes of the central bank. Otherwise, however, the tendency is to give central banks wide discretion in the issuing of notes and to abolish or suspend regulations fixing limits or requiring specified forms of collateral.

THE FIFTH DISTRICT

General business activity in the Fifth Federal Reserve District continued to advance at a fairly healthy clip during the late spring and early summer. There were exceptions as always. But for the most part the District economy was operating at good high levels going into the summer vacation season when sharp cutbacks in production are normal and attention centers on consumer behavior for guidance in evaluating the outlook for the fall.

The widespread strength of District business as it approached the summer slowdown was reflected in all broad statistical series. Seasonally adjusted bank debits, for example, reached a new high in May for the second consecutive month, up 1% from April and 8% above May 1961. The series fluctuated erratically without making any net progress during the last seven months of 1961, so that the present margin over last year's level is all a result of advances made this year. Except for a slight setback in March, bank debits have increased steadily and gained 10% during the first five months of this year.

EMPLOYMENT CONTINUES TO RISE Seasonally adjusted nonfarm employment reveals a substantially similar pattern. The District count of nonagricultural workers rose again in May, reaching a new high for the third time this year and exceeding the figure for the previous May by 3%. A big increase occurred in contract construction apparently in response to contract awards, which have maintained good average levels for many months. Seasonally adjusted employment advanced moderately during May in nondurable goods manufacturing; transportation, communications and public utilities; trade; finance, insurance, and real estate; and government. Service enterprises and durable goods manufacturing remained at a virtual standstill, and mining declined.

MAN-HOURS MIXED BUT SLIGHTLY UP Like bank debits and employment, seasonally adjusted factory man-hours increased substantially from January to a new high in April. Unlike the others, however, total man-hours barely managed a further advance in May as durables declined while nondurables gained. Although the over-all change could hardly be considered significant, the underlying developments were.

Reduced production schedules in primary metals (principally steel), fabricated metals, transportation equipment, and stone, clay, and glass accounted for most of the man-hour decline in durables. May's seasonal drop in furniture man-hours was a bit sharper than usual but not sharp enough to alter significantly this year's very favorable record or to alter the general appraisal of durable goods as a group. As a partial offset to these declines, more than the usual seasonal strength developed in machinery and lumber. Machinery moved up sharply to a new high from an already advanced level, and lumber continued its recent pattern of gradual progress at moderately good levels.

NONDURABLES SHIFT The small net gain achieved in May in nondurable goods man-hours concealed some significant shifts in the relative fortunes of the component industries. For instance, the sharpest declines occurred in two that are typically among the most stable in the District. In food processing, the District's biggest employer after textiles, seasonally adjusted man-hours dropped 3% in May. Tobacco industry man-hours, seasonally adjusted, dropped 5% to their lowest level since January. The May decline in cigarette man-hours was only 1%, but four months of production data and five of man-hours indicate that District cigarette production so far this year has fallen considerably short of the 4% average annual gains typical of recent years.

The textile industry, which regularly accounts for more than 40% of nondurable goods man-hours, was a mild source of strength in May. An increase in activity at yarn and thread mills more than offset a slightly slower pace at knitting plants while weaving schedules remained virtually unchanged. Apparel and chemicals (which contribute about equally to man-hours and together account for 24% of the nondurables total) made the best progress in May. A 2% decline in paper manufacturing was only partly countered by a small gain in printing and publishing.

RETAIL BUSINESS GOOD Trade statistics are not as comprehensive and so do not provide as clear a picture of recent trends. They do, however, appear generally favorable despite some inconsistencies. During the first half of 1962 seasonally adjusted de-

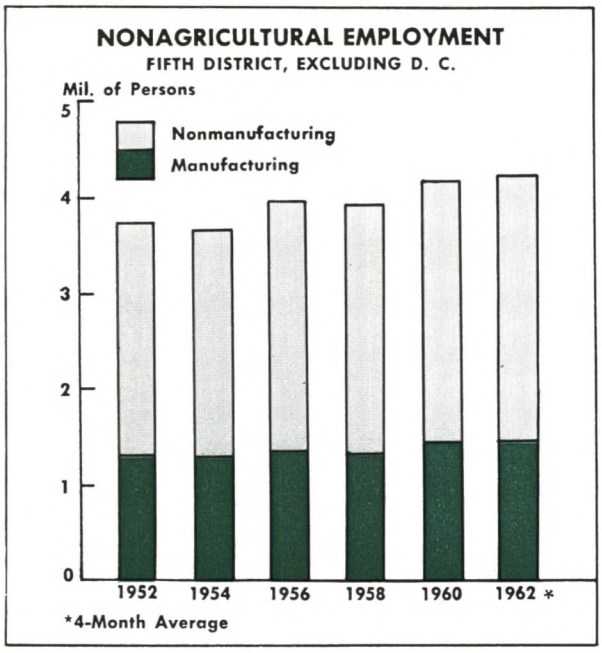
partment store sales hit a new half-year high, just a shade better than the average monthly level of the 1961 second half. But, where 1961 closed on a rising trend, 1962 volume has fallen since March.

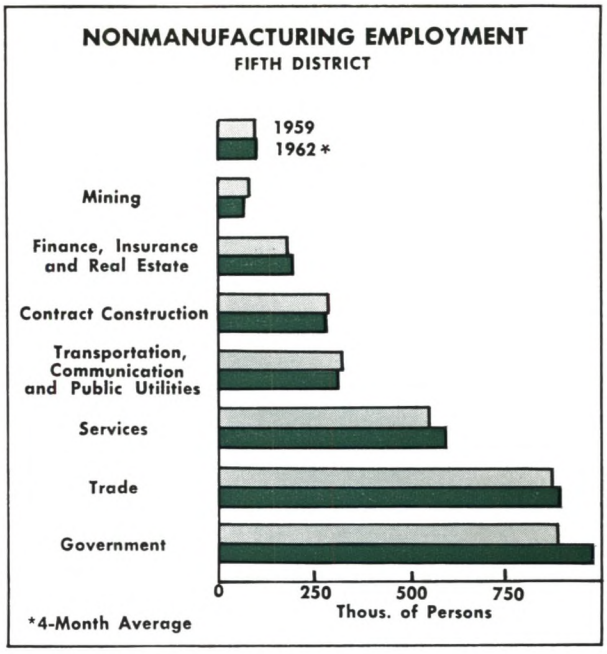
A special census compilation of sales by retail firms with less than ten establishments is the District's most comprehensive measure of trade, but the lag in availability is seldom less than two months. From November to April (the latest figure available) each month rang up record sales as compared with the same month in prior years. Past variations from month to month, however, have been so erratic that they provide an extremely vague standard for evaluating this year's performance. The over-all impression, however, is one of sales at record volume with short-run variations about in line with usual seasonal patterns.

TRADE REPORTS VARY Informed commentaries on recent consumer buying reveal marked variations in virtually every dimension of the business. Variations in performance are reported between different lines of merchandise, among various items in the same line, between main stores and branches, among apparently similar business days at the same store, and, of course, among various cities and geographical regions. Generally, seasonal items such as summer apparel, sports equipment, and recreational items have moved well. Summer appliances such as fans and air conditioners seem to have fallen somewhat short of expected volume, possibly because of cool weather in May and June. Some merchants report a recent tendency on the part of potential customers to postpone large purchases, especially home furnishings and appliances. Others, particularly outlets for automotive and recreational equipment, find customers quite willing to buy the so-called "big ticket" items. Boat and boating equipment dealers, for instance, report a strong beginning and high hopes for the rest of the season. Owners are reportedly "trading up," buying bigger and better boats, and the demand for used equipment has been strong. One observer likens today's boat business to autos in the 1920's—many new makes seeking buyer acceptance with competition rising in proportion.

ACCENT ON SERVICES Summertime travel and recreation involve services as well as equipment. The first chart on the next page indicates that most of the growth in District employment over the last decade has occurred in nonmanufacturing enterprises. The second chart shows the relative contribution made by service enterprises. In the Fifth District only government and trade have provided more jobs. Between 1959 and 1962 service establishments increased employment more than 8%, a rate of growth that government alone surpassed.

According to the employment survey conducted as part of the decennial Census of Population, services constitute by far the fastest growing of the larger employment categories. Service workers increased 32% between 1950 and 1960 compared to 21% in manufacturing, 20% in government, and 15% in retail trade. Among all major industry groups, only





finance, insurance, and real estate, which gained nearly 50% over the decade, grew more rapidly than services. At the time of the last Census of Business in 1958, District service establishments exceeded 68,000 and paid out $590 million in payrolls. Personal services accounted for nearly two-fifths of total payrolls, business services for more than one-fifth. The remaining service payrolls were divided in descending order of importance among hotels and motels, amusements, automobile service and repair, and miscellaneous repair services.

BANKING IN THE FIRST HALF Perhaps the most interesting banking development so far this year has been the continued growth of time and savings deposits. Normally such deposits grow slowly or even decline as economic expansion improves market interest rates and draws funds from time deposits to provide larger working balances. This year, however, interest-bearing deposits have continued to rise at a rapid clip, increasing almost 9% since the first of the year at District weekly reporting member banks and about 13% at weekly reporters in the nation at large. The increase can be explained in part by the mild nature of the present expansion and the stability of market interest rates. More important, however, has been the change in Regulation Q which permitted banks to pay higher rates on time and savings deposits beginning January 1.

Not only has the change in Regulation Q contributed substantially to the growth of time deposits, it has also had an important effect on the composition of bank portfolios. In order to pay higher rates of interest, banks have had to adjust their assets in order to increase earnings. In the Fifth District, in the absence of much demand for commercial and industrial loans, banks have gone heavily into consumer loans, up almost 7% since the first of the year, and real estate loans, up 4% in the last six months. Banks in the rest of the nation have also directed loan funds into these two areas but with reversed emphasis. Nationally, consumer loans have increased only 5% but real estate loans have risen nearly 6%. In the investment field both United States and District banks have lengthened their positions in Governments. Their holdings of securities maturing in over five years have increased despite declines in their over-all holdings of Governments. Banks throughout the nation have also sharply increased purchases of tax-exempt State and local government issues in their efforts to increase earnings. This trend, however, has not taken root in the Fifth District and holdings of tax-exempts by weekly reporting banks here have actually declined.

PHOTO CREDITS

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