FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Population is People
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MARCH 1968

POPULATION IS

On November 20, 1967, at 11:03 a.m., the Government's "census clock" located in the lobby of the Commerce Department registered the birth of the 200 millionth living American. The incident was merely the result of the Census Bureau's statistical average of net population increase which places one new birth every 14.5 seconds, and although no one knows exactly who the lucky baby was, his appearance has become one of the most talked about events in 1967. Newspapers around the world gave front page coverage to the new arrival while radio and television brought the news to homes everywhere. The notoriety received by this anonymous American citizen focused additional attention on population developments not only in the United States, but throughout the world.

When the population of the United States reached the 200 million mark, new emphasis was placed on the problems that undesirable population trends can cause. Man has always been faced with demographic difficulties: the need for more people, the threat of too many. Modern man is no exception, but he has the advantage of relatively reliable census figures and projected data that give him meaningful guidelines to use in solving his problems. For this valuable information tomorrow's planners can rely on today's statisticians.

Population Projections: Difficult But Essential

Estimating and projecting population figures is perhaps one of the most difficult tasks statisticians face. In their attempt to gather and process population data, they must overcome innumerable obstacles. For example, the national census occurs only every ten years, an interval much too long to detect short-term changes for estimating purposes. Frequently, data on local population are sparse. The nebulous methods of estimating migration and fertility have to be defined and considered. There are many problems requiring special attention: the position of military personnel, crews on American ships, and college students have to be accounted for. In less literate and industrial countries than the United States the problems become even more numerous. Population projection, then, is a challenging and complicated assignment—but one of the most sought after commodities of the mathematical statistician.

The difficulty in gathering and assimilating data on population has nothing to do with its popularity. Outside the circles of the professional demographers, guessing, projecting, and even prophesying population developments have reached the popularity of a parlor game. People are always curious about their numbers. They want to know how many people there are now, where they are, and what can be expected for the future. Population troubles make the topic even more vital. Statistics on the highly publicized population explosion are discussed everywhere from conference rooms in the United Nations to crowded booths at the corner drug store. But possibly the prime reason for the attention given to population figures is that they are widely used in political, social, and economic planning.

Changing population patterns are used by both Government and industry for making decisions and taking actions. Long-range plans by educators and businessmen depend on the population trends of their areas. Solutions to the problems of physical expenditures, inventories, and location of new facilities can be reached more profitably and beneficially if the planner has accurate population projections on which to depend. Even developing cultural institutions—museums, symphonies, and theaters—rely on statistics denoting demographic fluctuations. Prog-

PEOPLE

ress in all facets of society can be more easily achieved if planners for the future make use of statistics denoting population shifts and trends.

A Look at What's Ahead Considering the value of knowledge of population changes, it should prove interesting to see what lies ahead for the United States. The figures to be used are taken from *Population Estimates,* an October 1967 publication of the U. S. Department of Commerce. In the booklet, projected figures are divided into four series based on two underlying assumptions: national fertility and interstate migration. The following data are based on Series I-D, which assumes the continued decline of fertility from present levels, and migration rates which will continue within the range observed in 1955-60 and 1960-65.

According to Census Bureau calculations on April 1, 1960, there were approximately 179 million people in the United States. The 1965 estimates place total population for the country at 194 million, and projections show that the figure should jump to 241 million by 1985. This represents an increase of 24.2% and a projected annual growth rate of 1.1%.

Looking at a regional breakdown of the country, the South is expected to claim around 75 million people by 1985—an increase of 25%. The South Atlantic area, which includes all Fifth District states plus Delaware, Florida, and Georgia, will increase 31.2%, and will account for 15.7% of the total number of people living in the United States. Although the South will have more people by 1985 than any other region, the West will show the greatest percentage increase in population. With a sizable jump of 46.3%, the West will be well ahead of the national increase of 24.2%. A further breakdown of the area shows the Mountain states with an expected increase of 38.4%, and the Pacific states registering the largest gain of any of the areas with 48.8%. Although the West will experience a substantial expansion in population during the next 17 years, it still will have the smallest percentage distribution of any of the four regions. The eight Mountain states will account for only 4.4% of the population, while the five Pacific states will claim 15.0% of the U. S. populace. Most of this increase will be centered in the state of California, the one exception to the rule of scarcely populated Western states. With sparse population projected for this area, Horace Greeley's advice of "Go West, young man, go West" may still prove valid.

Both the Northeast and the North Central regions can expect population increases by 1985, although the rise will be below that of the nation as a whole. Projections indicate that by 1985 New England and the Middle Atlantic states should have around 56 million people, while the industrial states of the East North Central and the agricultural states of the West North Central can expect around 63 million by that year.

POPULATION OF UNITED STATES AND REGIONS

	April 1960 (census)	1965 Estimates	Projections 1970	1975	1980	1985	Projected 1965-1985 percentage increase	Projected 1985 percentage distribution
			(thousands of persons)					
United States	179,323	193,795	203,940	214,384	226,681	240,747	24.2	100.0
Northeast	44,678	47,617	49,490	51,361	53,544	56,040	17.7	23.3
North Central	51,619	54,089	55,488	57,192	59,607	62,742	16.0	26.1
South	54,973	60,106	63,691	67,160	71,008	75,159	25.0	31.2
West	28,053	31,983	35,271	38,670	42,522	46,807	46.3	19.4

The State Scene Projections for individual states offer further evidence of the country's shifting population distribution and expansion. Florida's population will increase by 66.3%, Arizona's by 63.8%, and California's by 57.6%. Migration will have a great effect on the growth of these states: almost six million people will move to California, around three million to Florida, and half a million to Arizona. Measured as a per cent of the 1965 population of the states, these figures represent net migration rates of over 50% for Florida, around 33% for California, and 31% for Arizona. These states seem to offer advantages that a great many people find inviting. Perhaps some of the high migration rate is the result of the increase in the number of older citizens who seek the warm climates and easy living facilities that these states are able to provide. There are, however, numerous younger people, especially the sports-minded, who are also participating in the trek to the sun. The Western states of Nevada, New Mexico, Utah, and Colorado, where population is relatively sparce will benefit too from a mobile populace. But even states with relatively high population densities such as Delaware, Maryland, and New Jersey will experience an influx of people over the next few years. Projections show that expanding populations, as a result of either migration or birth rates, or both, will characterize every state in the Union over the next 17 years, with the exception of West Virginia. According to the estimates, during the period from 1965-1985 West Virginia will lose approximately 150,000 people, a decrease of 8.2%. On the list ranking the states by the net migration rate, West Virginia appears in fiftieth place, with an almost 20% decrease. These projections, however, make no allowance for economic development, or the demand for coal and other West Virginia resources that could stimulate growth for that state.

Although interstate mobility is expected to increase, the distribution of the nation's population is projected to show little change from 1965 to 1985. In contrast to the small percentage of people in most of the Western states, California will remain the most populous state with 12% of the U. S. population. New York is not far behind with 8.9%, and Texas will continue in third place with 5.6%. The industrial and urban states of Illinois, Ohio, and Pennsylvania follow with 5.3%, 5.1%, and 5.1% respectively. For those who feel threatened by the overabundance of people, there is always the state of Alaska, which in 1985 will claim a mere 0.1% of the nation's total population even though it is geographically the largest of the states. Vermont and Wyoming, each with only 0.2% of the population, will also offer the crowd-conscious a less populated escape. So despite the fact that population will continue to grow, there still will be areas within the U. S., even in 1985, with relatively few people.

REGIONAL POPULATION PROJECTIONS

	Projected 1965-1985 percentage increase	Projected 1985 percentage distribution
Northeast:		
New England	19.1	5.5
Middle Atlantic	17.2	17.8
North Central:		
East North Central	18.7	18.9
West North Central	9.4	7.2
South:		
South Atlantic	31.2	15.7
East South Central	14.2	6.1
West South Central	23.1	9.5
West:		
Mountain	38.4	4.4
Pacific	48.8	15.0

Projections Reviewed A look at projections of the overall U. S. population picture for the next 17 years reveals a pattern of growth and expansion. The trend toward a national increase in population will persist in spite of a decline in the birth rate, which began decreasing as early as 1957. With the exception of West Virginia, every state will be characterized by an increased populace. Migration will continue to be predominantly westward, but Florida will still attract large numbers of migrants. The distribution of the population will be heaviest in the East North Central and Middle Atlantic sections, but will remain relatively light in the West. Even with this panorama of continued growth, by 1985 the U. S. still will be lightly populated compared with most other industrial nations of the world.

Growth, then, although not as rapid as it was in the 1950's and the early 1960's will be the major trend in U. S. population developments over the next several years. There are many who find this continuing expansion frightening. Fear of the lack of space and the possibility of a scarcity of food lead some Americans to believe that overpopulation is one of the biggest problems facing the country today. Unless measures are taken to reduce substantially the growth rate, they conclude, the people boom will eventually "use up the earth." Others who are less pessimistic feel that an increasing population is essential to the country's welfare and must be accepted as a desirable challenge. *Carla W. Russell*

A Century of International Trade Policy 1840-1940

During the one hundred years spanned by the period 1840-1940 the weight of world opinion concerning international trade swung repeatedly from free trade to protectionism and back again. In the middle of the last century broad internationalism was widely evident in the commercial policies of many governments. Led by Great Britain, a number of countries substantially lowered their trade barriers and reduced discriminatory practices. The seventies, however, saw a reversal towards more protection. Unfavorable economic conditions, increasing industrialization and an emerging political nationalism all contributed to this shift in policy. After a moderate swing back toward freer trade around the turn of the century, the first World War considerably reduced the volume of international trade, as it led to many increases in direct and indirect controls. During the 1920's, sporadic efforts were made to return to prewar conditions. The crisis of 1929 and the prolonged depression of the thirties not only offset what had been achieved in this direction, but also induced many nations to impose the most extensive trade barriers ever.

The U. S. raised a formidable tariff wall with the Smoot-Hawley Act of 1930, but almost immediately began to take steps to mitigate the impact of the measure. The Trade Agreements Act of 1934 authorized the President to negotiate with individual countries on reductions of as much as 50% in existing duties.

This article will discuss in broad outline the commercial policy of the leading trading nations in the period between 1840 and 1940.

1840-1870: An Era of Free Trade During these decades free trade philosophy made considerable headway. The theories of such "classical" economists as Adam Smith, David Ricardo, and John Stuart Mill induced many governments to strive towards liberalization of their international trade. Tariff walls were gradually lowered, the lists of dutiable items were shortened and many kinds of discriminatory practices were abolished.

Great Britain, the world's leading trading nation of those days, set the tone in this process. In 1846 Britain opened its markets to agricultural imports by repealing the Corn Laws that had long brought protection to this sector. Three years later Westminster abrogated the Act of Navigation that, for almost two centuries, had protected the British carrying trade. Most important for the liberalization movement was, however, the negotiation in 1860 of the Cobden-Chevalier trade treaty between Great Britain and France. The unconditional most favored nation clause contained in that treaty, later on copied by many other countries for their trade agreements, set off a chain reaction that let to a decade of unprecedented free trade.

A distinction should be made here between the conditional and the unconditional variant of the most favored nation clause (respectively c.m.f.n. and u.m.f.n.). In the latter case partners in a trade agreement pledge automatically to extend to each other the more favorable terms of any new agreement that either may enter with a third party. Suppose, for example, the U. S. has a standing agreement with France to levy a 5% import duty on French wine and the U. S. thereafter negotiates a new agreement with Italy levying a 4% tariff on Italian wine. France can then automatically claim the same treatment for its product. Under the conditional form, however, France does not automatically get the new 4% tariff. It will only obtain such treatment if it can give the U. S. an equivalent concession. The inherent difficulty of this system is, of course, how to determine what can be accepted as an "equivalent" compensation.

Following the 1860 Cobden-Chevalier treaty most European nations inserted the u.m.f.n. clause in their trade agreements. The U. S., however, continued to apply the conditional variant. In fact, it was this country which, at the conclusion of its first commercial treaty in 1778 introduced this form of the clause in international trade relations. The explanation of this position may be found in the specific trade circumstances at the time of the founding of the nation. In those days tariffs tended in general

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PEANUTS

A Briefiography

Peanuts, the District's fourth major source of crop income, have been important to the economy of this area for more than a century. Brought to this country from Africa along with the slaves in colonial days, the peanut was first cultivated in only a small area of eastern Virginia. Soldiers who fought in the Virginia campaigns of the War Between the States developed a taste for peanuts, creating an increased demand for them. This provided the first major impetus for an increase in production, and cultivation of peanuts spread rapidly into other Southern States.

Development of machinery for planting, cultivation, and harvesting and invention of the mechanical sheller were of major importance in the expansion of production. The first plants for cleaning and shelling peanuts were built in 1876 in New York City and in Norfolk, Virginia. A second was built in Norfolk in 1878 and another much larger one in Smithfield, Virginia, in 1880. Of the 111 peanut shellers and crushers throughout the country today, 14 are located in Virginia and 16 in North Carolina.

The most rapid expansion of peanut production occurred in the Cotton Belt following the fast migration of the boll weevil. Here the heavy loss of cotton income caused farmers to look for other sources of income. The peanut promised a good alternative, and acreage increased markedly. Still another wave of expansion took place during World War II when acreage allotments were terminated to encourage production of peanuts for conversion to oil. Acreage reached a peak during the war years, but with the decline in the wartime demand for peanut oil, acreage was again cut back. Allotments were reimposed in 1949 and have been held at approximately the legal minimum level, 1.6 million acres for the nation, since 1956.

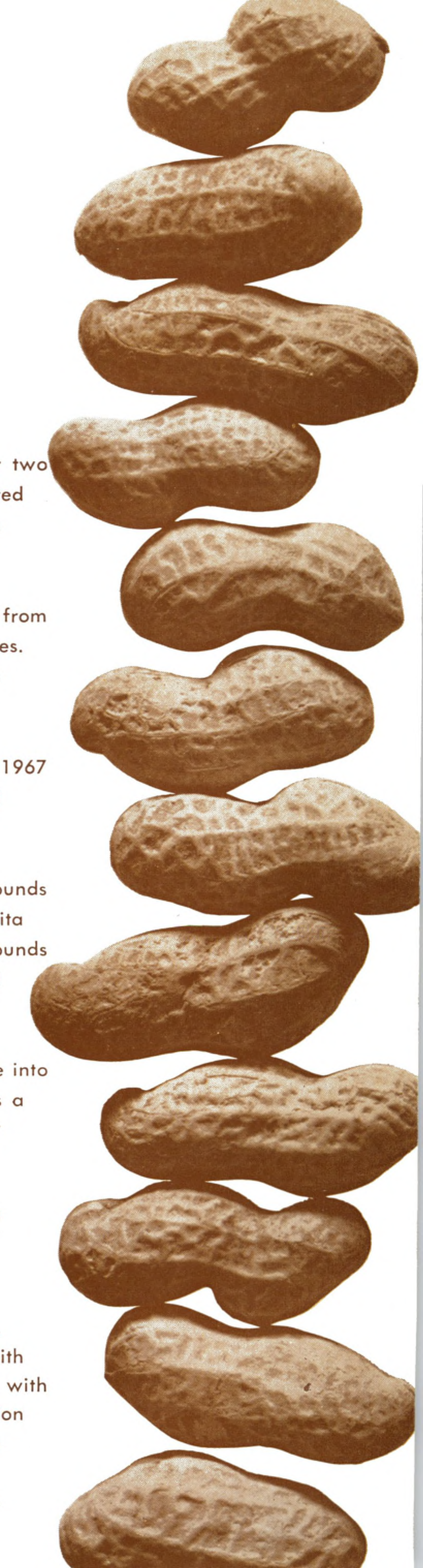
The nation's peanut production for many decades has been concentrated in three distinct areas: the Virginia-Carolina area, primarily southeastern Virginia and north-eastern North Carolina, producing the large-podded, Virginia-type varieties; the Southeast, chiefly southwestern Georgia and southeastern Alabama, where the Runner, Spanish, and Virginia varieties are grown; and the South-west area, mostly scattered sections of Texas and Oklahoma, producing mainly the small-seeded, Spanish peanuts.

Acreage in the Fifth District's area of production, which corresponds roughly to the Virginia-Carolina area, has comprised about 20% of the national total for the past ten years and in 1967 was estimated at 277,500 acres. This is a 46% decrease from the all-time high of 515,000 acres harvested in 1945. Acreage declines have been even greater in the Southeast and Southwest. There has been a sharp uptrend in yields per acre throughout the country, however, and production has increased. Record peanut crops have resulted in recent years, with the all-time high occurring in the District in 1965 and in the nation in 1967. District peanut yields are well above those in the other two areas, and District producers have accounted for roughly 30% of total United States output during the postwar period. Half of the nation's production has come from the Southeast and the remaining 20% from the Southwest.

Peanuts have many uses. The late George Washington Carver, in fact, is said to have made more than 300 food and industrial products from them. Today, however, they are used primarily for food in the United States. A low-cost, high-protein food and rich in energy, one pound of peanuts furnishes about the same amount of energy as 2 pounds of beef, 1.5 pounds of Cheddar cheese, 9 pints of milk, or 36 medium size eggs. Slightly more than three-fifths of the total disappearance of peanuts in 1967 was in the form of edible products, chiefly peanut butter, candy, salted peanuts, and peanuts roasted in the shell. Crushings for oil and meal accounted for 24%; exports, 9%; and seed, feed, and farm loss, 6%. Consumption of peanuts (farmers' stock basis) has risen from 955 million pounds in 1955 to an estimated 1,550 million in 1967, a gain of 62%. On a per capita basis, the increase has been from 5.8 pounds to 7.8 pounds. Almost 7 pounds of this was consumed in the form of peanut butter, salted peanuts, and in candy. The remainder was divided almost equally between cleaned roasting-stock peanuts (the ball-park type) and those consumed as food on farms.

Roughly half of all edible peanuts used since 1955 has gone into the manufacture of peanut butter, first produced commercially in 1890 as a food for invalids. Salting, the second largest outlet, has accounted for slightly better than one-fifth, while candy manufacture has used around one-sixth. Virginias used in cleaned, unshelled roasting-stock form have comprised around 7% of the total. Most of the Runner and Spanish varieties are used in making peanut butter and most shelled Virginia types for salting. Spanish peanuts are the most widely used type in candy manufacture. Some of each type are used in all three outlets, however. Utilization of all three types of peanuts has risen. Use of Virginias, up 72%, has shown the biggest gain, followed by Spanish, up 55%, and Runners with a rise of 49%. The nation's processors of raw peanuts now total 393, with 29 of these located in Fifth District states.

Despite increased consumption in recent years, peanut supplies resulting from the gains in production have been larger than edible requirements. The CCC has acquired the excess, and prices to growers have averaged near the support level.



A Century of International Trade Policy

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to be low and of minor importance, but most European states applied a variety of discriminatory regulations in their commercial policies. U. S. commerce and shipping tended to be either excluded altogether or discriminated against. The use of the conditional form of the clause gave the new nation a strong bargaining position from which it could attempt to improve its position. A more favorable treatment of a certain foreign product in the U.S. was not given automatically, but was made conditional upon elimination of discriminatory rules applied by that country.

The continued use of the conditional form by the U. S. after 1860 was a serious irritant to its trading partners. These countries had gradually abolished their discriminatory regulations and could offer the U. S. little as an "equivalent" concession. A situation arose in which the U. S. could automatically claim "most favored nation" treatment for its products, but in turn would refuse to automatically grant it. In due time European nations reacted by discriminating against the U. S. Nevertheless, this country continued to apply the conditional form till 1923.

Another source of irritation abroad was the comparatively high level of tariffs maintained by the U. S. The Morrill Tariff Act of 1861 had raised duties about 150%. During the War Between the States financial considerations spurred additional increases in tariffs as well as a curtailment of the list of non-dutiable goods. After 1865 the dominant protectionist interest kept the U. S. on this course.

1870-1914 In the 1870's and 1880's the scene gradually changed as an increasing number of European countries turned protectionist. Only Great Britain and the Netherlands, both of whom had large interests in world trade, remained true to the free trade ideology. Various reasons can be pointed out for the shift to protectionism. A severe depression in the agricultural sector hit hard at the basis of most European economies. Besides, improved international transport facilities had raised the volume of world trade, particularly in industrial products. The resulting increase in international competition had made the differences in industrial development among the various nations painfully clear.

In 1879 Germany raised her duties on a variety of products and in the series of new trade treaties that were concluded in the early nineties a less liberal tone was noticeable.

In France many commercial agreements that were revised in the eighties manifested a more protectionist trend, too. In 1892 a system of maximum and minimum duties was introduced that was to stand till the first World War. The maximum rates could not be increased, but where agricultural products were concerned they could not be lowered either. The minimum rate could be conceded in special treaties in return for equivalent concessions from trading partners.

Following the War Between the States the tariff question again became a major political issue in the U. S. Frequently a change in the political party in office would cause a change in duties, too. In the long run, however, tariffs in this period tended to rise and the free list tended to be curtailed. During the first postwar decade the tariff system underwent several revisions. Import duties on revenue articles were abolished, while those that protected domestic industries were maintained or increased. In 1890 the McKinley Tariff Act raised rates on many articles while at the same time adding a large number of agricultural staples to the list of dutiable items. Reductions enacted into law in 1894 brought only a temporary reversal. Three years later, the Dingley Act reimposed many tariffs, often at an even higher level. These lasted till 1913 when the Underwood Tariff Act introduced major reductions, the first in half a century. Many raw materials were now put on the free list and protectionist duties on semi- or wholly-manufactured goods were markedly decreased, sometimes from highs of 100% or 150% to 35%. Besides, many complicated tariff rules were abolished. Even so, the influence of the new law was never very profound, as the outbreak of the first World War frustrated its application.

Throughout this period the U. S. maintained its strong negotiating position through use of the c.m.f.n. clause. The McKinley Act consolidated this position by introducing the concept of "penalty duties." The President was authorized to impose such duties whenever he felt that countries that exported a certain commodity to the U. S. levied duties on U. S. goods that were "reciprocally unequal and unreasonable." The threat that this power could be applied quite often paved the way for a more favorable treatment of U. S. exports. In 1923 this authority was abrogated.

1914-1940 The outbreak of the first World War brought some important changes in international trade relations. Governments that so far had exercised control over imports only through import duties now took more drastic actions. Frequently, exports as well as imports would be directly forbidden, while duties on many items were raised considerably. As a result the volume of international trade fell markedly. During the early twenties many of the direct controls were again abolished.

In the wake of the outbreak of the war Great Britain abandoned its traditional free trade policy. At first this change seemed temporary and forced by the emergency situation. As the years went by, however, it became apparent that protectionism was here to stay. In 1915 Britain imposed a duty on imports of luxury goods and in 1921 stiff anti-dumping measures were specified to safeguard its industry.

In postwar France the old, highly protective tariff regime remained in force. Any liberalization was subject to bargaining. In 1920 this situation came to an end when the government obtained a free hand to fix all duties via negotiation. The result was a very complex system of agreements that showed the fundamental contrast between the two elements of France's policy: the idea of bargaining and adherence to the unconditional most favored nation clause. The use of the clause in an important treaty with Germany in 1927 seemed to settle the issue in favor of the latter.

The peace treaty of Versailles obliged defeated Germany to give most favored nation treatment to the Allies. These countries, however, did not have to reciprocate. After expiration of this provision in 1923, Germany established her own tariff system. While basically protectionist for both agricultural and industrial goods, lower duties could be obtained through negotiations. This regime was maintained till the depression of the thirties.

In the postwar U. S., protectionist forces quickly gained momentum. New industries that had led a sheltered life during the preceding years now faced increased imports and asked for support. The 1920-21 depression and a new nationalism that had emerged in reaction to the war strengthened the movement. After a change in the party in office the 1921 and 1922 tariff acts reversed the liberalization trend set in by the Underwood Act. Duties on a large number of agricultural goods were reimposed or increased by substantial amounts. Protection for manufactured goods became more extensive than ever. The newly created Tariff Commission was given certain powers to modify and adjust the tariffs. The "American Selling Price" which was used as a basis for customs valuation of certain products openly aimed at the use of import duties to equalize foreign and domestic costs of production.

The general trend towards more trade restrictions resulted in various attempts to reverse the movement. The 1927 World Economic Conference urged countries to lower their tariffs and recommended multilateral action to expand the volume of world trade. Unfortunately neither this nor other similar conferences achieved major successes.

Yet, the crisis of 1929 and the following depression manifested the need for concerted international action even more. The 1930 Smoot-Hawley Act, which raised U. S. tariffs to all-time highs, resulted in a wave of widespread retaliation abroad which brought about even more general trade restrictions. Britain's decision in September 1931 to devalue the pound dealt a fatal blow to the existing international monetary structure. Within three months fifteen nations had followed the example. This led to an atmosphere of uncertainty about the value of currencies which again hampered international trade.

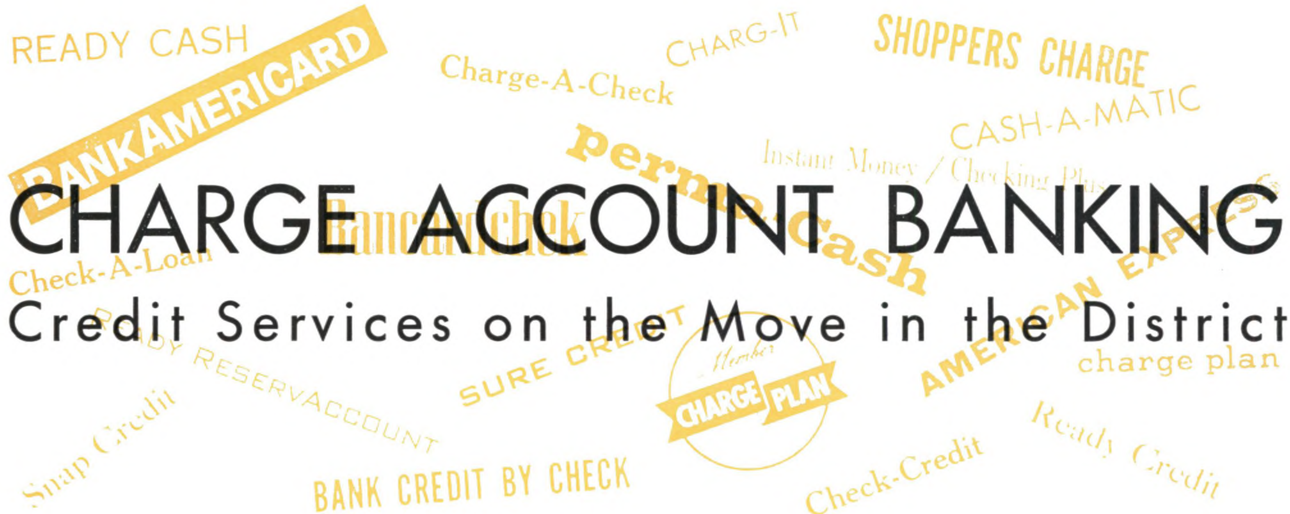
In reaction to depressed economic conditions most governments stepped up their intervention in foreign trade. Soon a number of nations used quotas, exchange controls and export premiums besides the traditional import duties. Although many warned against such "beggar my neighbor" policies, no means for taking collective action against the deteriorating situation was found. The volume of international trade shrank further when nations adopted the policy of maintaining a balance of trade with each partner rather than an overall balance with all partners. Inevitably the flow of goods tended in each case to drop to the level of the weakest partner. By and large, governments persisted in fighting the international depression with policies aimed at national recovery. As regards the second half of the thirties this attitude can partly be attributed to the mounting political uncertainty on the European Continent.

During the same period, the U. S. followed a different course. The 1934 Trade Agreements Act authorized the President to negotiate with individual countries on a decrease in duties of as much as 50%. By incorporation of the unconditional most favored nation clause maximum cooperation could be reached. The clause, moreover, was to apply to tariffs as well as to quotas and exchange controls. During the first decade of the program, agreements were signed with 28 different countries. For almost half of the goods subject to the agreements, duties were cut by the maximum 50%. In 1945 and 1955 the President was given similar powers.

Jan H. W. Beunderman

CHARGE ACCOUNT BANKING

Credit Services on the Move in the District



Check-Credit your Instant Money and Charg-It, or Check-A-Loan to Cash-A-Matic for Sure Credit on your Charge Plan . . . and the credit ball starts rolling. Commercial bankers appear to have focused much of their ingenuity on plans to finance the consumer, and on efforts to dress their plans in catchy phrases. The result of these efforts is that consumers now have a variety of options for arranging bank credit to cover virtually any kind of retail purchases. This array of options includes the check-credit and overdraft plans, and other revolving credit plans.

Opinions differ as to the origin of credit cards, with some dating the origin from the first oil company card issued in 1924. Others trace credit card ancestry to department store charge accounts. Regardless of its parentage, the credit card is rapidly emerging as a new symbol of this consumer-oriented economy. About 12 million credit cards are issued by the 1,100 banks active in this field. In addition, a number of banks are engaged in check-credit and overdraft plans which extend loans to customers and insure them against overdrawn amounts in their checking accounts. Of the $1,137 million outstanding in credit plans reported by 848 insured commercial banks on October 4, 1967, Fifth District banks held $46 million. A number of District banks are also among the 900 banks who participate in these plans as agency banks through correspondents on whose books the outstanding credit is carried.

Retail Credit Cards The retail credit card is an instrument through which a bank extends credit to the consumer and takes over the collection function of the merchant. Cards are issued to consumers regardless of whether they are customers of the bank. The cardholder then has the privilege of charging purchases at any of the merchants subscribing to the plan. A "floor limit" setting the maximum amount the cardholder may purchase without the bank's approval is usually stipulated. This limit is customarily within the range of $25-50, and approval for amounts above this limit must be obtained at the time of sale. The bank sends a statement of purchases to the cardholder at the end of the month. The charges from the various merchants subscribing to the plan are totaled, and the cardholder then makes one payment to the bank. If the cardholder does not wish to pay the full amount of the bill in 20 to 30 days, he may use a revolving credit plan. For most plans there is a minimum payment of $10 or 10% of the amount billed, whichever is greater. A 1 to 1½% monthly service charge is added to the unpaid balance.

Merchants subscribe to the plan by paying an initiation fee, usually under $100, to the bank. There is also a fee for the use of the card imprinter. Merchants participating in the credit card plan obtain deposits to their accounts equaling the amount of sales slips less a discount, usually in the range of 3 to 7%. This discount is a compensation to the bank for assuming the collection function of the merchant. The discount is usually based on the volume and average sales ticket size of the individual merchant. A rebate reduces the discount if the merchant's volume or sales ticket size increases over the expected amount for a certain period of time.

Among the pioneers in retail banking were two

Fifth District banks: The Bank of Virginia which started Charge Plan in February 1953, and First National Bank and Trust Company of Western Maryland whose Shoppers Charge began in April of the same year. Although Charge Plan was originally a local operation, the Bank of Virginia has now become a member of Interbank Card. With operations beginning on March 1, 1968, cardholders may use Interbank Card at business establishments subscribing to the plan in at least seven states. The affiliated banks issue their own cards and enroll merchants under their own terms, although they have now agreed to standardize their card size to permit use in a common imprinter. Essentially, each plan will retain its local identity with only the Interbank symbol on the card to associate it with a larger operation.

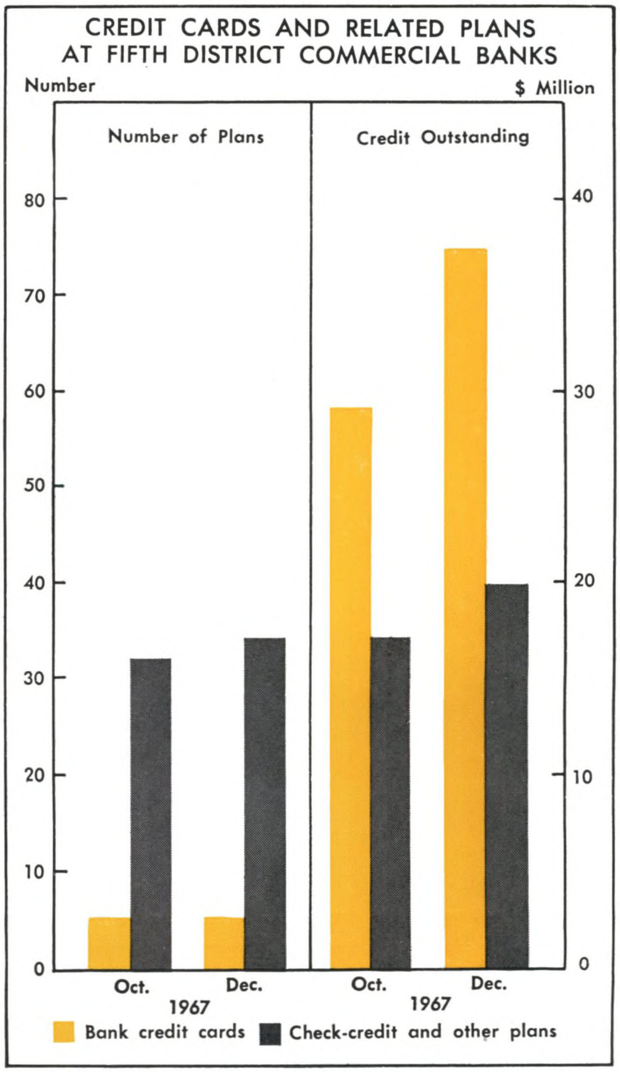
In keeping with the national trend, interest in credit cards waned in the Fifth District during the mid-1950's. In 1959 new plans sprung up across the nation, and in July of that year, First Union National Bank of North Carolina started its credit card, also called Charge Plan. This new interest was short-lived, however, and only a few banks throughout the country initiated credit card plans in the following years.

Beginning in 1966 bank credit card activity again picked up, and it is this "phase three" that we are now experiencing. The Fifth District's entrance into this phase was initiated by Maryland National Bank and North Carolina National Bank, both beginning plans in April 1967. Maryland National Bank purchased Charg-It of Baltimore, a plan which had been in operation since April 1953. Maryland National is now an associate member of Interbank Card. North Carolina National Bank obtained a license to offer BankAmericard. (The BankAmerica Service Corporation, a subsidiary of Bank of America NT & SA, San Francisco, began in November 1966 to issue licenses which allowed out-of-state banks to participate in the BankAmericard program.) North Carolina National has licensed agency banks to offer BankAmericard in areas where they have no branches.

BankAmericard is an all-purpose card which can be used for airline travel, meals, lodging, and cash advances, as well as for retail purchases. As in the Interbank Card program, BankAmericard sponsoring banks have an interchange agreement which allows cardholders to use their cards at participating establishments across the country.

As shown in the chart, these five plans had $29 million in credit outstanding as of October 4, 1967: a 29% increase was shown by the end of December, when outstandings of more than $37 million were reported. Further growth is expected, because of the addition of three other District banks to the BankAmericard program. First & Merchants National Bank, Richmond, announced in September 1967 that it would operate a BankAmericard franchise, and later announced that it would license its correspondent banks in Virginia to offer the card. Distribution of the cards will begin in early spring. First National Bank of Maryland joined the program in November, and South Carolina National Bank, the fourth in the District to offer BankAmericard, was licensed in January 1968.

Riggs National Bank in Washington is negotiating to acquire the retail credit card system, Central



Charge Service, Inc. Central Charge operates in Virginia, Maryland, Delaware, and West Virginia, as well as in the District of Columbia.

Check-Credit and Other Plans Primarily because of the start-up costs, retail credit cards have been confined mostly to the larger banks. Of the eight District banks which have credit card plans announced or in operation, only one bank had deposits less than $50 million. Five of the other seven banks had deposits exceeding $500 million. Smaller banks have entered the credit field, however, by offering check-credit and other revolving credit plans. On October 4, 1967, 32 banks in the District were offering check-credit, overdraft, or non-bank credit cards. Twenty of these banks were in the under $100 million deposit size class, with 13 of the 20 having deposits of less than $50 million. Credit outstanding at this time was over $17 million. With the addition of two banks with deposits under $50 million, outstandings at the end of December rose to almost $20 million, an increase of nearly 15% in less than three months.

Under a check-credit plan, a customer is given a book of special checks which, when cashed, act as a loan which has already been approved by the bank. There is a fee for each check written, and interest of 1 to 1½% per month is charged on the unpaid balance. The customer has the advantage of being able to write a check, up to a predetermined amount, regardless of the balance in his checking account.

Similar to the check-credit is the overdraft plan. Special checks may be issued, or the plan may be operated in conjunction with a regular checking account. These checks, like the check-credit, activate an approved loan when used. The customer may overdraw his regular checking account, and the bank will transfer funds to his account to cover the check. The amount of credit to be extended is determined by prior agreement between the bank and customer. There are monthly charges and checking account charges, and interest on unpaid balances. Some plans incorporate features of both the check-credit and the overdraft plans.

Among Fifth District banks, check-credit and overdraft plans date from May 1959. By the end of 1960, 17 District banks offered variations of one or the other plan. Operations slowed somewhat in the following years, with only five banks initiating programs from 1961 through 1966. Activity picked up again in 1967 with five additional banks beginning programs. As of the December 30, 1967 call report, 27 District banks were offering check-credit or overdraft plans. Among the various names are Ready ReservAccount, perma-Cash, and Sure Credit. Eleven District banks feature plans with the Check-Credit name. Other plans are Snap Credit, Ready Cash, Charge-A-Check, and Instant Money/Checking Plus. Ready Credit, Check-A-Loan, Cash-A-Matic, and Bank Credit By Check are also available to Fifth District banking customers. Bancardchek, a franchised check-credit plan, is offered by two District banks.

Seven banks within the District are offering a non-bank credit card—the American Express, Executive Credit. Each of these plans went into operation in 1967. This card combines the travel and entertainment advantages of the American Express card with revolving credit plans offered by banks. Possession of this card entitles the holder to obtain cash, borrow money to pay regular American Express bills, and to purchase travelers checks from American Express offices.

Credit Cards and the "Checkless Society" Credit cards have been called "stepping stones" to the "checkless society". There are those who disagree with this concept, saying that the speed of payments is impeded when credit cards are used because former cash payments become credit transactions. The use of credit cards, however, does help to provide conditions necessary for a "checkless society". Computers are widely used in servicing credit card programs and thus may contribute to the establishment of automated central information files required in a "checkless society". Credit cards bring banks into close contact with merchants and require a greater marketing effort on the banks' part. Finally, these plans educate the public to the use of cards or other identification forms for making purchases, rather than using cash or checks. The increasing acceptance of these various bank credit plans is evidenced by the $57 million outstandings of Fifth District banks as of December 30, 1967. If a time capsule were being prepared for the year one thousand nine hundred and sixty-eight, a credit card, and most probably a bank credit card, would be included among the articles collected as an important example of today's economy.

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