FEDERAL RESERVE BANK OF RICHMOND

MONTHLY REVIEW

Fiscal Policy in the Sixties
The Space Industry in the District
Swiss Banks
The Fifth District

DECEMBER 1968

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FISCAL POLICY IN THE SIXTIES

The United States economy is today in the 94th month of continuous prosperity, the longest expansion ever recorded. GNP in both current and constant dollars has been rising uninterruptedly since early 1961. Much of this growth has been associated with important changes in the fiscal operations of the Federal Government.

Fiscal Action and the Economy Fiscal policy refers to the deliberate adjustment of government spending and taxing activities with a view to influencing the level of economic activity. Policy also influences socio-welfare and political developments as well as defense stance. Changes in government spending or taxation policies affect economic activity in a number of ways. They may, for example, exert an immediate impact on total spending in the economy as the government alters the relationship between what it removes from the spending stream through taxation and what it injects into this stream through its own outlays. Moreover, the government's budgetary operations determine the extent to which it will borrow or retire debt in a given period and the resulting effects on interest rates may affect the spending plans of individuals and businesses.

In attempting to assess the impact of the Federal Government's operations on the economy, analysts typically make searching studies of the Federal budget. The budget developed as a part of the national income and product accounts is perhaps the most useful to measure the effect on the nation's economic activity. The National Income Accounts budget records only the Federal Government's transactions in actual goods and services—without regard to when payment or receipt of funds occurs, and omitting purely financial transactions. Generally speaking, a deficit in the NIA budget implies that the Federal Government's purchases are pumping more into the spending stream than its tax receipts are removing, and hence that the Government's budgetary operations are stimulating the economy. A surplus has the reverse implication.

A helpful tool in evaluating fiscal policy is the concept of the "net fiscal stimulus" (NFS), as measured by the change in the deficit or surplus from one budget period to another. This figure indicates the change in the degree of fiscal stimulus or restraint, which is of course the matter of chief interest in the analysis of current and prospective economic conditions.

To isolate the effects of discretionary policy action analysts often use the concept of the "high employment" budget, illustrated in the third chart. This budget gives an estimate of the surplus or deficit that would exist in the National Income Accounts budget if rates of Federal spending and tax receipts in a given budget were applied to an economy in which all resources were fully employed.

Time Lags Fiscal policy measures involve important time lags. The need for fiscal action to alter a developing business trend may not be immediately apparent. Moreover, it takes time for authorities to formulate a specific policy proposal and more time for Congress to act upon the proposal. Once enacted there may be a further time lag as the effects work their way through the economy.

Fiscal Actions, 1961-65 By historical standards, the U. S. economy in the 1950's performed extremely well with respect to total output. Yet many observers felt that its performance left much to be desired. In the course of the decade, three business recessions were experienced and after 1954 the unemployment rate tended to stick at 5% or higher. Increasingly economists noted the gap between actual GNP and "potential" GNP, i.e., the amount of production the economy would have turned out if all resources were fully employed. Data in the first chart show estimates of the so-called GNP gap.

Between May 1960 and February 1961 the economy experienced another serious recession. With nearly 7% of the labor force unemployed and one-fifth of manufacturing capacity idle, the new Administration addressed itself to a series of measures aimed at reducing unemployment, and promoting long-run expansion. Among other things Government procurement was accelerated, highway construction programs were speeded up, and minimum wage and Social Security benefits were increased.

Throughout 1961 and early 1962 the gap between potential GNP and actual GNP in constant dollars narrowed. Yet the "high employment" budget continued to show a surplus, implying that Government tax and spending policies were exerting a net drag on economic growth. In mid-1962 the gap expressed as a per cent of potential GNP leveled off after declining in 1961 and early 1962 and it appeared that the recovery was beginning to falter.

In October 1962 the Kennedy Administration took its first significant fiscal policy step to encour-

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business expansion. Congress passed at that time a new investment tax credit and the Treasury provided additional incentives to business investment by allowing, for business tax purposes, accelerated depreciation of capital assets.

Furthermore, after 1961 Administration economists had increasingly veered around to the view that existing tax rates had to be adjusted downward if full employment was to be achieved. Accordingly, early in 1963 the Administration proposed a sizeable reduction in tax rates. The purpose of the proposed tax reductions was to encourage both consumption and investment spending, and thus to stimulate output. Congress, however, refused to act on the recommendation and fiscal policy remained mildly restrictive throughout 1963. The gap between actual and potential GNP continued, however, to narrow.

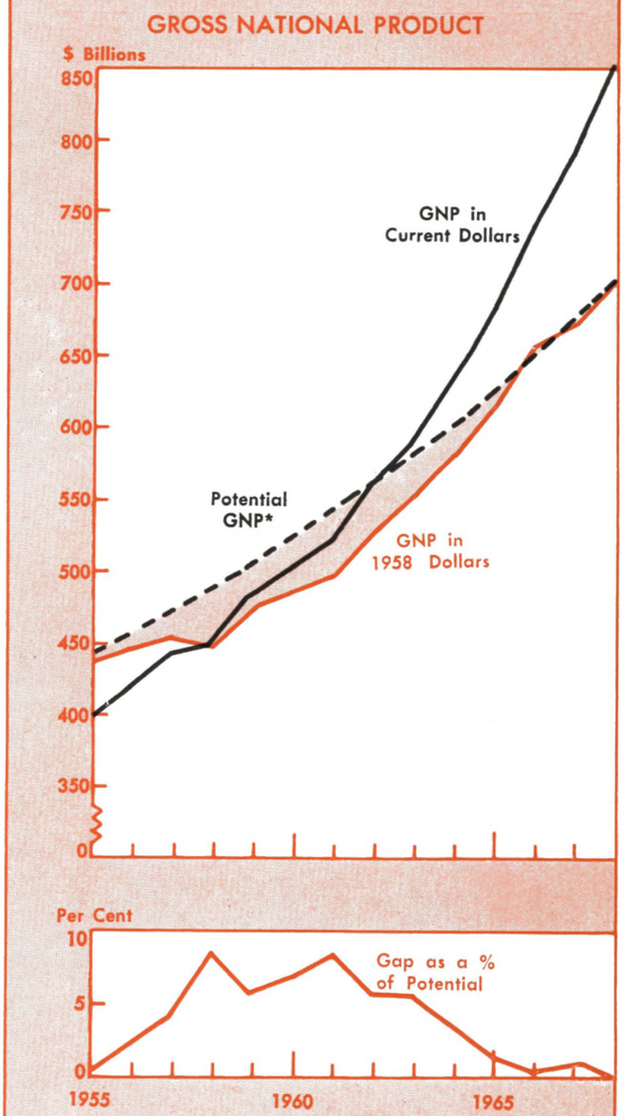
It was not until the following February that the Revenue Act of 1964 was enacted. The Act reduced personal income taxes more than 20% and corporate taxes about 8%. The reductions were made in two stages, with the second cut taking effect in January 1965. Personal withholding rates were cut from 18% to 14%, beginning in March. Overall, the reductions provided the private sector with an estimated $13 billion per year more for consumption and investment. The effect of this increased spending power was not long in materializing. The GNP gap was reduced to about $10 billion in 1965 from over $23½ billion in 1964 and from over $45 billion in 1961.

Even with these substantial gains the economy was still operating short of its hypothetical potential in January 1965. At that time it was proposed that certain excise taxes imposed during World War II be repealed. This recommendation was embodied in the Excise Tax Reduction Act of June 1965, which in two stages cut Federal excise tax receipts by nearly $3½ billion per year.

In summary, by the last quarter of 1965 the economy was operating at a rate only about a half million dollars below its hypothetical potential, with the unemployment rate at only 3.7%. Real GNP had grown at an average annual rate of 6% since 1961, while the consumer price index had increased at an average annual rate of only about 1.4%.

Fiscal Stimulus After 1965 After 1965 the record of fiscal policy is not quite so auspicious as between 1961 and 1965. Starting in 1965 Federal expenditures accelerated sharply. The increases were not a result of deliberate stabilization policy but were due chiefly to increased U. S. involvement in Vietnam. Major increases also occurred, however, in aid to education, Social Security benefits and poverty programs, as well as in agricultural programs.

Since these increased expenditures coincided with a period of substantially full employment and were felt to be necessary, Administration recommendations called for increasing revenue. In January 1966 the Administration recommended passage of the Tax Adjustment Act of that year, which was enacted in March. The Act in effect rescinded, or postponed, excise tax reductions passed in 1965. Graduated withholding tax rates on personal income were also introduced, corporate tax payments were accelerated and quarterly, rather than annual, payments were



Source: Department of Commerce, and Council of Economic Advisers.
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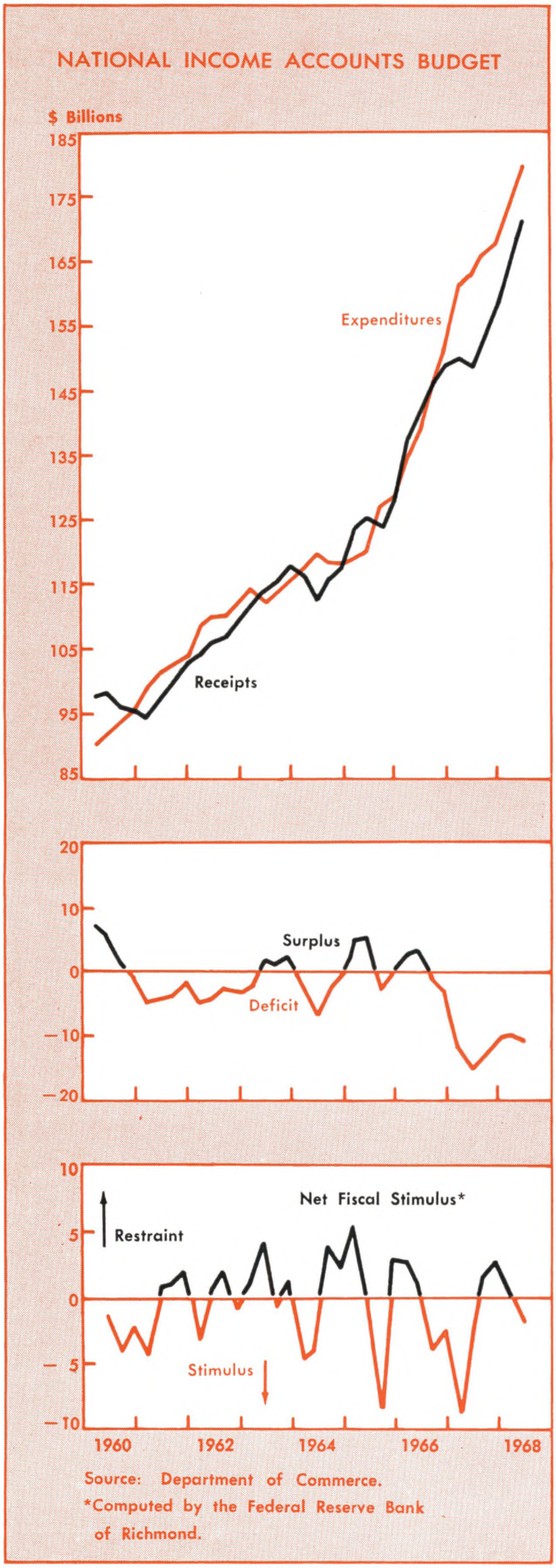

required on Social Security taxes for the self-employed. The latter two measures merely shifted the timing of cash payments, not the total magnitude. This shift had the effect of raising total receipts in 1966 and probably also in 1967.

In both years, however, there were substantial and growing deficits on a high employment budget basis, with net fiscal stimulus to the economy. Current dollar GNP had surpassed its theoretical potential by the last quarter of 1966 and the unemployment rate was well below the 4% figure taken by many to represent the full employment level. At the same time the consumer price level rose at an average annual rate of about 3¼% from the third quarter 1965 to the end of 1966 as opposed to the average annual rate of about 1.4% in the preceding four years.

As 1966 progressed it became clear that Federal spending would continue to rise and that strong inflationary pressures would persist. Monetary policy, meanwhile, had been tightened in late 1965 and in early 1966 and by mid-summer the competition for funds had resulted in sharply rising interest rates. By late summer there were signs of impending disturbances in the financial markets and fear of what this would mean for the rest of the economy.

To help ease inflationary pressures additional fiscal action was proposed in September 1966. In November Congress suspended both the investment tax credit, effective October 10, and accelerated depreciation options. The Administration also announced moderate expenditure reductions. These fiscal actions helped to improve conditions in the credit markets.

The economic advance was slowed in late 1966 and early 1967 by a massive inventory runoff. Nonetheless, in January 1967 the Administration, anticipating a turnaround in inventory building, recommended that Congress enact a temporary 6% surcharge on both corporate and personal income taxes, to become effective in July 1967. Congress refused to act on the recommendation at the time and the Administration did not press the issue. In fact, in March it recommended the reinstatement of the investment tax credit, a recommendation which Congress accommodated in June.

Economic expansion resumed in the second half of 1967 and by late summer policymakers again were faced with an overheating economy. With expectations of record Federal financing, private borrowers competed aggressively to cover their expected needs and long-term interest rates rose sharply despite relatively easy monetary policy. At the same time rapid income growth at home was fueling a large increase in imports, seriously aggravating the nation's

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balance of payments problem and threatening the position of the dollar abroad.

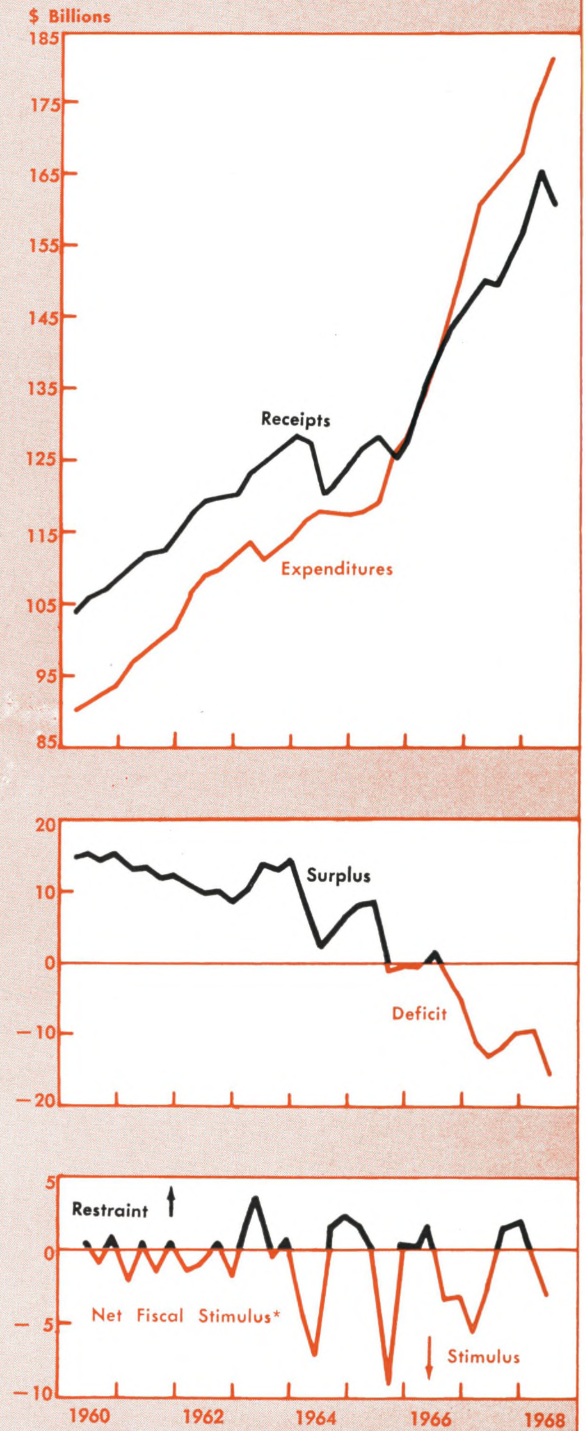
The Administration in early August renewed its request for a surtax, proposing an increase of 10% instead of the previous 6%. Key Congressmen, however, insisted on expenditure reductions before endorsing tax action. Meanwhile, the deficit for the new unified budget, similar to the NIA budget but including financial transactions, had reached an estimated $25 billion for the 1968 fiscal year. The net fiscal stimulus to business was substantial, with both the National Income Accounts budget and the high employment budget showing large deficits. While GNP in current dollars was growing sharply, much of this gain reflected price increases. The renewed inflationary pressures at home weakened the already precarious U. S. balance of payments position. The impact of these problems on U. S. financial markets, combined with a steady tightening of monetary policy, led to further upward pressures on interest rates and to growing concern over possible disturbances in the markets.

Faced with these adverse developments, Congress passed in June the Revenue and Expenditure Control Act of 1968. This Act provided for a 10% surcharge on personal income taxes (retroactive to April), and on corporate income taxes (retroactive to January). These surcharges are scheduled to expire in June 1969. The Act also placed a ceiling of $180.1 billion on Federal outlays for fiscal 1969. This ceiling was $6 billion below the $186.1 billion that had been projected in the January 1968 budget. Expenditures for veterans' affairs, Social Security payments, Vietnam, and interest on the national debt, however, are exempt from this ceiling, as are payments of the Commodity Credit Corporation, Housing and Urban Development, and Medicaid. Already projections for expenditures in these areas have exceeded the January estimate. The latest estimate by the Bureau of the Budget indicates that, because of these increases, actual Federal outlays will be about $185 billion for fiscal 1969.

Receipts, on the other hand, were originally expected to be increased by $10 billion as a result of the surtax alone. The final increase in tax receipts will, however, depend on the extent to which the fiscal package restrains expansion of GNP and taxable income. At this writing the Bureau of the Budget estimates receipts will be about $182 billion, thus yielding a fiscal 1969 deficit of about $3.0 billion.

While only projections, if these estimates are realized, it would mean a $22 billion drop in the size of the deficit from fiscal 1968 to fiscal 1969, a highly restrictive net fiscal turnaround. *Wynnelle Wilson*

HIGH EMPLOYMENT BUDGET



Source: Federal Reserve Bank of St. Louis.

*Computed by the Federal Reserve Bank of Richmond.

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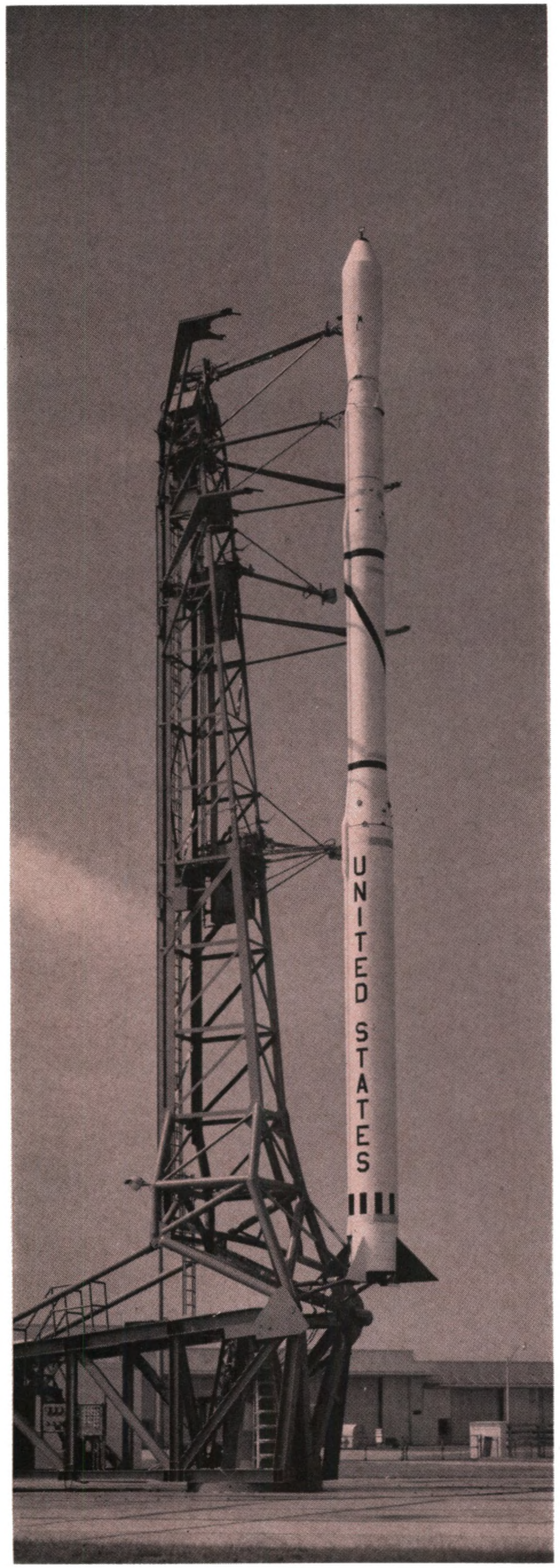
The Space Industry In The Fifth District



On the morning of October 22, the Apollo 7 astronauts brought their 11-day, earth-orbiting flight to a successful conclusion. Flight directors hailed the flight as a perfect mission and thus the possibility of landing men on the moon by next year came closer to reality. This Apollo mission and previous missions would not have been possible without a great deal of aeronautical research and flight testing. Within the Fifth District are located several highly important test centers.

The largest of these test centers is the Langley Research Center located at Hampton, Virginia. At one time it was the headquarters of the National Aeronautics and Space Administration. It was here that the original eight astronauts received their initial training for the Mercury Project—the first of three phases in achieving the nation's objective to reach the moon. Established in 1917, Langley Research Center has a staff of more than 4,000 scientists, engineers, technicians, and other supporting personnel. Laboratories and other facilities at Langley represent an investment by the United States of some quarter of a billion dollars. Research at Langley encompasses many fields and relates to a variety of objectives. These include launch vehicles, manned and unmanned earth satellites, lunar vehicles, planetary spacecraft, hypersonic flight vehicles, supersonic aircraft of advanced design, vertical takeoff-landing and short takeoff-landing machines, helicopters, and subsonic aircraft.

Another important testing center in the District is Wallops Station located at Wallops Island, Virginia. This station is mainly a launch site for missiles and was established by the Langley Research Center in 1945. Employing about 500 people, Wallops Station is completely owned and operated by NASA. Engineers and technicians, comprising a large part of its personnel, are engaged in vehicle preparation, launching, tracking, and data acquisition. Many of the findings in recent years are applicable directly to the advancement of manned space flight, worldwide communications, and weather prediction.

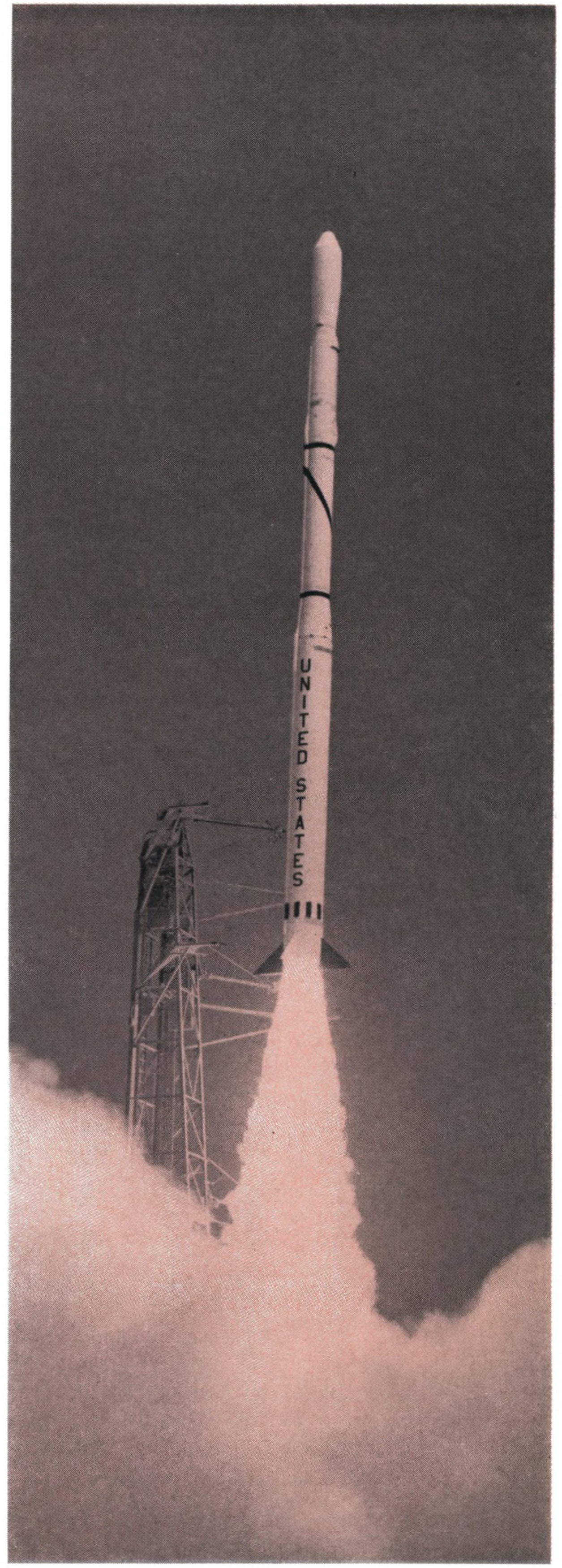
Located at Greenbelt, Maryland is the Goddard Space Flight Center. It was the first major United States laboratory devoted entirely to the investigation and exploration of space. This center was established in 1959 and has more than 3,600 employees. By virtue of its extremely wide variety of projects and responsibilities, Goddard is one of the few installations in the world capable of conducting a full-range, space-science experimentation program—from theory, through design and construction of satellites, and finally data-gathering test flights.

On the campus of the University of North Carolina at Chapel Hill, North Carolina is located the Morehead Planetarium, the first major planetarium on a college campus. Since the astronaut program began in 1960, the Morehead Planetarium has been used regularly for navigation and simulation training of this country's astronauts.

Various industries in the Fifth District are playing an important role in today's space program. The aluminum industry in the District is especially important. The Apollo/Saturn V moon rocket contains large quantities of aluminum in its welded structure. The missile program is also making use of aluminum. Both the Polaris and the Poseidon use atomized aluminum powder as a solid fuel propellant. Extremely smooth-burning at high temperatures, aluminum powders help assure greater thrust resulting in greater range and velocity.

The chemical and fibers industries also have a place of importance in the U. S. space program. In Richmond, Virginia for example, a large chemical company produces material used in the space suits worn by the astronauts. The material is specially designed to withstand extreme heat and temperature changes. The so-called "close-out" crew, responsible for sealing the astronauts in the capsule, also wear suits of this material.

Electronic systems ranging from space rendezvous equipment to television cameras are being manufactured by District industries for the U. S. space program. Because of its highly skilled labor force and diversified industries, the Fifth District plays an important role in the U. S. space program.



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SWISS BANKS

As a rule, the subject of banking generates little interest outside the business world. Few people, however, fail to perk up their ears at the mention of Swiss banks. This unusual reaction is not due to widespread knowledge concerning these institutions but, on the contrary, may be attributed to popular misconceptions and to the general air of mystery which seems to surround their operations. This article will attempt to dispel some of the mystery and explain why Swiss banks do, indeed, occupy a very special niche in the financial world.

Background The Swiss banking system differs from its European counterparts primarily in the unusually large degree of freedom exercised by individual banks and in the rigid enforcement of bank secrecy. These characteristics are rooted deeply in Swiss history.

The present Swiss state began as a military alliance between three German cantons, or states, in 1291. In 1648 the confederation became independent of the Holy Roman Empire, and two hundred years after that a federal constitution was written. Shielded by an exceptionally rugged terrain, Switzerland remained aloof from the turbulent European scene, and her neutrality was officially recognized by the major powers in 1815 by the Treaty of Vienna. At an early stage, the Swiss emerged as an independent, hard-working people, skilled in the arts and crafts. Today Switzerland is a confederation of 22 cantons and 3 half cantons, each of which has its own legislature, executive, and judiciary. Just as Swiss citizens jealously guard their personal privacy, the cantons guard their prerogatives, and the Federal Government has relatively little authority in areas other than those explicitly specified by the Constitution, namely, foreign affairs, money and coinage, post, and railroads. Taxes have remained predominantly a cantonal affair, and tax offenses are generally treated as administrative, not criminal, matters.

Until the First World War the development of Swiss banking had paralleled that of most other continental banking systems. Among other things, these systems differ from their American counterpart in that checking accounts play a much less important role. In Switzerland, most small transfers of funds which are handled in the United States with checks are cleared through giro accounts administered by the Federal Post Office. Another contrast is that banks, acting as brokers, are the principal members of stock exchanges.

The dramatic rise in the international importance of Swiss banks occurred after the First World War. With the breakdown of the gold standard in the early 1930's, most European countries turned to isolationist economic policies including restrictions on the export of currency and capital. These policies, in conjunction with a number of other factors, contributed to the severity of the depression which spread throughout the continent. In contrast, Switzerland, which emerged virtually untouched by the war, adopted no such policies. Thus, as most European nations grappled unsuccessfully with inflation, depression, and political instability, Switzerland stood out more and more clearly as a haven for savings, investment, and business enterprises.

Bank Secrecy Secrecy is the aspect of Swiss banks which intrigues the world. It reflects the Swiss view that one's finances are as private a matter as one's religion and equally deserving of freedom from governmental control. While most banks maintain a confidential relationship with their customers, few go to such lengths as Swiss banks to preserve this relationship intact. The Swiss do not feel obliged to enforce laws not of their own making. A bank must open its books when so ordered by a Swiss criminal court. As long as their customers do not break Swiss law or international law, however, the banks protect the depositors. Even the existence of an account is not acknowledged to a third party. The numbered account, which came into being in the 1920's, is another safeguard of privacy, although in practice an unnumbered account is equally secret. The numbered account is not an anonymous account; a client's identity is always known to the top two or three executives of a bank. The origin of the funds deposited is also generally known, particularly in regard to large deposits, since no bank will knowingly accept stolen money. Indeed, most large Swiss banks will refuse any sizeable deposit with a dubious past, or where tax evasion is the obvious motive for opening an account.

In the early 1930's the sanctity of Swiss bank accounts was put to a severe test when Hitler ordered all German citizens to declare their foreign holdings. Gestapo agents dispatched to ferret out Swiss accounts of German nationals scored some initial successes. Partially in response to this violation of financial privacy, the Swiss Federal Government passed the Banking Act of 1934 which authorizes fines and/or imprisonment for any bank employee

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who gives information respecting any account to any third party not specifically authorized by the accountholder. All foreign governments, the Swiss Federal and cantonal governments, and all foreign and domestic revenue authorities, are classified as third parties.

Strict bank secrecy often involves problems in the matter of beneficiaries. If a depositor dies or disappears without leaving a designated heir, the bank will search for any legal heirs. Should the search fail, Swiss law stipulates that the account escheats to the bank after having lain dormant for 20 years. Following the Second World War, Swiss banks were left with numerous unclaimed deposits as many depositors had perished with their beneficiaries. For years the supposed existence of these unclaimed deposits generated fierce controversy and litigation but Swiss law remained unchanged.

Banking Structure Switzerland is often described as "overbanked" with approximately one bank per 4,000 citizens in a territory twice the size of New Jersey, compared to a ratio of one bank per 14,000 citizens in the United States. Swiss banks may be divided into seven categories.

1) Big banks. The five big banks account for about one-third of the assets of all Swiss banks. The three largest, the Swiss Credit Bank, the Union Bank of Switzerland, and the Swiss Bank Corporation have assets of approximately $2.5 to $3.0 billion each. As members of the Cartel of Swiss Banks, the big banks establish common interest rate policies but compete vigorously in other areas. Big bank activities cover a wide range, but lately they have come to specialize in short- or medium-term loans, especially in the export-import field. The big banks are also the most important stock brokers in Switzerland, with dealings on both domestic and foreign exchanges, and are the principal underwriters of domestic stock and bond issues. Moreover, they are large dealers in foreign exchange and in gold. The big banks provide investment advisory and custodial services to their depositors who wish their funds put to work. Much of Switzerland's prominence in international finance derives from the status of big banks as international lenders. Switzerland currently supplies about one-third of all funds in the growing European currency market, a good portion of which comes from the big banks. While these banks may receive substantial deposits from underdeveloped countries, very little money is reinvested there. The big banks have numerous branches throughout Switzerland and a small number abroad. Through subsidiaries, they run the largest Swiss investment trusts.

2) Private banks. The 50 private banks are among the oldest in Switzerland, with many dating from the late 18th century. They are not incorporated and the partners are liable to the full extent of their private fortunes. As long as private banks do not advertise or publicly seek business, they are not required to publish any financial statements and are exempt from certain provisions of the National Bank Law governing the ratio of capital to liabilities, and the maintenance of reserve funds. However, they must file financial statements with the Swiss National Bank. Any bank which does not publish financial statements may not accept savings deposits. The significance of private banks lies almost entirely in the world of international finance.

3) Cantonal banks. Virtually every canton owns and operates its own bank, and the deposit liabilities of each bank are guaranteed by its cantonal government. Their activities, predominantly mortgage financing, are generally confined to the canton. Cantonal banks account for about one-third of total Swiss bank assets.

4) Other banks. While these banks are Swiss corporations on Swiss soil, they are owned wholly by foreigners and their business is almost entirely foreign. The number and size of other banks has mushroomed since World War II and some are as large as big banks.

The remaining three categories include local banks, savings banks, and loan associations. Local banks, some of which are quite large, generally specialize in mortgage loans. While virtually all Swiss banks offer some type of savings account, savings banks proper serve the small depositor and balances exceeding a certain amount receive a lower interest rate. Loan associations, or banks, are found in nearly every small community. Their activities resemble those of credit unions in this country.

Regulation and the Swiss National Bank Compared with banks in other countries, Swiss banks have always been uniquely unregulated. They issued their own circulating notes until the Swiss National Bank, established in 1905, began to exercise its note-issuing monopoly in 1907. In addition, the National Bank was authorized to store the national gold reserve, act as a national clearing house, and provide a limited degree of credit regulation. For the most part, regulation of Swiss banks has been directed at insuring efficient banking services and protecting private depositors. Following the failure of a number of banks in 1929, liquidity and capital requirements were established to be enforced by

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regular audits. Banks are audited by independent, authorized firms and irregularities, if uncorrected within a specified time, are reported to the Federal Banking Commission. Audits and reports of condition are not available to the Federal or cantonal governments. All banks must submit balance sheets to the National Bank at least annually to expedite its function of money and credit regulation. Banks establish their own interest rates; neither the Government nor the National Bank is empowered to set ceilings, although the National Bank may express approval or disapproval in regard to certain rate changes. Until 1964, banks were not legally required to maintain reserves with the National Bank, but in accordance with "gentlemen's agreements" they usually maintained a minimum ratio between their liabilities and their deposits with the National Bank. These agreements also included measures designed to counter threatening inflation.

In 1964, gentlemen's agreements proved inadequate in stemming the inflationary pressures caused by a tremendous inflow of foreign capital. The Swiss legislature felt compelled to enact a series of temporary measures aimed at curbing a domestic real estate boom, discouraging the inflow of foreign funds, and preventing such funds from entering the Swiss domestic money supply. These controls, which were administered by the central bank, included among other things the prohibition of interest payments on foreign deposits, the requirement that net inflows of non-interest bearing funds be paid into a frozen account at the central bank unless they were re-exported, and ceilings on the growth of bank credit. With the subsiding of inflationary pressures, all of the mandatory controls were removed by the spring of 1967. A few, however, were shifted to a voluntary basis under the auspices of the Swiss Bankers' Association. Because inflation fostered by inflows of foreign capital has continued to threaten Swiss economic stability, the Swiss Parliament is currently considering legislation which would broaden the hitherto limited control of the Swiss National Bank over monetary policy. Compulsory reserve requirements would be the principal policy tool. The passage of this controversial legislation depends largely upon the willingness of the Swiss banks to surrender a portion of their highly prized freedom from central control. Should the proposed changes become law, Swiss banks would remain among the world's least regulated banks.

International Reputation The international reputation of Swiss banking can be said to have three aspects. The first arises from Switzerland's role as an international clearing house, featuring the Swiss-chartered Bank for International Settlements in Basel. In recent years, frequent meetings in Basel among prominent financial leaders seeking to bolster confidence in the international monetary system have heightened the prestige of this small country. While Swiss neutrality and desire for financial independence precludes membership in the International Monetary Fund, her influence in the area of international finance is substantial.

The second aspect derives from the extensive activities of Swiss banks as brokers and underwriters in the Euro-capital market, and as brokers and dealers in gold and foreign exchange. In the latter capacity, Swiss banks have sometimes been criticized for abetting disturbing movements in the foreign exchanges and in the gold market, thereby undermining key currencies. It should be borne in mind, however, that the veil of secrecy prohibits the disclosure of the origin of their transactions regardless of whether the bank is acting for its own account or as agent for a client.

The third aspect is somewhat ironic in that Swiss banks, a majority of which are very conservative, have achieved an air of notoriety. Because of rigid secrecy, statements made about the identity of Swiss bank depositors cannot be proved or disproved, and are left hanging. For example, swindled funds are often suspected of having been spirited off to Swiss vaults; international rackets, dope rings, and spy rings are said to use them behind legitimate fronts; and many a current or deposed strong man is thought to have siphoned off his country's wealth into a personal Swiss bank account. In the United States, Swiss banks have been accused of acting as fronts in corporate raids and proxy battles.

The use of Swiss banks for tax evasion is another cause of notoriety, particularly in this country where willful evasion is a felony. A portion of any interest or dividends earned on a Swiss account is withheld in Switzerland for Swiss taxes, but may be credited against United States taxes by filing the appropriate papers. Upon doing so, however, the Internal Revenue Service is alerted as to the existence of the account. Capital gains go completely untaxed if they are not reported or repatriated. Since failure to report such gains is illegal, such funds naturally are seldom repatriated. Compared to the number of French, German, and Italian depositors, it is thought that relatively few Americans have Swiss accounts.

Jane F. Nelson

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The Fifth District

AGRICULTURE: SPOTLIGHT ON 1968

Weather and the cost-price squeeze vied for top billing in this year's agricultural review. Both played important roles, although location and season of the year determined which played the lead. Where weather was normal, the cost-price squeeze took the spotlight; in localities where lack of rainfall and the resulting drought stretched into months, weather was the prime performer.

Latest information, brought together from official sources, tells the story of Fifth District agriculture in 1968. Briefly, it reads like this. Cash farm income: likely down from 1967's record level. Farm debt: up. Costs: high and rising. Prices: for livestock, up; for crops, generally lower. Farm labor force: smaller. Farmland values: increasing.

Weather's effects were varied . . .

Where weather played the lead, it frequently starred as the villain, exerting strongly unfavorable influences on local farm production, income, and credit conditions. But weather in 1968 played a dual role, often taking the part of the hero. When cast in this role, it rather unobtrusively produced very favorable results. The lack of spring freezes in most fruit areas produced big crops of peaches and apples. The peach crop turned out to be 139% larger than last year's short crop, while apple output was up slightly over 1967's excellent production. Fall harvest weather was generally good, and harvesting proceeded ahead of schedule. Widespread rains resulting from Hurricane Gladys finally broke the late summer and early fall drought, and pastures and fall-seeded small grains responded well to the needed moisture.

The prolonged drought reduced yields per acre of most spring-planted crops in the Carolinas, portions of Southside Virginia, and in scattered pockets in Maryland and West Virginia. Major results: Flue-cured tobacco production, with a combination of lower yields and smaller acreage, was down 21%; soybeans dropped 38%; corn was cut 22%; and pecans were down 55%. Cotton yields were sharply lower, but because of larger acreage, production was about three-fourths above that of 1967. Soybean and feed grain producers suffered a double economic blow as the result of significantly smaller crops and lower prices.

Livestock farmers as a whole enjoyed a fairly good year. Production of livestock and livestock products was pretty much in line with 1967 levels. Strong consumer demand for red meats was a big factor in improved livestock prices, and dairy prices were higher as the result of Government actions.

. . . and the cost-price squeeze continued . . .

Farmers generally continued to feel the tightening of the cost-price squeeze. Those heavily dependent upon crop income felt the pinch even more than livestock producers. Livestock prices averaged slightly higher than in 1967 in all District states. Crop prices, with the exception of those in Virginia, averaged below a year earlier, however.

Farmers' costs, meanwhile, continued to mount. Prices paid by farmers rose to new record highs in seven of the first ten months of 1968 and averaged 3.5% above those a year ago. The rural consumer index of prices paid for items used in family living averaged 4% higher. Prices paid for production goods, interest, taxes, and farm wage rates were up 3%. Nearly all production items, with the exception of feed and fertilizer, were higher than a year ago. Overhead costs were up substantially.

Adding further to many farmers' costs was the need to increase the volume of purchased inputs. Indications are that farmers bought more fertilizer, pesticides, and some other production goods. Still others purchased additional machinery and equipment and other capital goods in an attempt to offset the decline in the number of farm workers and the increase in farm wage rates. Some bought more land at higher prices. Under these conditions, farmers' demand for credit increased.

. . . but farmers' equity position remained strong.

Though the cost-price squeeze and the upturn in farm debt continued in 1968, most bankers contacted in a recent survey of farm credit developments indicated that generally the equity position of farmers is still strong. True, the financial position of some farmers is weaker, and there are signs that some are borrowing at levels which may lead to future difficulties. The majority opinion held, however, that no more than the usual number of commercial farmers are having difficulty in meeting their financial obligations.

Sada L. Clarke

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