



# MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

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FEDERAL RESERVE BANK OF SAN FRANCISCO

## CONSTRUCTION ACTIVITY—A STUDY IN CHANGE

CONSTRUCTION activity in the United States and the Twelfth District has been at a record level so far in 1951, despite restrictions on building and on credit. This record is the result of a backlog of housing authorization exempt from credit restrictions and a spurt in industrial, commercial, and military construction. Marked shifts have occurred, however, among the different types of construction, with nonresidential construction usurping the dominating position held by housing construction in last year's boom.

Controls on nonresidential construction have become sufficiently restrictive to prevent this segment of building activity from acting as a continuing offset to declining residential construction. It appears very likely, therefore, that the total volume of building will recede during the next several months. Even in the event that controls are relaxed, new starts of various kinds have been slowed up sufficiently so that several months would be required before the volume of construction put in place could begin to rise again.

### *Changing setting of construction activity*

Despite the many and varied shifts in the fortunes of its components, total construction activity has risen consistently since the end of World War II from one record to another, except in 1949. Developments since Korea have been characterized by limitation orders and credit restraints on various categories of construction, yet through the first six months of this year total construction expenditures in the United States were well ahead of last year. Nevertheless, it was becoming evident that activity in some categories of construction—particularly amusement places, commercial buildings, and housing—was declining.

### *Restrictions on nonresidential construction*

Principally responsible for the decline in building of amusement places has been Regulation M-4 of the National Production Authority, issued in September 1950, which prohibited the construction of a broad list of this type of structure. The regulation has since been broadened to require NPA approval over a wide variety of construction, including commercial structures, luxury housing, large multi-unit residential building, industrial

buildings, and projects requiring more than 25 tons of steel. The effects of the broader restrictions are not fully apparent as yet. Introduction of these restrictions was spread over the period from September 1950 to May this year. In the early stages of the program some allowance was made for commitments made prior to the effective date of the regulation, and the restrictions were applied leniently at first. Recently it appears that restrictions at least on commercial construction are being applied more rigidly, and other types of private and public projects are also receiving closer scrutiny before approval. Credit limits imposed by Regulation X on certain types of nonresidential construction—requiring a 50 percent down payment—also have a very strong restraining effect.

### *Credit for residential building*

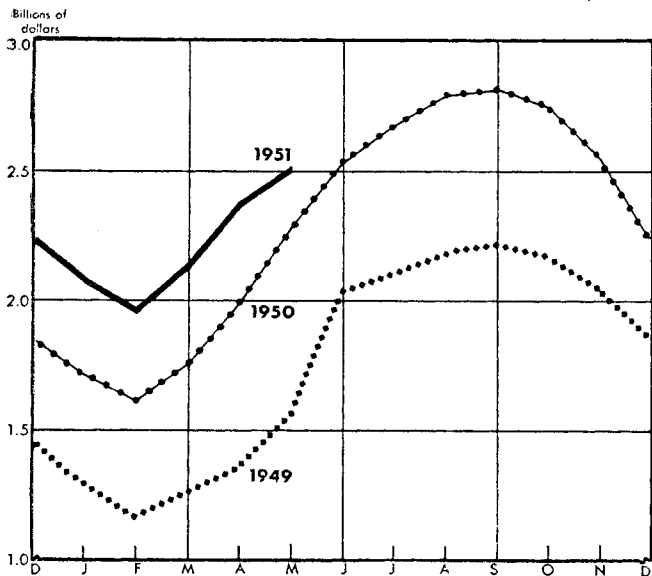
Residential building has faced two obstacles. In October, Regulation X, issued by the Board of Governors of the Federal Reserve System, and the companion regulations of the Veterans Administration and Federal Housing Administration raised the down payments on homes sharply. In anticipation of these regulations, however, builders acquired large commitments from the VA and FHA which were exempt from the regulations either on the basis of having filed applications prior to October 12, 1950, or on the basis of hardship because of funds expended to advance projects to the building stage. Nevertheless, it was anticipated that the down payment requirements would reduce residential construction substantially.

Before the effects of these requirements could be fully tested, conditions in the money market changed markedly, causing a sharp reduction in funds available for mortgage lending on future projects of any size. Wide-spread reports indicate that builders have during recent months found it necessary to scale down their plans for future

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**An Evaluation of the Torquay  
Tariff Negotiations**  
**Use of the Check Routing Symbol**

## NEW CONSTRUCTION PUT IN PLACE—UNITED STATES, 1949-51



Source: Joint estimates of the Departments of Labor and Commerce.

activity and, as a result, housing construction will probably decline more than seasonally during the remainder of the year.

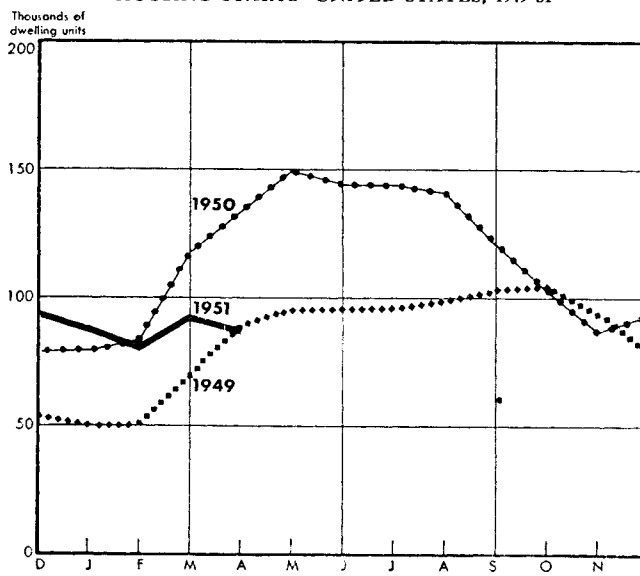
Tightness in the supply of mortgage money reflects action by the Treasury and the Federal Reserve System. In March, the Treasury offered a 2¾ percent long-term nonmarketable bond in exchange for an outstanding 2½ percent issue. Many insurance companies and banks took advantage of the exchange, and thus reduced the proportion of marketable securities in their portfolios. About the same time, the Federal Reserve System Open Market Committee stopped supporting Government securities at par. As a result insurance companies and banks became very reluctant to take on new commitments for large tracts, particularly if 4 percent VA loans were involved. Recently this reluctance has spread to the financing of large blocks of FHA loans as well. Insurance companies and banks found that in order to obtain funds for additional future lending they would have to take a loss on the securities they would need to sell. This reduced the attractiveness of mortgages, especially 4 percent Veterans Administration guaranteed loans.

#### Shifts in construction activity

In 1950 the record rate of construction activity in the nation, as well as in this District, was paced by an exceptionally large volume of housing construction. Approximately 1.4 million housing units were started in the nation during the year. Our involvement in the Korean conflict and the prospect of limitations on construction, material shortages, and increased demand for goods and services of all types gave additional stimulus to the already large housing boom and induced considerable activity in nonresidential building.

The national carry-over of authorizations exempt from regulation and work under way in the housing field

## HOUSING STARTS—UNITED STATES, 1949-51



Source: United States Department of Labor, Bureau of Labor Statistics.

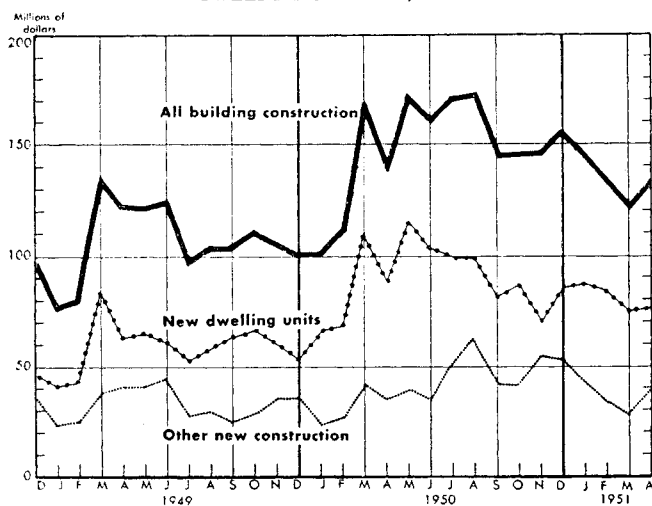
resulted in a record volume of private housing expenditures during the first four months of this year. Housing starts, however, have lagged behind the 1950 number by an increasing margin since February. As a result, the volume of residential construction in process has been leveling off, and private expenditures on housing construction dropped below the corresponding month of 1950 for the first time this year in May and also declined moderately from the April 1951 volume. For the period January through June, private expenditures on residential building were about the same as in 1950.

In marked contrast to residential building, private industrial construction in the first five months of 1951 was more than double the comparable 1950 volume. Many plans for industrial construction that had been in process or even in abeyance were hurried into action. Expectations of material shortages and increased demand for goods were the principal motivations. Most of the expansion in activity occurred before military needs could be measured and consisted either of facilities for producing civilian products or at most products that could be used for either civilian or military purposes.

Commercial construction in the first six months was also substantially ahead of the 1950 volume, principally because of moderate applications of NPA restrictions earlier this year. Credit restrictions under Regulation X and the limitations imposed by the NPA, however, probably prevented a much greater expansion of activity in the commercial field.

Public construction increased much more than private construction during the first six months of this year. Defense Department requirements have resulted in considerable expenditures on reactivation and expansion of all types of military establishments. In addition, Government expenditures for production facilities, particularly atomic energy, have added considerably to total public

VALUE OF URBAN BUILDING AUTHORIZED—  
TWELFTH DISTRICT, 1949-51



Source: United States Department of Labor, Bureau of Labor Statistics.

expenditures. Despite the increase in military and public industrial expenditures, highways and educational buildings still constituted the major single items of public spending.

#### Construction in the Twelfth District

Data on construction expenditures for 1951 in the Twelfth District are not yet available, but building permits issued for urban places give some indication of the course of activity. In the first four months of this year, total construction authorized in urban places of the District was slightly ahead of last year. Though the gain was much smaller than the gain in expenditures reported for the United States through May, it must be remembered that the expenditures figures reflect work on authorizations made some time ago as well as work on new authorizations. Construction authorized in the United States through April of this year was 3 percent less than in the first four months of 1950.

A declining level of residential authorizations has retarded the total building authorized in this District. Through April, home construction authorized in urban

areas declined almost 4 percent. Offsetting this decline were sharp increases in authorizations for factories, public works, office buildings, public buildings, and commercial structures. Commercial authorizations have declined sharply from the high rate of January and February, reflecting the growing impact of credit and NPA restrictions.

Not reflected in the urban authorizations is a very large expansion in military and atomic energy construction in this District. Considerable expansion in these lines of activity has already occurred. A number of projects exceeding \$10 million each have been authorized and a much larger number of projects between \$1 and \$10 million either are under way or will be started in the near future. These projects have absorbed large quantities of materials and manpower, but the full force of their impact on construction activity is yet to come. Contracts for some projects have been signed only recently and the rate of activity on these is still low. More contracts are still to be issued and these will give rise to a higher rate of military construction than is now evident.

#### Outlook for construction

The level of construction for the next several months in both the Twelfth District and the United States will depend largely upon the availability of mortgage money for new residential projects and the effect of Regulation X and NPA restrictions on private and public nonresidential building not related to the defense effort. Availability of steel and other critical materials, which was not a severe problem earlier this year, will guide approvals by the NPA of these projects. It is likely that some reduction in both public and private nondefense construction may be necessary because of limited availability of a few critical materials. These considerations indicate that total construction may decline more than seasonally during the next few months despite some increase in military construction. Preliminary May reports for the Twelfth District tend to support this assumption. These reports indicate a moderate decline in authorizations of new construction in urban areas from April 1951 and a substantial decline from May 1950.

### AN EVALUATION OF THE TORQUAY TARIFF NEGOTIATIONS

THE results of the tariff negotiations at Torquay, England, were made public on May 9, 1951. The Torquay conference was the third of a series of three international tariff conferences held during the postwar period within the framework of the General Agreement on Tariffs and Trade. The negotiations at Torquay were conducted during a period of seven months from September 28, 1950, to April 21, 1951. The many comments which have appeared since the conclusion of the negotiations have been confusing since they have termed the meeting both a dismal failure and a glowing success. The reason for this wide variation in evaluations is that in many respects the results obtained after many months of negotiations were

disappointing; on the other hand, those who sweated it out at Torquay may take justifiable pride in many real accomplishments. On balance, however, those who are sincerely interested in the growth of multilateral trade will be able to find much that is heartening, once the dust has settled over the quiet seaside resort in England and once the partisans on both sides have had their say.

The Torquay meeting was the product of many years of continuing effort by the United States and other nations to accomplish a reduction in the tariff barriers which had throttled world trade during the inter-war period. The accomplishments at Torquay actually had their beginning in 1934 with the passage of the original Re-

reciprocal Trade Agreements Act which empowered the President to reduce this country's tariffs by as much as 50 percent of the all-time peak level set by the Hawley-Smoot Tariff Act of 1930. This original act has been extended seven times for different periods of time, varying between one and three years. The most recent extension, passed by Congress on June 6, 1951, extended the act, with modifications, for two years to June 12, 1953. The 1945 extension gave the President additional authority to reduce tariffs to 50 percent of the 1945 level. Thus, the maximum amount by which the President may reduce a tariff is 75 percent of the 1930 level. This maximum reduction, however, would apply only to those commodities on which the tariff had already been reduced the maximum permissible by 1945.

The ultimate objective of the reciprocal trade program was to accomplish the growth of multilateral trade; it was necessary, however, to start with a bilateral arrangement whereby the United States attempted, country by country, to reduce tariff barriers on a basis of reciprocity. During the years prior to World War II, our Government negotiated a series of individual trade agreements with 29 countries under the Reciprocal Trade Agreements Act. In these agreements we reduced our tariffs in return for reductions in the tariffs on American exports. While these treaties were bilateral in nature, they all contained the "most-favored-nation" clause which provided that concessions granted to any country under a trade agreement would also apply to any other country with which we had a similar trade agreement. Thus the process was multilateral to the extent that the concessions applied to all countries with which we had signed trade agreements.

At the end of the war, it was decided that this process could be considerably stimulated and accelerated if all the major trading nations could be brought together at one time for one grand tariff-reducing bee. At such a meeting any country would be able to undertake negotiations with any other country with which it thought effective negotiations would be possible. Thus, at one meeting, tariff concessions could be obtained on a give-and-take basis which otherwise might have been spread over a long period of years on a country by country basis.

The process of negotiation that was followed at the first of these meetings (Geneva, 1947) was also followed at later meetings at Annecy and Torquay. Under this procedure, bilateral lists of offers are exchanged by interested pairs of countries at the beginning of the meeting. Through the process of negotiation these pairs of countries then either agree upon reciprocal concessions between themselves or conclude that no basis for agreement exists. The concessions agreed to are then consolidated into a single schedule of concessions for each country. After this, the consolidated schedules are circulated to all participating countries so that each country may assess the total results of the negotiations and, where necessary, negotiate for the purpose of removing inequities or other

difficulties that may have developed out of the bilateral negotiations. Finally, when the concessions contained in the consolidated schedules are agreed upon, they are granted to all other contracting parties.

#### **General Agreement on Tariffs and Trade (GATT)**

At the Geneva meeting in 1947, the General Agreement on Tariffs and Trade (GATT) came into being. Under GATT, 23 nations negotiated significant reductions in tariff barriers against the flow of world trade. Tariff concessions resulting from this meeting were made on over 45,000 items, which accounted for about two-thirds of the world's trade.

The General Agreement on Tariffs and Trade has two major features. The first consists of the specific tariff concessions which are set forth in the schedules annexed to the Agreement. The other relates to such practices as tariff discrimination, quantitative import restrictions, and customs formalities. These more general provisions are necessary to safeguard the advantages gained through the specific concessions. No permanent organization was set up when the General Agreement came into being. The various meetings under the Agreement have been of two types: first, those held to negotiate tariff concessions; and second, those held to consider the problems of carrying out the provisions of the General Agreement. Including the Torquay meetings, three tariff meetings and five sessions of the contracting parties have been held.

Under the General Agreement signed by the 23 nations at Geneva, it was provided that additional countries could become contracting parties upon a two-thirds majority vote of the original signatories and upon conclusion of satisfactory tariff concessions. Under this provision a second meeting was held at Annecy, France, in 1949, for the primary purpose of adding nine countries to the General Agreement.<sup>1</sup>

At Torquay, 31 signatory countries<sup>2</sup> participated and six nations<sup>3</sup> entered negotiations with a view to becoming contracting parties. Including Uruguay, this total of 38 countries represents over four-fifths of the world's total trade, accounting for 80 percent of total world imports and about 85 percent of total world exports.

In addition to negotiations for new concessions, the Torquay conference also resulted in an arrangement to extend to January 1, 1954, the concessions granted at Geneva and Annecy, with certain modifications, which will be mentioned later. Thus, the tariff schedules of the major part of the world's trade were stabilized for at least three years.

<sup>1</sup> One country — Uruguay — negotiated at Annecy and later at Torquay, though she has not completed the process of becoming a contracting party.

<sup>2</sup> The 31 countries are Australia, Belgium, Brazil, Burma, Canada, Ceylon, Chile, Cuba, Czechoslovakia, Denmark, the Dominican Republic, Finland, France, Greece, Haiti, India, Indonesia, Italy, Liberia, Luxembourg, the Netherlands, New Zealand, Nicaragua, Norway, Pakistan, Southern Rhodesia, Sweden, Syria, Union of South Africa, the United Kingdom, and the United States.

<sup>3</sup> Austria, German Federal Republic, Korea, Peru, Republic of the Philippines, and Turkey.

### Tariff concessions negotiated at Torquay

The list of concessions made at Torquay is impressive, particularly when it is remembered that the large scale concessions previously granted at Geneva and Annecy had considerably reduced the area for negotiation (except, of course, in the case of the countries that were negotiating for the first time at Torquay). The final score at Torquay was a total of 147 pairs of negotiations in which 34 countries<sup>1</sup> participated. During the 206 days of negotiation, over 8,700 concessions were granted. Among the negotiators, France granted the largest number of concessions—1,390. Germany lowered or froze tariffs on 1,290 items, Italy on 1,150, the United States on 760, and the United Kingdom on 200. These concessions plus those made at Geneva and Annecy cover a total of some 58,000 classifications of commodities.

The United States successfully conducted negotiations with 17 countries<sup>2</sup> including five of the seven countries that were participating for the first time at Torquay. The United States obtained new concessions, in the form of lower tariffs or the continuation of present tariff treatment, on exports from this country valued at over a billion dollars in 1949. In return, United States duties on specific products were either fixed at existing levels until January 1, 1954, or reduced until that date, on a total of about a half billion dollars of trade, in terms of 1949 imports. The year 1949 was used as the base for all negotiations at Torquay because it was the most recent year for which complete data were available. However, exports from the United States were unusually high in 1949 and imports were unusually low, particularly during the first half of the year. Total United States exports decreased from \$12 billion in 1949 to \$10 billion in 1950; while total imports increased from \$6.6 billion to \$8.8 billion. It is possible to obtain an approximation of the value of concessions in terms of 1950 trade by assuming that the relative importance of the commodities upon which concessions were made remained the same in the two years. On this basis, the estimated value of the concessions obtained by the United States in terms of 1950 exports would amount to \$850 million. The estimated value of imports in 1950 upon which concessions were granted by the United States would be \$670 million.

Other nations reduced their tariffs upon a wide range of United States exports, including wheat and wheat flour, corn, cotton, lard, dried and canned fruit, a wide range of chemicals, machinery, including automobiles and parts, textile specialties such as nylon, radio and television apparatus, electric refrigeration and air conditioning equipment, agricultural implements, and office appliances.

The United States granted concessions on such commodities as lead and zinc, Canadian-type whiskey, ciga-

<sup>1</sup> Four contracting parties undertook no tariff negotiations at Torquay. They are: Burma, Liberia, Nicaragua, and Syria.

<sup>2</sup> Of the 17 countries, the following 12 had previously participated in GATT negotiations: Belgium, Brazil, Canada, Denmark, the Dominican Republic, France, Indonesia, Italy, Luxembourg, Netherlands, Norway, and Sweden. The remaining five negotiating for the first time were Austria, Germany, Korea, Peru, and Turkey.

### SUMMARY OF UNITED STATES GAINS AND CONCESSIONS AT TORQUAY

Based on the value of trade in 1949  
(in thousands of dollars)

Country	United States gains			United States concessions		
	Total exports	Covered by Direct Concessions	Covered by Indirect Concessions <sup>1</sup>	Total imports	Covered by Direct Concessions	Covered by Indirect Concessions <sup>1</sup>
Austria .....	181,187	30,310	15,000	9,615	6,501	364
Benelux <sup>2</sup> ....	582,392	35,000	4,800	154,680	29,914	2,683
Brazil .....	381,164	295	...	551,084	107	750
Canada .....	1,951,860	290,316	6,275	1,552,000	125,500	3,728
Denmark ....	93,023	3,552	5,110	6,445	263	305
Dominican Republic ...	38,178	5,444	...	24,679	2,844	90
France .....	490,000	25,582	12,000	62,207	12,871	3,984
Germany ....	754,367	563,907	...	43,660	6,853	3,474
Indonesia ....	124,229	750	1,600	120,262	42 <sup>4</sup>	84 <sup>4</sup>
Italy .....	454,000	9,340	9,000	70,572	5,073	4,000
Korea .....	52,000	7,000	...	1,602	141	...
Norway .....	69,574	5,633	8,852	29,942	2,020	3,611
Peru .....	90,842	45,252	5,000	40,708	25,789	9,365
Sweden .....	80,308	1,122	3,656	54,430	403	1,413
Turkey .....	58,667	28,038	4,641	50,047	44,604	2,893

<sup>1</sup> Indirect concessions consist of benefits derived from concessions granted other countries through "most-favored-nation" treatment.

<sup>2</sup> Includes Belgium, the Netherlands, and Luxembourg.

<sup>3</sup> Not available or of insignificant importance.

<sup>4</sup> Indonesia entered agreements under its own name for the first time at Torquay. Previous negotiations for Indonesia had been carried on by the Netherlands. Over 96 percent of Indonesia's exports to the United States were already duty free and thus only minor concessions were made at Torquay.

Source of data: United States Department of State, *Analysis of Torquay Protocol of Accession, Schedules, and Related Documents*, Publication 4209, Commercial Policy Series No. 135, May 1951.

rette leaf tobacco, aluminum, long-staple cotton, precious and semi-precious stones, certain laces and embroideries, ferromanganese, flower bulbs, sugar (except from Cuba and the Philippines which are covered by other agreements), cheese, bonito, and certain other fish.

A summary of United States gains and concessions negotiated with individual countries appears above. By far the most productive of these negotiations were those conducted with Canada and Germany.

### Trade controls other than tariffs also discussed at Torquay

The Torquay Conference was also the scene for the fifth session of the contracting parties of the General Agreement on Tariffs and Trade at which general problems of trade controls were considered. These consultations proceeded simultaneously with the tariff negotiations and were concluded in December 1950. Three major accomplishments came out of these meetings: (1) a procedure was set up, through the establishment of a permanent office in Geneva, for obtaining information needed in the detailed examination of current import and export restrictions; (2) a code of standard practices was set up for the administration of necessary trade restrictions; and (3) procedures were established to enable contracting parties who are not members of the International Monetary Fund to carry out their Agreement obligations affecting the control of foreign exchange. In addition to these three decisions the contracting parties avoided the pit in which lie the bones of the International Trade Organization (ITO); namely, they rejected a proposed amendment of the Agreement providing for the adoption of policies in each signatory country that would

foster the maintenance of full employment and a high level of economic activity.

These actions represent an effort on the part of the contracting parties to set up effective machinery to administer the General Agreement between plenary sessions and to expand the aspects of commercial policy covered. In setting up a code of standard practices, it was recognized that since government restrictions on trade are bound to continue for some time, the uncertainties and hardships to merchants resulting from varying and unpredictable operation of controls must be reduced.

The decision with regard to cooperation with the International Monetary Fund also marked a significant step forward. Under the Bretton Woods Agreement, the IMF is charged with the responsibility of maintaining orderly rates of exchange and of assisting members in overcoming short-run balance of payments problems. In this decision the contracting parties have recognized the prerogatives of the IMF in the sphere of exchange controls. At Torquay, the IMF entered actively into the proceedings of GATT for the first time. During the course of the meeting, representatives of the IMF presented an analysis of the reserve position of the participants and made recommendations for the reduction of controls, particularly in the case of discriminatory measures in force in British Commonwealth countries against United States exports.

#### *Failures at Torquay*

Those who have been critical of the results at Torquay have for the most part concentrated on four considerations.

First was the failure of the United States to complete any new tariff arrangements with the United Kingdom and the Dominions of Australia, New Zealand, and South Africa. These discussions are known to have failed over the issue of Imperial Preference. It is not possible to place responsibility for this failure without full knowledge of the demands and offers exchanged by each side, and these facts have not been made public.

Second was the final abandonment of efforts to bring the International Trade Organization (ITO) into being. The United States delegation stated during the early days of the conference that it would not ask Congress to ratify the ITO charter.

Third was the failure to persuade the United Kingdom and certain other member countries to undertake a gradual relaxation of their import restrictions and to modify the discriminatory manner in which those restrictions are applied. It was on this subject that the International Monetary Fund made its report to GATT backing the demand for these reductions and citing the improved reserve position of these countries as justification. In other words, it was recognized that during the postwar period direct controls in the form of quotas, licensing provisions, and exchange controls, have played a far more important part than formal tariffs as such. These measures were undertaken, for the most part, with mu-

tual consent among the trading nations of the world to deal with the unusual conditions following the war. It was felt that the time had come for some reduction in these direct controls. Without such reductions in direct controls a reduction in the level of tariffs would have limited significance. These demands and the appeal of the IMF fell on barren ground.

The fourth negative factor commonly mentioned in connection with Torquay is the fact that during the negotiations sixteen countries withdrew concessions which had previously been made at Geneva and Annecy. The modification or withdrawal of concessions was provided for in Article XXVIII of the General Agreement. The concessions made in 1947 and 1949 had an assured life only to January 1, 1951. Thereafter, it was open to any contracting party to withdraw or modify any of the concessions made. Of the 16 countries withdrawing or modifying concessions, only three—Cuba, France, and South Africa—made important changes. Furthermore, satisfactory agreement was reached at Torquay on the compensation that should be given for all of the Geneva and Annecy concessions which were modified or withdrawn. For example, concessions obtained by the United States at the earlier meetings covering an estimated \$100 million of United States exports were withdrawn at Torquay, but compensatory concessions covering an estimated \$105 million were obtained in exchange. In general, the balance of concessions obtained at Geneva and Annecy was maintained. Rather than indicating a failure, therefore, these withdrawals actually presented evidence that the General Agreement is a flexible instrument under which countries are able to commit themselves to fair and equitable principles and practices of commercial policy.

A significant factor in the three failures at Torquay is that they are all closely related to one major problem which in turn reflects in large part the policies of one government, the United Kingdom. The failure to negotiate an agreement with the United States and by so doing relax the system of Imperial Preference, the inclusion of certain provisions in the ITO Charter which apparently made it unacceptable to the United States Congress, and finally, the refusal to reduce discriminatory direct controls and exchange control are all related to the unqualified adherence of the British Government to the maintenance of full employment in their own economy. As a result of experience gained during the interwar period it has become apparent to the nations of the world that, while trade relations with other nations bring obvious advantages, such relations also bring certain liabilities. To the extent that a nation becomes dependent upon other countries, it subjects its internal economy to economic fluctuations in these other countries. This knowledge has led many countries to adopt controls over the flow of their international trade in an effort to insulate their internal economies against external economic fluctuations. This trend has been strengthened by the severe balance-of-payments problems in many countries during the post-

war period. The present British Government is committed to a policy of full employment and this policy takes priority over virtually all other considerations. It has been reflected in the repeated reluctance of the British to participate in the various programs for the economic integration of Europe.

At the Torquay meeting, this policy resulted in the British refusal to withdraw on the preference front and, also, in their cold reception of the IMF's appeal for a reduction in other controls. To quote the *Economist*, British policy is apparently "to pull down the shutters, to seek the cosy security of the Commonwealth—without Canada—cushioned by exchange control and import licensing."<sup>1</sup>

In the case of the scuttling of the ITO, one of the key issues, and certainly the most controversial issue, which was involved in drawing up the Charter, was the question of guarantees on the maintenance of full employment. From the earliest meeting the British delegates made it clear that before they would be willing to expose their economy to external fluctuations through the reduction of foreign trade controls, they must have assurance that the governments of all other members would adopt such measures and controls over their internal economies as are necessary to maintain full employment. This was interpreted by many to mean that all members would have to adopt some form of planned economy. Such a proposal was not acceptable to the United States and in spite of efforts to compromise the issue and the fact that the final provisions were considerably less mandatory than the British would have desired, it became apparent by the time of the tariff conference at Torquay that the United States Congress would not accept the Charter.

<sup>1</sup> *The Economist*, London, April 21, 1951, pp. 901-902.

Congress would be unwilling to accept the implications of the Charter that domestic economic policy must be subordinate to commitments made to an international organization.

The failures at Torquay and the underlying problems involved indicate that the road to convertibility of currencies and free multilateral trade is long and uncertain. The meeting demonstrated, however, that the General Agreement is a flexible instrument under which the members may negotiate successfully for tariff reductions with the consequent expansion of multilateral trade. In addition, the contracting parties indicated that they will be increasingly concerned with the broader aspects of commercial policy. While no further tariff negotiations are planned at present, the contracting parties will continue to consider related problems and the implementation of the General Agreement. The sixth session of the contracting parties will be held at Geneva, Switzerland, beginning September 17, 1951.

The most important factor in considering the future of the General Agreement is the extent to which it may be expected to replace the ill-fated ITO. The program of tariff reductions undertaken under the General Agreement originally was intended as a means of expediting reductions in trade restrictions while the Charter of the ITO was in the process of formulation and ratification. Had the ITO been established, the General Agreement would have become a part of it. However, it now appears that the General Agreement may be given a permanent form, without reference to ITO. Other means may be found, outside of GATT, to implement such parts of the ITO charter as those relating to nonpolitical practices and international commodity agreements.

### USE OF THE CHECK ROUTING SYMBOL

**M**OST people who have checking accounts at their banks have noticed at one time or another a numerical fraction that appears near the upper right-hand corner of each check. It is a rather appalling fraction, one we should not care to have anything to do with in making a mathematical calculation. Fortunately, its use does not require multiplying or dividing it with any other figure. In fact, even though it looks like a fraction, it actually isn't one. Instead it is a symbol that tells certain things about the bank whose name is on the check. The information in the symbol, and its position in the upper right-hand corner of the check above the amount, enable the people who have to sort the checks to work much more quickly and accurately.

#### Meaning of symbol

The upper half of the fraction is the identification (American Bankers Association, or ABA number) of the bank upon which the check is drawn. The lower half is the check routing symbol. The first digit (or first two,

as the case may be) of the routing symbol indicates the Federal Reserve District in which the drawee bank is located. Banks in Federal Reserve Districts 1 to 9 have a check routing symbol of three digits, and those in Districts 10 to 12 have a four-digit symbol.

The second digit (or third in a four-digit symbol) designates the Federal Reserve bank or branch serving the territory in which the drawee bank is situated. The Head Office is indicated by the figure 1; branches, if any, arranged alphabetically, are indicated by the figures 2 to 5. Figures 6 to 9 are used (or reserved) to designate special collection arrangements.

The last digit serves two purposes: first, it facilitates the separation of items that are receivable for immediate credit from those that are receivable for deferred credit, and second, it facilitates the sorting of items by states in any case where that is convenient. If the drawee bank is located in a Federal Reserve head office or branch city, except the outlying sections of some cities as in Los Angeles, the figure 0 is used. Since credit is immediate, if

received in time to be cleared on the current day, for checks drawn on banks located in those cities, the last digit also indicates whether credit is immediate or deferred. A last digit other than 0 signifies deferred credit but does not indicate the number of days for which credit may be deferred. That is still determined by the time schedules of the various Federal Reserve banks and branches.

Examples are as follows:

90-132 ABA transit number  
1222 Routing symbol

11-24 ABA transit number  
1210 Routing symbol

In the routing symbol in the first example, "12" designates the Twelfth Federal Reserve District; the third digit "2" designates the Los Angeles Branch of the Federal Reserve Bank of San Francisco; and the last digit "2" indicates deferred credit and also that the check was drawn on a bank in California in the Los Angeles zone other than in Los Angeles. In the second example, the first two digits of the routing symbol designate the Twelfth Federal Reserve District; the third digit "1" designates the Head Office of the Federal Reserve Bank of San Francisco, and the last digit "0" indicates immediate availability, or that the check was drawn on a bank in San Francisco.

#### Widespread use

On June 1, 1951, the check routing symbol appeared in the approved position on approximately 82 percent of all the checks included in the latest semi-annual survey conducted by the Federal Reserve banks. When the routing symbol was first adopted by the American Bankers Association and the Federal Reserve System in June 1945, the figure of 80 percent was most commonly cited as the minimum necessary before sorting by symbol would become advantageous to banks. This minimum

has now been reached and more and more banks will probably use the routing symbol in their sorting operations.

The range from Maine to California—and in this case the expression is used literally—amounted to 33 percentage points. In Maine, 93 percent of the checks surveyed carried the symbol, and in California the figure was only 60 percent. The system was virtually as popular in New York as in Maine, with 91 percent of the checks carrying the symbol. The other Twelfth District states have used the system more extensively than has California. The percentages are 90 for Oregon, 89 for Utah, 88 for Washington and Idaho, 82 for Nevada, and 75 for Arizona. These states pulled the District total up to 72 percent, or to eleventh place among the twelve Federal Reserve Districts.

A bank that handles many checks drawn on banks outside its own state or Federal Reserve District gains a great deal from the widespread use of the check routing symbol. The clerks who sort the checks can see at a glance from the correctly-placed symbol both the Federal Reserve bank to which the check may be forwarded for collection and the amount for which it must be listed. The accompanying sample check illustrates the correct position of the symbol, in the upper right-hand corner, above the amount. This is the proper position, even if the name of the bank appears elsewhere than at the top center of the check.

It is hoped that the use of the check routing symbol will continue to grow as its advantages become more apparent. Banks that have not already done so, and individuals and corporations who have their own checks printed, are being urged by the American Bankers Association, the Federal Reserve banks, and other banks to use the correctly-placed symbol on their checks as soon as their current supply of checks are exhausted. Use of the check routing symbol not only may reduce outstanding time on checks in process of collection, but also tends to reduce operating costs for all concerned by increasing the speed and accuracy of sorting.

<b>BLANK TRUST COMPANY</b>		No. _____
BLANK, WASHINGTON, _____ 19____		<u>98-45</u> 1251
PAY TO THE ORDER OF _____	\$ _____	
		DOLLARS
<b>Specimen</b>		



**BUSINESS INDEXES—TWELFTH DISTRICT<sup>1</sup>**  
(1935-39 average = 100)

Year and month	Industrial production (physical volume) <sup>2</sup>								Total mf'g employment <sup>4</sup>	Car-loadings (number) <sup>2</sup>	Dep't store sales (value) <sup>2</sup>	Retail food prices <sup>3,5</sup>	Waterborne foreign trade <sup>3,6</sup>	
	Lumber	Petroleum <sup>3</sup>		Cement	Lead <sup>3</sup>	Copper <sup>3</sup>	Wheat flour <sup>3</sup>	Electric power					Exports	Imports
		Crude	Refined											
1929	148	129	127	110	171	160	106	83	...	135	112	132.0	124	118
1931	77	83	90	74	104	75	101	82	...	91	92	104.0	90	76
1933	62	76	81	54	75	26	88	73	...	70	66	86.8	72	69
1934	67	77	81	70	79	36	95	79	...	81	74	93.2	86	74
1935	83	92	91	68	89	57	94	85	...	88	86	99.6	88	103
1936	106	94	98	117	100	98	96	96	...	100	99	100.3	86	110
1937	113	105	105	112	118	135	99	105	...	109	106	104.5	112	114
1938	88	110	103	92	96	88	96	102	...	96	101	99.0	108	82
1939	110	99	103	114	97	122	107	112	...	104	109	96.9	107	90
1940	120	98	103	124	112	144	103	122	...	110	119	97.6	86	96
1941	142	102	110	164	113	163	103	136	...	128	139	107.9	...	...
1942	141	110	116	194	118	188	104	167	...	230	137	130.9	...	...
1943	137	125	135	160	104	192	115	214	...	306	203	143.4	...	...
1944	136	137	151	128	93	171	119	231	...	295	141	223	142.1	...
1945	109	144	160	131	81	137	132	219	...	229	134	247	146.3	...
1946	130	139	148	165	73	109	128	219	...	181	136	305	167.4	58
1947	147	147	159	193	98	163	133	256	...	142	330	200.3	85	78
1948	159	149	162	211	109	154	116	284	...	191	353	216.1	57	93
1949	151	147	167	202	105	142	104	303	...	126	331	209.6	55	115
1950	171	144	168	227	113	176	94	333	...	196	353	209.8	59	130
1950														
March	160	138	151	201	125	168	91	330	...	184	322	204.0	65	106
April	174	138	159	217	124	172	87	325	...	186	333	205.3	57	108
May	207	140	162	240	132	180	95	341	...	194	336	205.2	61	107
June	181	142	170	244	118	172	105	331	...	195	342	205.9	66	150
July	184	142	170	245	87	167	113	341	...	198	345	209.4	59	110
August	186	145	178	251	96	177	112	340	...	205	335	212.5	48	141
September	176	148	177	248	104	175	105	339	...	207	340	211.0	58	134
October	187	153	177	252	106	176	99	352	...	210	343	214.1	62	148
November	167	154	179	229	111	195	97	353	...	208	345	216.0	68	167
December	168	154	173	229	118	195	120	345	...	208	376	222.9	70	167
1951														
January	187	154	176	239	101	181	134	361	...	212	420	230.8	75	146
February	171	155	187	255	110	178	121	361	...	218	375	230.2	98	159
March	168	155	179	246r	106r	180	111	380	...	219	335	234.5	109	153
April	189	155	180	247	108	194	110	378	...	221	346	233.0	...	...

**BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT**  
(amounts in millions of dollars)

Year and month	Condition items of all member banks <sup>7</sup>				Bank rates on short-term business loans <sup>8</sup>	Member bank reserves and related items <sup>10</sup>					Bank debits index 31 cities <sup>3,12</sup> (1935-39=100) <sup>2</sup>
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted <sup>9</sup>	Total time deposits		Reserve bank bank <sup>11</sup>	Commercial operations <sup>12</sup>	Treasury operations <sup>12</sup>	Coin and currency in circulation <sup>11</sup>	Reserves	
1929	2,239	495	1,234	1,790	.....	- 34	0	+ 23	- 6	175	146
1931	1,898	547	984	1,727	.....	+ 21	- 154	+ 154	+ 48	147	97
1933	1,486	720	951	1,609	.....	- 2	- 110	+ 150	- 18	185	63
1934	1,469	1,064	1,201	1,875	.....	- 7	- 198	+ 257	+ 4	242	72
1935	1,537	1,275	1,389	2,064	.....	+ 2	- 163	+ 219	+ 14	287	87
1936	1,682	1,334	1,791	2,101	.....	+ 6	- 227	+ 454	+ 38	479	102
1937	1,871	1,270	1,740	2,187	.....	- 1	- 90	+ 157	- 3	549	111
1938	1,869	1,323	1,781	2,221	.....	- 3	- 240	+ 276	+ 20	565	98
1939	1,967	1,450	1,983	2,267	.....	+ 2	- 192	+ 245	+ 31	584	102
1940	2,130	1,482	2,390	2,360	.....	+ 2	- 148	+ 420	+ 96	754	110
1941	2,451	1,738	2,893	2,425	.....	+ 4	- 596	+ 1,000	+ 227	930	134
1942	2,170	3,630	4,356	2,609	.....	+ 107	- 1,950	+ 2,826	+ 643	1,232	165
1943	2,106	6,235	5,998	3,226	.....	+ 214	- 3,751	+ 4,486	+ 708	1,462	211
1944	2,254	8,263	6,950	4,114	.....	+ 98	- 3,534	+ 4,483	+ 789	1,706	237
1945	2,663	10,450	8,203	5,211	.....	- 76	- 3,743	+ 4,682	+ 545	2,033	260
1946	4,068	8,426	8,821	5,797	.....	+ 9	- 1,607	+ 1,329	- 326	2,094	298
1947	5,358	7,247	8,922	6,006	.....	- 302	- 510	+ 698	- 206	2,202	326
1948	6,032	6,366	8,655	6,087	.....	+ 17	+ 472	- 482	- 209	2,420	355
1949	5,925	7,016	8,536	6,255	3.20	+ 13	+ 930	- 378	- 65	1,924	350
1950	7,093	6,381	9,254	6,251	3.35	+ 39	- 1,141	+ 1,198	- 14	2,026	395
1950											
April	5,914	6,896	8,307	6,282	.....	+ 28	- 126	+ 106	+ 4	1,821	361
May	6,005	6,932	8,354	6,275	.....	- 14	- 199	+ 170	+ 8	1,802	371
June	6,034	6,905	8,289	6,315	3.37	- 10	+ 23	+ 32	+ 5	1,836	389
July	6,162	6,810	8,458	6,250	.....	+ 3	- 149	+ 169	+ 0	1,858	382
August	6,418	6,699	8,627	6,210	.....	- 2	- 102	+ 125	+ 18	1,863	421
September	6,664	6,495	8,754	6,213	3.29	+ 62	- 45	+ 72	+ 9	1,893	417
October	6,810	6,452	8,871	6,239	.....	- 56	- 93	+ 150	+ 10	1,930	428
November	6,963	6,319	9,018	6,194	.....	+ 24	- 21	+ 42	- 3	1,983	425
December	7,093	6,381	9,254	6,251	3.37	+ 48	- 80	+ 131	+ 4	2,026	464
1951											
January	7,152	6,071	9,190	6,337	.....	+ 30	- 59	+ 168	- 68	2,284	455
February	7,184	5,811	8,834	6,352	.....	- 32	- 38	+ 6	+ 21	2,206	444
March	7,293	5,734	8,819	6,338	3.48	- 3	- 124	+ 130	- 8	2,186	461
April	7,367	5,696	8,828	6,332	.....	- 45	- 200	+ 226	+ 26	2,180	431
May	7,422	5,685	8,834	6,357	.....	+ 13	- 162	+ 150	+ 36	2,149	449

<sup>1</sup> Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, various lumber trade associations; petroleum, cement, copper, and lead, U.S. Bureau of Mines; wheat flour, U.S. Bureau of the Census; electric power, Federal Power Commission; manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census. <sup>2</sup> Daily average. <sup>3</sup> Not adjusted for seasonal variation. <sup>4</sup> Excludes fish, fruit, and vegetable canning. <sup>5</sup> Los Angeles, San Francisco, and Seattle indexes combined. <sup>6</sup> Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. <sup>7</sup> Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. <sup>8</sup> Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. <sup>9</sup> Average rates on loans made in five major cities during the first 15 days of the month. <sup>10</sup> End of year and end of month figures. <sup>11</sup> Changes from end of previous month or year. <sup>12</sup> Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. <sup>13</sup> Debits to total deposit accounts, excluding interbank deposits. r—revised.