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TWELFTH FEDERAL RESERVE DISTRICT

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CONSUMER SPENDING AND RETAIL SALES

RETAIL sales in the Twelfth District and in the nation so far this year are larger than they were last year. Nationally the gain has been about 2 percent, but in this District the increase has been somewhat larger, primarily because of greater expansion of employment here than in the country as a whole. In both cases, however, the increases have been so moderate and so unevenly distributed among retail lines that some merchants have not shared in the increase.

Although sales in this District and in the nation have shown an underlying tendency toward growth throughout the year, there has been enough variation from month to month so that the over-all pattern appears quite irregular. Despite the somewhat erratic behavior of consumers, recent sales volume indicates that retailers will probably move a record volume of goods in the last quarter of the year. The underlying strength in retail sales, however, will not be felt uniformly by all retail lines.

Consumer spending rises

So far this year consumer spending has been ahead of last year's record level, and has increased more than retail trade figures alone would indicate. In the first three quarters of 1952, consumers spent about 4 percent more than they did in the corresponding period of 1951. Consumer outlays increased during the first two quarters of this year but failed to rise in the third quarter as sales of new automobiles were reduced by the steel strike. Last year, in contrast, there was a sharp drop after the first quarter with a slow recovery during the third and fourth quarters. The impetus to consumer spending this year has resulted primarily from a moderate rise in consumer disposable income.

Retailers' experience varies

Retailers, in some cases at least, are likely to regard statements about higher consumer spending this year with some degree of skepticism. Almost half the increase in consumer outlays over last year has gone for such items as gas, electricity, laundry, and other services. The remaining increase in spending has been concentrated almost entirely in purchases of nondurable goods. A look at individual lines reveals a wide variation in experience.

The dollar volume of department store sales was no larger than in the same nine months last year, although, as previously indicated, total retail sales in the nation were 2 percent above the year-ago level. The major increases over last year were reported by gasoline service stations, jewelry stores, food stores, and drug stores. Automobile sales lagged behind last year until the removal of Regulation W in May and then moved up sharply. The cut in supplies resulting from the steel strike caused a reduction in sales. Through September, automobile sales were 5 percent behind 1951. Furniture and appliance dealers did fairly well early this year. A slight decline in their sales this spring was followed by a sharp upsurge after the suspension of Regulation W. Since then, sales have been running at fairly high levels. As a result, furniture and appliance sales were slightly ahead of the first nine months last year. Sales of apparel have also been good and in June surpassed the peak volume reached in the buying boom of early 1951.

Twelfth District department store sales ahead of nation

The dollar volume of Twelfth District department store sales in the first nine months of this year was somewhat above that for the corresponding period of 1951, in contrast to no gain on a nationwide basis. Generally, retail sales in this District, based on department store sales and retail sales subject to tax, appear to be running at somewhat better levels than those nationally. The pattern of sales, however, has not been too different here from that in the country as a whole in terms of the goods that consumers have bought. For example, an examination of department store data reveals that sales of nondurable goods, particularly apparel, were doing better than total department store sales. Automobile sales based on data available for California have followed the national pattern and have lagged behind 1951. Also apparent from the department store sales reports for this District is a marked price consciousness on the part of consumers. Close analysis of weekly reports reveals that consumers have tended to concentrate their buying in weeks in which large markdowns were offered. In addition, consumers have tended to shift their buying to the newer stores located in outlying areas surrounding large metropolitan centers.

Sales tend to follow employment increases

San Diego, reflecting the boom in aircraft and defense establishment activity, reported one of the largest increases in sales for the first nine months of the year. Large increases were also reported in San Francisco, San Jose, and Sacramento. Sales in the Los Angeles area, despite large defense orders and rapidly expanding employment, increased only moderately through September, but in recent months the gains have tended to surpass those for the District. In contrast to the performance in California, sales in the Pacific Northwest, except for Walla Walla, have tended to lag behind 1951 until recent months. The expansion in employment in Oregon and Washington has not been as pronounced as in California. Except for Idaho Falls, which had a much better experience than the District, the volume of sales in the Intermountain area was not particularly good during most of the first nine months. Salt Lake City reported a modest gain but the Boise-Nampa area and Twin Falls lagged behind 1951. In recent months, Twin Falls has made sharp gains and reported a 13 percent increase for September.

Credit and retail sales

Consumers have been tending to use an increasing amount of credit in making purchases ever since the end of World War II. As incomes expanded and goods became available in larger quantities, credit was used to help finance the large volume of durable goods which consumers wished to acquire. Shortly after Korea, Regulation W was reinstituted and credit terms were limited for many durable goods items. Before the restrictions became effective, a large buying spree by consumers forced consumer credit up sharply. After Regulation W became operative, consumer credit leveled off and for a period declined moderately. In April of this year, consumer instalment credit outstanding was still below the 1950 peak. In early May the regulation was suspended and consumer instalment credit rose very sharply in May and June, but the increase slowed somewhat in July and was even more moderate in August and September.

In this District consumer credit at commercial banks increased $50 million in May and $85 million in June, but in August and September the increase was less than $50 million a month. Nevertheless, the outstandings increased from $1,200 million at the end of April to $1,430 million at the end of September. Department store sales further emphasize the role that consumer credit has played. In April, 8 percent of District department store sales were on an instalment basis. By July, 10 percent of total sales involved time payments, and the ratio of instalment selling has remained constant since then.

THE AIRCRAFT INDUSTRY AND THE TWELFTH DISTRICT ECONOMY

DELIVERY to the Air Force in October of the world's largest jet bomber—the 100 ton XB-52 "Stratofortress"—by the Boeing Aircraft Company of Seattle calls attention in a striking way to the importance of this District's aircraft industry to the national defense. This plane marks a distinct advance over the B-47 jet bomber, which is the only plane of this type currently being produced on a quantity basis, and is in most respects except range superior to the huge B-36 which is undergoing extensive revamping at San Diego. The first B-52 was produced at a cost of about $25 million and involved some 8 million man-hours of design engineering work. Scheduled deliveries will start coming off the production line in about a year, the Seattle plant having already been tooled up to start mass production. Significant progress is also being made by District aircraft manufacturers in the commercial field. At least three Pacific Coast aircraft producers are reliably reported to have reached an advanced stage of engineering design on jet-driven passenger transports intended for commercial airline use and will probably soon be in position to take orders for such craft.

Unlike shipbuilding—which at the peak of World War II construction activity gave employment to over 600,000 persons on the Pacific Coast, only to disintegrate as an independent industry at the end of the war—aircraft manufacture has continued to be a substantial industry in this area. The industry experienced a difficult period of adjustment in the postwar period, however, as a consequence of the wholesale cancellation of military contracts following V-J Day.[1] While its position remained precarious in the immediate postwar years, the more important units in the industry managed to survive by turning their attention to the expanding needs of the commercial airlines, by manufacturing small two-place planes and non-aircraft products, and by cultivating export markets. Here, again unlike shipbuilding, the aircraft industry has until recently had an edge over foreign competition. With the gradual revival of military aircraft procurement after 1948 and the expenditure by the federal government of large sums on guided missile development and other fundamental research projects, the industry has consolidated its position and has provided employment for increasingly large numbers of people. It contributes significantly to the trade balance of the Dis-

[1] For a discussion of the conditions faced by the industry during the period of adjustment in 1946-47, see an article entitled "Aviation Policy and the Aircraft Industry" which appeared in the *Monthly Review*, August 1947, pp. 69-72.

trict, as much the larger part of its output is sold to the United States Government or to customers outside the District. Under the impact of the rearmament program, particularly since 1950, the industry's volume of new business has expanded enormously.

Dominant position of the aircraft industry in Twelfth District employment and pay rolls

Disbursing a pay roll which now approaches a billion dollars a year, the aircraft industry has become the dominant manufacturing industry of the entire Pacific Coast region. For the year 1951 it ranked second only to the lumber and wood products industry in this region in volume of employment and pay rolls. During 1952 the rate of operations in aircraft plants has continued to expand so rapidly that for this year there can be little doubt that the average number of employees and total wage and salary payments in the aircraft and parts plants of California and Washington will exceed those in the combined lumber and wood products plants of the three Pacific Coast states by a substantial margin.

West Coast aircraft and parts manufacturers[1] have accounted in recent years for about 40 percent of the employment and value product of the entire American aircraft industry—an industry having a value output in 1950 of approximately $1.5 billion, or nearly 2 percent of the total for all manufacturing plants in the United States in that year.[2] In this area aircraft production is the most highly concentrated of all important manufacturing industries. Probably nowhere else in the world is there so large an aggregation of airframe plants as in Southern California. Within a ten-mile radius in the Los Angeles industrial area are located the principal plants of four of the seven largest aircraft producers in the United States. With a pay roll in mid-1952 of close to 200,000 persons employed in aircraft and aircraft parts manufacturing, Los Angeles and San Diego counties accounted for approximately one-third of total United States aircraft employment. One person out of every four manufacturing workers in the Los Angeles labor area in August 1952 was employed in an aircraft or aircraft parts plant, while three-fourths of all San Diego factory workers were so employed. In Kings County, Washington, the location of the Boeing plants, the proportion of all manufacturing workers employed in aircraft production in the first quarter of 1952 was four out of every ten.

In California the aircraft industry has become by far the largest manufacturing industry in the state. It employed one-third more people and paid out 42 percent more wages in the first quarter of 1952 than the entire group of machinery producing industries, and outranked the important metal and metal working industries by an even wider margin. The gap has been considerably widened since that time. Some 112,000 persons have been added to the work force of the state's aircraft industry during the past two years—an expansion of 130 percent—accounting for more than one-half of the total increase in California manufacturing employment since mid-1950. In Washington the story has been much the same.

Employment in District aircraft plants and in shops producing airplane parts has currently attained a level of approximately 230,000. This is roughly about 25 percent below the wartime peak level established in mid-1943. While the demand for aircraft workers may carry the volume of District employment somewhat above the current level, it is not likely, short of all-out war, that the 1943 peak of 315,000 will be exceeded in the near future.

Some of the impact of this big expansion in District aircraft employment may be seen in the especially rapid growth of certain California cities. For example, San Diego and its two neighboring communities, National City and Chula Vista, have added about 112,000 persons—or more than 30 percent—to their combined population within a two-year period, 1950-1952. Part of this growth is accounted for by the increase of naval and other military personnel, as San Diego is an important naval base whose activities have greatly expanded since the onset of the Korean war, but an appreciable part is due to enlarged aircraft employment.

The aircraft industry employs a relatively high proportion of people in the upper wage and salary brackets. This is due to the large number of engineers, designers, and other "non-production" personnel required in the normal operations of airplane manufacturing as well as to the necessity, in many cases, of employing a considerable scientific staff in fundamental research work. For the "durable goods" manufacturing industries as a whole the proportion of all employees classed as other than "production workers" in recent years in the United States has averaged about one in six, while in the aircraft industry the ratio is more than one in four.

Even after allowing for this heavy weighting of upper-bracket employees, aircraft wages are relatively high. The average gross hourly earnings of "production workers" in the aircraft industry run considerably above the general average for all durable goods industries in the United States. Only a relatively few manufacturing industries, such as automobiles, primary metal products, rubber

[1] The Pacific Coast aircraft industry consists of six large manufacturers of airframes who design, assemble, and sell complete aircraft; four concerns of intermediate size which manufacture aircraft engines or engine parts and also produce sub-assemblies for airframes or do fundamental research and design work; one helicopter manufacturer; and some 400 manufacturers of aircraft parts and specialized equipment, including electronic and radar supplies. Five of the six larger companies whose principal plants are on the Pacific Coast also operate plants in other parts of the United States, chiefly in the Midwest. Most of these plants were established in such locations during World War II, partly for economic reasons and partly in order to lessen the vulnerability of the industry to possible air attack.

[2] With respect to that part of the industry producing complete aircraft (excluding concerns primarily engaged in making engines, propellers, and parts and the numerous miscellaneous sub-contractors), the proportion of the national output represented by Pacific Coast establishments is even higher. California and Washington accounted for more than half the employment and well over half the value product of the aircraft industry in this narrower sense at the Census of 1947. Even as recently as July 1952, when national defense orders were stimulating the industry in other areas, California and Washington establishments employed over 53 percent of the workers in the entire airframe industry.

products, and the printing trades, have higher gross hourly earnings.

Some labor problems in the industry

All Pacific Coast aircraft producers have faced a more or less difficult problem in securing adequate labor supplies during the last two years of expanding operations. In spite of continuing rapid population growth, the expansion of general manufacturing activity in the area has absorbed most of the local labor force and very little surplus has been available to meet the special labor requirements of the aircraft industry. Labor recruitment presents special problems for Pacific Coast aircraft producers because this region has no semi-permanent pool of trained labor, such as exists in the large population centers of the East and Midwest which have a more diversified industrial structure. Western aircraft plants are too far away from those centers to absorb workers temporarily displaced in metal working establishments whose output has been curtailed by the current necessity to restrict civilian supplies of scarce metals, such as aluminum, copper, and brass mill products.

Some limited recruitment of higher paid labor has been extended to distant areas, but for the most part it has been necessary to utilize the labor supply locally available by setting up special training programs, by employing more women, by lengthening the average work week, and by working additional shifts. Almost four times as many women are currently employed in California aircraft plants as there were two years ago. Nearly 34,000 women employees were added to the pay rolls of California aircraft plants between August 1950 and August 1952 when their number reached 46,000. One in five of all aircraft workers in the Los Angeles labor market area in mid-1952 were women; in San Diego the proportion was nearly one in three. These rates are, of course, still considerably below those which prevailed at the peak of the war when 120,000 women were employed in California airframe plants, representing about 43 percent of their total pay roll.

Aircraft labor needs are further complicated by the relatively high rate of labor turnover characteristic of the industry. The quit rate in aircraft production is considerably higher than for most types of metal fabrication, particularly in a period of rapidly expanding local employment. Newly trained people (who in many cases have been paid while learning) frequently leave their jobs to accept alternative employment opportunities, or because they prove unadapted to this type of work. Quits in aircraft plants have risen sharply, for example, in Seattle and San Diego where critical labor shortages existed through most of 1951 and early 1952.

Unemployment hazards, individual and social

Excessive concentration of any locality's work force within a single highly specialized industry brings risks, both for the individuals concerned and for the community as a whole. This is particularly true in the aircraft industry which is subject to extreme fluctuations of activity. Irregularity of operations arising from the erratic and unpredictable variations in placement of military orders, which constitute roughly 90 percent of the total volume of business of American aircraft producers, is notoriously the basic problem of the aircraft industry. The wholesale cancellations of military orders in 1945 following the end of the war resulted in acute unemployment in the aircraft centers of southern California and western Washington. In the case of San Diego and Long Beach this condition persisted well into the postwar period.

Even the flow of commercial orders is highly irregular and undependable as a basis for continuity of operations. After all, the market for commercial transport planes is an extremely limited one and is highly competitive. The capacity of the American aircraft industry vastly exceeds any reasonably foreseeable demand from commercial sources, and from V-J Day to mid-1950 it was much larger than the total market demand, foreign and domestic, military and commercial.

From the standpoint of the aircraft producer, the fluctuations of market demand constitute an ever-present occupational hazard. Progress in airplane design is extremely rapid and existing types of planes speedily become obsolete, at least in their capacity to match the performance of the latest "models." On the other hand, an incredibly long-drawn-out period is involved in designing a new plane, manufacturing the prototype—almost literally a hand process in this case—and in testing and perfecting it before an acceptable product can be offered to potential customers and orders taken for "quantity" production. This, in turn, means further large investment in tooling and other plant equipment before production can actually begin. From three to five years and sometimes longer usually intervene between the design stages of a new airplane and its sale in substantial quantities to the final user. For example, eight years elapsed between the preliminary design of the nation's latest operative high speed bomber, the B-47, and the emergence of the first production model. With the steadily increasing complexity of modern aircraft, particularly military models, there is little possibility except under the extreme pressure of a national emergency of accelerating the aircraft production cycle.[1]

This extremely long interval between initial investment and the ultimate realization of sales dollars multiplies the risks inherent in the production of new airplane types. The pressure of technological progress is persistent and compelling, to say nothing of the spur of competition, both within the American industry and from abroad. On the other hand, many things can happen to disrupt the market or in extreme cases cause heavy can-

[1] For a discussion of the problems arising from this lengthy production cycle in the aircraft industry, see "Aviation Policy and the Aircraft Industry," *Monthly Review*, August 1947, pp. 70-71.

cellations of orders, an experience with which the American aircraft industry is only too painfully familiar, both from the commercial airlines and from the United States Government. Such uncertainties, together with the unpredictable fluctuations in rate of military procurement of aircraft, lie at the root of the basic labor problem of the industry—the problem of attracting and keeping a dependable labor supply in the face of fluctuating employment opportunities.

Large backlogs assure high level of employment for some time to come

There appears to be little danger at the present moment of any threat of serious unemployment in the District aircraft industry. That remains a problem for the more distant future. The backlog of unfilled orders currently held by the six leading Pacific Coast aircraft manufacturers is approximately $7 billion, or the equivalent of about three full years of operation at current rates of production. Between 90 and 95 percent of these orders are for military types of planes, guided missiles, or other fundamental research work. Congress at its last session authorized an increase in the size of the Air Force from its current goal of 95 "wings" to 143 "wings." This projected expansion, dictated by the requirements of national defense, will probably keep the District aircraft industry reasonably well provided with business for several years to come.

INTERNATIONAL FINANCE—A PERIOD OF FERMENT

Starting early in September with the Annual Meetings in Mexico City of the International Bank for Reconstruction and Development and the International Monetary Fund, there have been several international meetings concerned with international financial policies. The fourth session of the Council of Europe met in Strasbourg during the last part of September and was followed by a meeting of the Council of the Organization for European Economic Cooperation (OEEC). A meeting of the Contracting Parties to the General Agreement on Tariffs and Trade (GATT) started in Geneva early in October and is still in session at the time of writing. In all of these meetings major issues discussed at Mexico City have been re-echoed. Moreover, it is generally felt that rather significant changes in the monetary policies of the sterling area will result from the discussions at the meeting of the Prime Ministers of the British Commonwealth scheduled to start late in November. It would appear, therefore, that after seven years of continuing balance of payments difficulties, a major reconsideration of the basic assumptions on which postwar international financial arrangements have been based is in the making. One feature common to all of these meetings has been the proposal to hold an international conference to consider the present monetary and financial dilemma of the world. It is proposed, in other words, to hold a new Bretton Woods Conference in which the experience of the postwar period can be used for purposes of developing a more realistic approach to the world's monetary and financial problems.

In view of subsequent developments it would appear that the discussions at Mexico City were of greater significance than was generally supposed at that time. For these reasons it is appropriate to take a closer look at some of the issues which were raised at these meetings. The Annual Meetings of the International Bank and Fund were held from September 3 to 12. In addition to the Boards of Governors of these two international organizations and the official delegations of the member governments, there were a large number of observers representing not only national and international government agencies but also an encouragingly large number representing commercial banks and private business.

The nature of the annual meetings

Upon reviewing the results of these and previous annual meetings of the Bank and Fund, it might at first appear that very little was accomplished. A more careful consideration of the nature and purposes of these meetings indicates, however, that a great deal more is accomplished than is at first apparent. Possibly the most accurate way to describe these meetings is to say that they constitute a forum at which the member countries are given a chance to criticize the operations of these two institutions and the policies carried out by the Executive Directors. The members also have an opportunity to air their own particular problems in the international financial sphere and to outline policies for future consideration by the Executive Directors of the two institutions. Thus, these meetings are not primarily legislative sessions but are rather mainly consultative in nature.

The starting point for the discussions at the annual meetings are the annual reports of the Bank and Fund. The reports are not merely housekeeping reports on the year's operations. They also contain a summary of international economic developments during the year, in which existing major problems are highlighted as well as recommendations for member governments in dealing with these problems. In effect, therefore, the annual reports form an agenda for the discussions in the general meetings.

In order to judge the degree of success of the meetings, sufficient time must pass to enable the Bank and Fund either to put into effect or to disregard the recommended changes in policies which were aired during the meetings themselves. In the case of the most recent meetings the frequency with which the proposals first made there have been repeated at later dates indicates that some of these proposals may be of important future significance.

The issues raised at Mexico City

From the standpoint of those people with a general interest in the solution of the problems arising from the continuing imbalance of international trade, the most interesting aspects of the Mexico City meetings were the specific issues which were raised at the general meetings. In a sense, the statements made by the various governments are harbingers of things to come. They provide us with a valuable insight into the current thinking in other parts of the world, not only with respect to the future activities of the Bank and Fund but also to the prospects for a reduction in restrictions on the flow of trade and thus a growth of multilateral trade and the re-establishment of convertibility of world currencies—the two cornerstones of the Bretton Woods Agreement. A few of the more important issues discussed at the meeting were: (1) proposals for an International Finance Corporation and an International Commodity Corporation; (2) the retention system in exchange control; (3) a more active role for the International Monetary Fund; (4) a closer relationship between the Fund and the European Payments Union (EPU); and (5) proposals to hold a new "Bretton Woods" conference to revise the articles of the Bank and Fund.

The International Finance Corporation

The annual report of the International Bank discussed the proposal to establish an "International Finance Corporation" which would be affiliated with the Bank. The purpose of this affiliate would be to make loans or equity investments in private enterprise. This proposal arises from the fact that the Articles of the Bank require that all loans to non-government borrowers must be guaranteed by the government or by the central bank of the country in which the project is to be located. It is thought that this restriction discourages private borrowers because they fear that a governmental guarantee might lead to governmental interference. Governments, on the other hand, have hesitated to make such guarantees for fear that they might be charged with favoritism to particular firms. The proposal also gives recognition to the inability of the Bank to engage in equity financing and the report points out that the Bank has had to abandon many promising projects because they required more equity capital than could be obtained. The Bank made no specific recommendation on the proposal in its report, stating that it was continuing its study of the subject in consultation with member governments and would make a report to the United Nations Economic and Social Council in 1953. At that time it will make recommendations as to what action might be taken on the proposal. The proposed International Finance Corporation was discussed at some length at Mexico City. The underdeveloped countries, in particular, supported the proposal but it apparently received no support from the United States delegation.

While action on the proposed International Finance Corporation was postponed at Mexico City, it has remained a live issue at later international meetings. During the last part of September a limited version of the proposal was discussed at the meeting of the Consultative Assembly of the Council of Europe at Strasbourg. Adopted at this meeting was a resolution in favor of a plan which has been named the "Strasbourg Plan." This plan calls for the establishment of a new trading area composed of the British Commonwealth countries and the countries of Western Europe and their overseas territories. It places particular emphasis on the pooling of the resources of Western Europe for the development of European overseas territories and dominions. An integral part of this program is the creation of a European bank to finance the development of overseas territories and to finance intra-European projects.

The discussion of the creation of a European investment bank was continued in October at the meeting of the Council of the Organization for European Economic Cooperation. The United States representatives at this meeting favored the formation of such an organization, pointing out that it would be evidence that the countries of Western Europe were willing to do their part in financing the development of underdeveloped areas while at the same time making a contribution to the solution of the dollar problem.

The International Commodity Corporation

A second proposal made at Mexico City was to establish an International Commodity Corporation. It was proposed that this organization be affiliated with the International Monetary Fund and its function would be to stabilize raw materials prices through a stockpiling program whereby the corporation would buy during periods of weak prices and sell during periods of rising prices. Thus the raw materials countries would be assured a relatively steady income. There were, however, many variations on this theme expressed at Mexico City. Some countries advocated a stabilization program by individual commodities as has been done in the case of wheat under the International Wheat Agreement. Others opposed piecemeal stabilization and advocated a stockpile which would consist of a composite of commodities. Still other countries felt that putting raw materials sales under long-term contracts would be sufficient since that would assure markets to the raw materials producing countries. The primary objective of these proposals is to avoid, if possible, the widely oscillating prices that have resulted from the present stockpiling programs of importing countries, especially the United States.

In addition, it was proposed that some type of a parity system be set up between the prices of raw materials and the prices of manufactured goods. Such a parity system would prevent a situation from arising as it did in 1951, in which raw materials prices are going down while prices of manufactured goods purchased by the raw materials producing countries are going up.

As was true in the case of the International Finance Corporation, a limited version of these commodity proposals was made a part of the "Strasbourg Plan" of the Council of Europe. This plan, adopted shortly after the Mexico City meetings, recommends the use of long-term international contracts on basic products to assure markets for the producing areas.

The retention system in exchange control

While many of the existing procedures of exchange control came in for discussion at the Mexico City meetings, the one which brought forth the most heated debate was the retention system. In its typical form this system permits the exporters of a particular country to retain a certain percentage of their exchange earnings (especially earnings of dollars) for disposal at whatever price or for whatever purpose they desire. This privilege is sometimes limited to the export of commodities which the country particularly wishes to encourage, but sometimes it even applies to re-exports. This system actually constitutes a subsidy paid to particular exporters or a hidden devaluation of the practicing country's currency. During the past year the use of this system has spread rapidly in Western Europe. At the Mexico City meetings this practice was condemned by such countries as the United States, Canada, Belgium, and the United Kingdom, and supported by practicing countries as a necessary expedient. While no conclusions were reached at Mexico City, the International Monetary Fund was requested to make a study of the retention system and to report at a later date. It was made clearly apparent, however, that the growth of this practice posed a serious threat to the future of the exchange system which has been set up during the postwar period.

A revitalized International Monetary Fund?

At the most recent annual meeting, and also at earlier meetings, the International Monetary Fund came in for considerable criticism. In contrast, the International Bank was praised for the role that it has played during the postwar period, particularly in assisting the underdeveloped countries in carrying forward programs of economic development. Although the Bank was criticised because of its conservative approach to further dollar loans, its explanation that it was seriously concerned over the ability of certain countries to service further dollar loans appeared to be generally accepted.

As far as the Fund is concerned, this year at Mexico City marked a significant and very discouraging anniversary. At the time that the charter for the Fund was drawn up, it was realized that following the war a difficult period of adjustment would take place. It was provided, therefore, that for a period of five years following the date that the Fund came into operation member countries would be permitted to retain various exchange restrictions which were deemed necessary to protect their balance of payments. Since the Fund started operation in 1947, this year marked the conclusion of this five-year transition period. Needless to say, with the continuing imbalance of world trade, there is little immediate prospect for the wholesale abandonment of exchange restrictions.

The International Monetary Fund was set up as a sort of world-wide stabilization fund. Its resources of over $8 billion in foreign exchange and gold were to be available to assist member countries in solving short-run balance of payments problems. A country faced with a genuinely temporary balance of payments problem thus should be able to go to the Fund and obtain the necessary exchange instead of resorting to increased exchange controls or devaluation. Yet in spite of its large resources the Fund up to April 30, 1952 had made only $850 million available to members. This relative inactivity of the Fund is made particularly difficult for the member countries to understand when its financial statements show that its resources include over $1.5 billion in gold and a similar amount in United States and Canadian dollars. There was, therefore, as there had been at previous meetings, an appeal by many members to the Fund to make its resources more readily available.

The relationship between the Fund and the European Payments Union

The relative ineffectiveness of the Fund has been attributed to the fact that it is based on the assumption of a restoration of world-wide convertibility of currencies and of multilateral trade. The European Payments Union, on the other hand, has been praised as a realistic approach to postwar problems. The EPU has set as its objective the convertibility of currencies and the expansion of multilateral trade within a limited area—Western Europe. It has been quite successful in working toward this objective. At the same time; moreover, it has recognized that world-wide convertibility is not at present possible because of the magnitude of existing balance-of-payments problems. In reality, the success of the EPU is largely due to the fact that, because of its very organization, it practices discrimination against the dollar and other hard currency areas.

Many of the speakers at Mexico City advocated a closer relationship between the Fund and the EPU and the support of the latter organization by the resources of the Fund. It was pointed out that the EPU provided an example of a successful approach to exchange problems while the Fund presented an unrealistic approach. The EPU has been supported by a grant from the United States. Members of the EPU would much rather have such support coming from an international organization such as the Fund. Officials of the Fund, however, have pointed out that it can provide exchange only to individual member governments and that there is no provision for its support to another international organization. Officials of the Fund did point out, however, that they had made available to Belgium a drawing up to the amount of $50 million in order to make it possible for Belgium to continue extending credits to the EPU. This indicates one way in which the Fund could support the EPU.

A closely related development at the Mexico City meetings was the proposal that the area of the European Payments Union be extended to include the Latin American Republics. Such a proposal was supported on the grounds that, as an important supplier of raw materials for the European nations and as an important market for their output, the Latin American countries might be integrated into the existing organization, thus extending the area of convertibility and multilateral trade. Such proposals received a cool reception especially from the United States and Canada.

Proposals to hold a new "Bretton Woods" conference

One of the most important developments of the Mexico City meetings was the proposal by Pakistan that a new "Bretton Woods" conference be held to revise the charters of the Bank and Fund. While this proposal was directed at both the Bank and the Fund, it was primarily concerned with the Fund.

This proposal by Pakistan is closely related to a proposal by several of the sterling area countries that "surplus" countries (countries with an export balance of trade) be required to make a part of the adjustment which must inevitably be made if the world's present imbalance of trade is to be corrected.

At the time the Bretton Woods Agreement was signed it was realized that during the interwar period "deficit" countries (countries with a persistent import balance of trade) had been required to make all of the adjustment with a resulting contraction of world trade. It was proposed, therefore, that in the postwar period countries with an export balance of trade should be prevailed upon to make a part of the adjustment and in fact such a provision was included in the charter of the Fund. The reasoning behind this decision was very simple. If one country has an import balance of trade, some other country must have an export balance. If the import balance country makes all of the adjustment, it can do so only by reducing imports or by expanding exports to the surplus countries. If the export surplus countries refuse to accept increased imports, this leaves only one alternative for the deficit countries—a contraction of imports and a reduction in the total volume of world trade. On the other hand, if the surplus countries expand their imports, the adjustment will be made upwards, their exports will be maintained, and the net effect will be an expansion of world trade.

Acting on this reasoning the framers of the Fund Charter included the "scarce currency" provisions. They provide that, if the Fund finds that the demand for a particular currency is so large that its supplies of this currency are threatened (as would be true if a country had a persistent export balance of trade), it could call for a vote of its members and, if supported by a majority vote, could declare this currency to be a "scarce currency." If a particular currency were declared "scarce," all other countries would be free to discriminate against imports from this country until the imbalance was corrected. Thus, pressure would be placed directly against surplus countries to make at least a part of the adjustment. However, the clause cannot be applied to the United States dollar at present since the conservative policy of the Fund has prevented the Fund's holdings of dollars from being in danger of running out.

The proposal at Mexico City for a new world monetary conference may prove to be the most significant. A similar proposal was also considered by the Council of Europe, which adopted a resolution favoring such a meeting, and will perhaps be advanced at the coming London Conference of Ministers. If such a proposal should be adopted, some effort by the nations of the world to devise a new approach to the solution of the continuing payments dilemma might be anticipated.

Correction: In the charts on page 80 of the September 1952 *Monthly Review* each dot should represent 5,000 carloads.

BUSINESS INDEXES—TWELFTH DISTRICT[1]

(1947-49 average = 100)

Year and month	Industrial production (physical volume)[2] Lumber	Petroleum[3] Crude	Petroleum[3] Refined	Cement	Lead[3]	Copper[3]	Wheat flour[3]	Electric power	Total nonagricultural employment	Total mf'g employment[4]	Car-loadings (number)[2]	Dep't store sales (value)[2]	Retail food prices[3, 5]	Waterborne foreign trade[3, 6] Exports	Imports
1929	97	87	78	54	165	105	90	29	....	....	102	30	64	190	124
1931	51	57	55	36	100	49	86	29	....	....	68	25	50	138	80
1933	41	52	50	27	72	17	75	26	....	....	52	18	42	110	72
1934	44	52	50	35	76	24	81	28	....	....	60	21	45	132	78
1935	54	62	56	33	86	37	87	30	....	47	66	24	48	135	109
1936	70	64	61	58	96	64	81	34	....	54	77	28	48	131	116
1937	74	71	65	56	114	88	84	38	....	60	81	30	50	170	119
1938	58	75	64	45	92	58	81	36	....	51	72	28	48	164	87
1939	72	67	63	56	93	80	91	40	....	55	77	31	47	163	95
1940	79	67	63	61	108	94	87	43	....	63	82	33	47	132	101
1941	93	69	68	81	109	107	87	49	....	83	95	40	52	....	....
1942	93	74	71	96	114	123	88	60	....	121	102	49	63	....	....
1943	90	85	83	79	100	125	98	76	100	164	99	59	69	....	....
1944	90	93	93	63	90	112	101	82	101	158	105	65	68	....	....
1945	72	97	98	65	78	90	112	78	96	122	100	72	70	....	....
1946	85	94	91	81	70	71	108	78	95	104	101	91	80	89	57
1947	97	100	98	96	94	106	113	90	99	100	106	99	96	129	81
1948	104	101	100	104	105	101	98	101	102	102	100	104	103	86	98
1949	99	99	103	100	101	93	88	108	99	98	94	98	100	85	121
1950	112	98	103	112	109	115	86	119	103	105	97	105	100	91	137
1951	114	106	112	128	89	115	95	136	110	119	100	108	113	186	157
1951															
August	114	107	115	138	67	98	90	141	111	120	94	106	112	240	142
September	105	107	116	129	74	108	96	135	110	118	104	108	112	215	155
October	118	107	114	130	80	116	96	141	111	120	101	106	113	187	172
November	109	107	116	124	85	114	99	140	111	121	101	114	114	182	144
December	99	106	109	119	88	118	101	136	111	120	100	110	117	192	130
1952															
January	93	106	111	94	88	109	112	142	113	122	86	106	116	183	146
February	107	106	113	112	104	109	105	139	113	124	101	108	114	208	138
March	108	106	115	113	96	115	90	142	112	125	100	103	114	210	157
April	110	107	114	120	95	117	88	141	112	126	106	106	116	185	143
May	94	108	114	129	89	116	87	147	112	125	98	118	115	207	143
June	117	107	116	126	87	112	84	150	113	126	108	115	115	187	182
July	108	107	116	125	68	106	90	150	114	127	96	110	114	...	187
August	106	107	122	131	81	104	103	153	114	129	101	116	114	...	...

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition items of all member banks[7] Loans and discounts	U.S. Gov't securities	Demand deposits adjusted[8]	Total time deposits	Bank rates on short-term business loans[9]	Member bank reserves and related items[10] Reserve bank credit[11]	Commercial operations[12]	Treasury operations[12]	Coin and currency in circulation[11]	Reserves	Bank debits Index 31 cities[5, 13] (1947-49=100)[2]
1929	2,239	495	1,234	1,790	......	− 34	0	+ 23	− 6	175	42
1931	1,898	547	984	1,727	......	+ 21	− 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	......	− 2	− 110	+ 150	− 18	185	18
1934	1,469	1,064	1,201	1,875	......	− 7	− 198	+ 257	+ 4	242	21
1935	1,537	1,275	1,389	2,064	......	+ 2	− 163	+ 219	+ 14	287	25
1936	1,682	1,334	1,791	2,101	......	+ 6	− 227	+ 454	+ 38	479	30
1937	1,871	1,270	1,740	2,187	......	− 1	− 90	+ 157	− 3	549	32
1938	1,869	1,323	1,781	2,221	......	− 3	− 240	+ 276	+ 20	565	29
1939	1,967	1,450	1,983	2,267	......	+ 2	− 192	+ 245	+ 31	584	30
1940	2,130	1,482	2,390	2,360	......	+ 2	− 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	......	+ 4	− 596	+1,000	+ 227	930	39
1942	2,170	3,630	4,356	2,609	......	+ 107	−1,980	+2,826	+ 643	1,232	48
1943	2,106	6,235	5,998	3,226	......	+ 214	−3,751	+4,486	+ 708	1,462	61
1944	2,254	8,263	6,950	4,144	......	+ 98	−3,534	+4,483	+ 789	1,706	69
1945	2,663	10,450	8,203	5,211	......	− 76	−3,743	+4,682	+ 545	2,033	76
1946	4,068	8,426	8,821	5,797	......	+ 9	−1,607	+1,329	− 326	2,094	87
1947	5,358	7,247	8,922	6,006	......	− 302	− 510	+ 698	− 206	2,202	95
1948	6,032	6,366	8,655	6,087	......	+ 17	+ 472	− 482	− 209	2,420	103
1949	5,925	7,016	8,536	6,255	3.20	+ 13	− 930	+ 378	− 65	1,924	102
1950	7,105	6,392	9,244	6,256	3.35	+ 39	−1,141	+1,198	− 14	2,026	115
1951	7,907	6,533	9,940	6,720	3.66	− 21	−1,582	+1,983	+ 189	2,269	132
1951											
September	7,704	5,998	9,235	6,576	3.65	− 43	+ 18	+ 42	+ 32	2,293	129
October	7,791	6,204	9,485	6,642	......	− 121	− 143	+ 283	+ 17	2,291	134
November	7,885	6,356	9,584	6,625	......	+ 236	− 239	+ 118	+ 18	2,392	137
December	7,907	6,533	9,940	6,720	3.82	− 276	− 102	+ 279	+ 14	2,269	141
1952											
January	7,806	6,543	9,951	6,806	......	+ 84	− 228	+ 194	− 86	2,416	134
February	7,760	6,413	9,420	6,900	......	+ 180	− 109	− 111	+ 20	2,365	138
March	7,787	6,378	9,426	6,915	3.94	− 309	− 17	+ 272	− 7	2,313	139
April	7,850	6,313	9,408	6,924	......	+ 176	− 237	+ 102	+ 13	2,341	135
May	7,921	6,238	9,306	6,985	......	+ 52	− 174	+ 185	+ 49	2,347	128
June	8,062	6,258	9,501	7,083	3.95	− 211	− 97	+ 190	+ 29	2,209	144
July	8,114	6,507	9,643	7,143	......	+ 45	− 208	+ 288	+ 7	2,333	134
August	8,270	6,469	9,679	7,197	......	+ 213	− 126	+ 163	+ 49	2,535	134
September	8,444	6,473	9,908	7,249	3.96	− 230	− 153	+ 213	+ 4	2,363	144

[1] 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; nonagricultural and 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. [2] Daily average. [3] Not adjusted for seasonal variation. [4] Excludes fish, fruit, and vegetable canning. [5] Los Angeles, San Francisco, and Seattle indexes combined. [6] 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. [7] Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. [8] Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. [9] Average rates on loans made in five major cities during the first 15 days of the month. [10] End of year and end of month figures. [11] Changes from end of previous month or year. [12] 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. [13] Debits to total deposit accounts, excluding inter-bank deposits. r—revised.