

MONTHLY REVIEW

TWELFTH FEDERAL RESERVE DISTRICT

JANUARY 1953

FEDERAL RESERVE BANK OF SAN FRANCISCO

IMPACT OF DEFENSE—TWELFTH DISTRICT VERSUS UNITED STATES

AFTER the outbreak of hostilities in Korea, the United States entered another period of substantial military production. The upswing in military output added a large new element to the high level of demand already existing in June 1950. National security expenditures for goods and services jumped from \$18 billion in 1950 to more than twice that amount in 1951. By the end of 1952 these expenditures were above the \$50 billion mark on an annual basis. The subsequent rapid pace of industrial production, plant and equipment expansion, construction, employment, and consumer spending has lifted the national economy to levels that considerably overshadow all previous peaks. Even after adjustment for price changes, the 1952 flow of goods and services was 11 percent above the 1950 volume. This expansion on a national basis is substantial, but the gains in the Twelfth District are even more impressive.

Most indicators reveal that although the pattern of growth is similar, the District has expanded more than the nation as a whole. Most of the difference in change is concentrated in the size of the increases rather than in their timing or duration. Because the more rapid expansion in this District reflects the impact of the defense program to a large extent, the question of economic vulnerability of this District when military spending declines is of considerable interest. Comparison of some of the differences between the District and national economy indicates that the weak spots are not the same in the Far West as in the nation. The vulnerability of the District does not appear to be significantly greater, however, than that of the country as a whole if the potential weaknesses of the national economy are taken into consideration.

Post-Korea expansion greater in District than in United States

Expansion resulting from the defense program has been considerably greater in the Twelfth District than in the country as a whole. District firms have received 17 percent of the major prime defense contracts. This compares with 8.4 percent of the national total of value added by manufacture in this District during 1950. Even in the one major activity in which there has been a de-

SELECTED INDICATORS—UNITED STATES AND TWELFTH DISTRICT

	Change since Korea—	
	United States	Twelfth District
Nonagricultural employment	+ 7	+12
Manufacturing employment	+ 8	+23
Demand deposits adjusted	+16	+24
Loans of all member banks	+44	+46
Department store sales	+ 9	+28
Dwelling units authorized in urban areas, monthly average	-25	-14

cline—residential construction—the decline has been considerably smaller in the District than in the nation.

Responding to the large outlays for defense goods, total nonagricultural employment in the District increased from 4.8 million in June 1950 (on a seasonally adjusted basis) to 5.4 million at the end of 1952. This gain in employment was considerably more rapid than the increase in the labor force, and the ratio of unemployment to total labor force dropped from about 8.0 percent in late 1949 to 2.9 percent at the end of 1952. During the same period the proportion of unemployed nationally dropped from 5.4 percent to 2.2 percent. The considerably higher ratio of unemployed in this District has been a cause for concern for more than a decade. Even during World War II the ratio of unemployed here exceeded that in the country as a whole by a substantial margin. Despite war and postwar growth this condition has persisted. For the most part it reflects a more rapid growth of the labor force in the District than in the rest

Also in This Issue

- Prices—The Return to Stability**
- Relative Pay Levels in the Twelfth District and the Nation**
- The United States Shipping Account and the Balance of Payments**

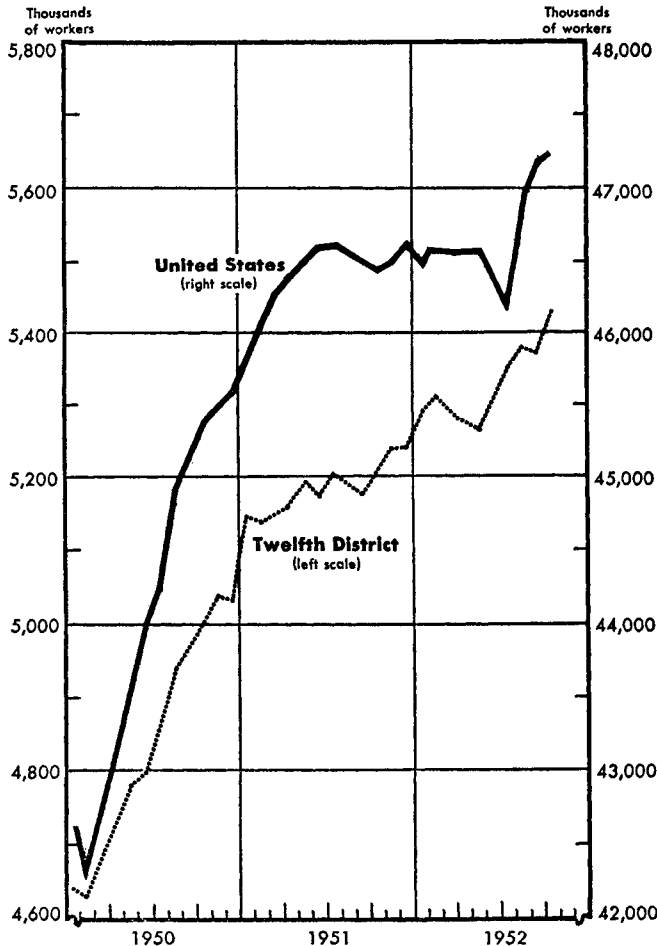
Supplement

- Cattle Feeding and Its Place in Twelfth District Agriculture**

of the country and the natural difficulties associated with the absorption of continued immigration from other areas. By 1950, however, the influx of new residents to the area had slowed, and even in the months before Korea the ratio of unemployed had begun to drop. The sharp rise in employment opportunities since Korea has induced a new flow of immigrants, but job opportunities have risen faster than the number of applicants. As a result, the gap between the ratios of unemployed in the nation and in the Twelfth District has been greatly reduced.

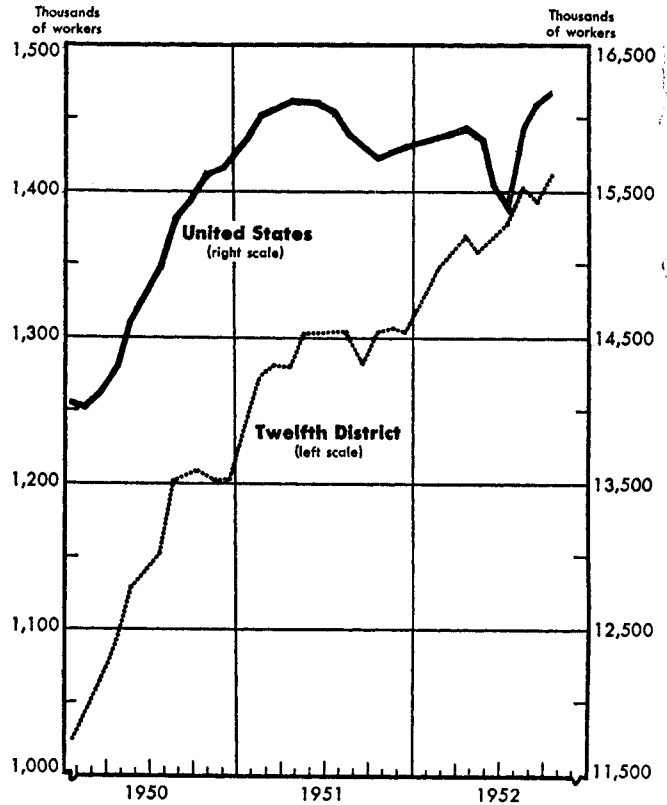
Gains in District manufacturing accounted for a major portion of the increase in employment. The West Coast aircraft industry more than doubled its employment, adding 130 thousand workers. The electrical machinery industry—including electronics as a major component—also more than doubled its job holders, adding 30 thousand. Employment in nonelectrical machinery increased by 40 thousand, and in shipbuilding by 10 thousand. Together these industries accounted for 210 thousand of the 300 thousand new manufacturing jobs. Considerable expansion also occurred in the apparel, chemicals, paper,

**TOTAL NONAGRICULTURAL EMPLOYMENT
UNITED STATES AND TWELFTH DISTRICT, 1950-1952**
(Adjusted for seasonal variation)



Source: United States Department of Labor, Bureau of Labor Statistics and cooperating State agencies.

**TOTAL MANUFACTURING EMPLOYMENT
UNITED STATES AND TWELFTH DISTRICT, 1950-1952**



Source: United States Department of Labor, Bureau of Labor Statistics and cooperating State agencies.

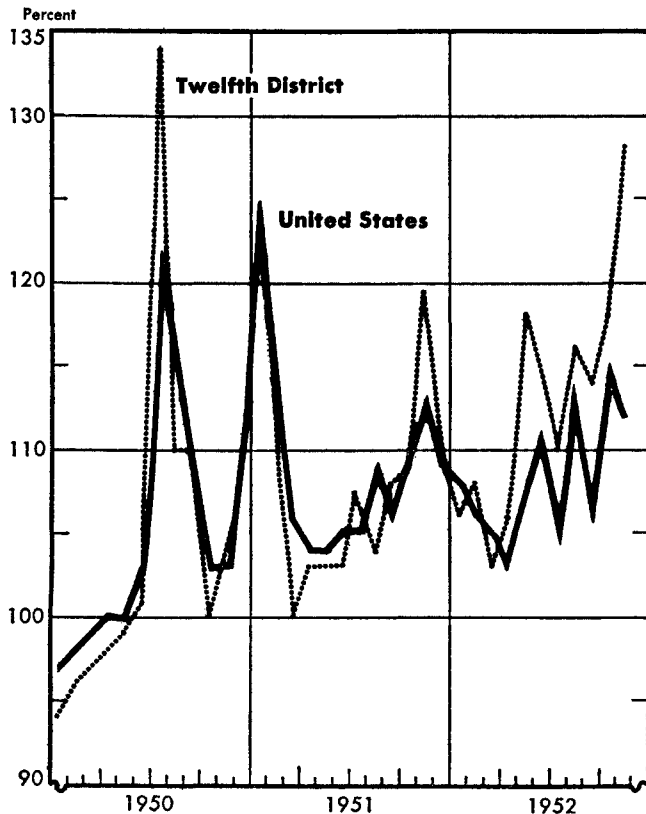
and metals lines. Although most of the District gain in employment has occurred in defense manufacturing industries, the continued expansion of several nondefense industries points up the continued growth of the area. Chemicals and electronics, for example, although important to the defense effort, have large potential peacetime uses, the development of which has been restrained by their diversion to military goods.

All these forces have generated a high level of income which has been translated into an increasing flow of consumer expenditures. One example of this rising volume of spending at retail is the 28 percent increase in the value of department store sales since June 1950. This compares with a national gain of 9 percent. This growing rate of spending adds further impetus to the over-all economic expansion in the District. The record of retail sales demonstrates emphatically that the District accounts for a growing share of the national market and provides further opportunity for industry to expand in this District or to migrate to it.

Pattern of change usually similar, but variations reveal interesting differences between District and United States economy

The forces which underlie the District and national expansion are generally similar and tend to create patterns

DEPARTMENT STORE SALES
UNITED STATES AND TWELFTH DISTRICT, 1950-1952
 (Adjusted for seasonal variation, 1947-1949=100)



of similar shape even if the rates favor this District. The accompanying charts illustrate the similarities as well as the differences. Loans and discounts of this area and the United States have risen in a remarkably similar pattern; with a few minor exceptions, so have deposits. The number of dwelling units authorized offers a few more exceptions, particularly in 1951. In the second quarter of that year a large number of public housing units were started in the country as a whole, but very few of these were in the Far West. This accounts for the major difference apparent in that segment of the economy.

Yet, the variations in pattern that do exist point up some of the differences, other than in rates of growth, between the regional economy of the Far West and that of the nation. Starting in July 1951, national manufacturing employment started a decline that lasted until November of that year. This drop reflected a delayed reaction to the reduction in consumer spending on durable goods and an overestimate of the market by some producers. As a consequence, the output of some appliances was cut below the level permitted by National Production Authority allotments. The impact in this District was negligible because consumer durable production, relative to total manufacturing, is considerably less important here than nationally. The sharp drop nationally in manufacturing employment during July of last year

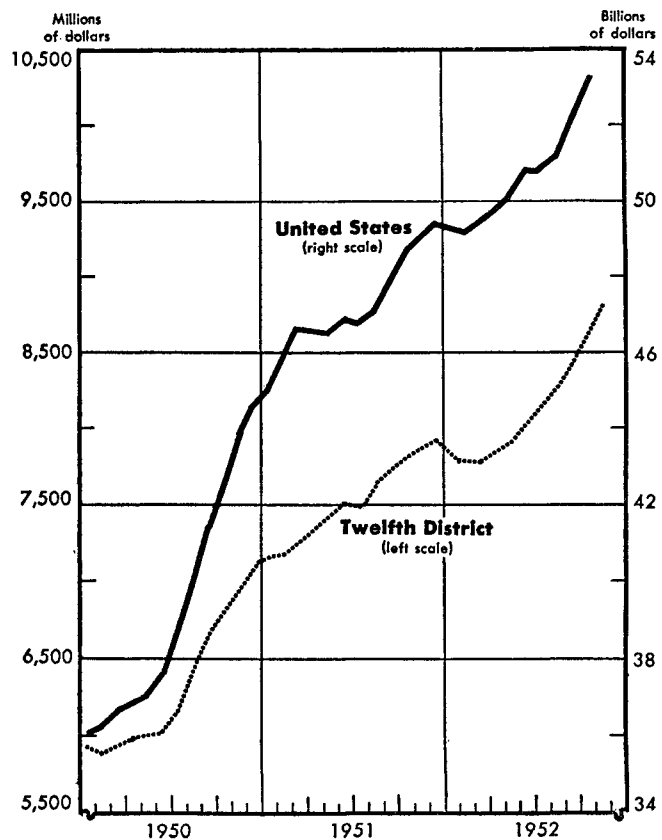
was occasioned by the steel strike. Although the steel industry is fairly sizable in the District, it is relatively much less important than in the country as a whole. Also, one large California steel mill continued to operate during the strike. Since many steel-using industries were able to draw upon inventories, only a minor reduction in jobs occurred at these plants. The effect of the steel strike upon District employment, therefore, was not noticeable.

Manufacturing employment in this region dropped more sharply in May 1952 than it did nationally. A lumber industry strike in this District accounted for the difference. Dry weather last summer forced a cutback in logging and sawmill activity during September with a consequent dip in manufacturing employment. Nationally, the impetus imparted by the recovery from the steel strike and the relatively smaller importance of lumber operations permitted manufacturing jobs to rise sharply.

Rates of growth point up other differences

The greater impact of the defense program points up additional and perhaps more fundamental differences between the Twelfth District and the nation. The District has some industries which are subject to wide fluctuations. The aircraft industry, which accounted for 56 percent of the national value added by plane output in 1947, is dependent to a large degree on military orders. Since

LOANS AND DISCOUNTS—MEMBER BANKS
UNITED STATES AND TWELFTH DISTRICT, 1950-1952



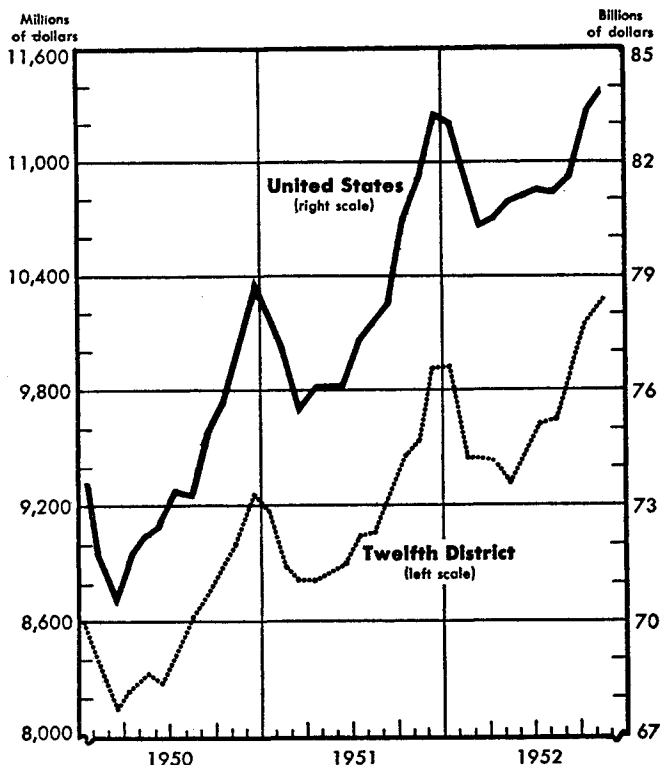
large volume in this industry comes only during periods of defense activity, the District economy tends to experience a sharper than average impact from the accompanying expansions and contractions in aircraft production. Shipbuilding, currently much less important than aircraft, exhibits this characteristic even more intensely. The District shipbuilding industry suffers from freight rate differentials, a lack of shipways for some of the larger classes of vessels, and an historical predisposition toward Eastern yards. It tends to prosper, therefore, only when activity is so great that there is an overflow requiring the use of Western facilities.

Other District industries tend to be marginal to the national structure of their particular line. Both the electrical and nonelectrical machinery industries along the Pacific Coast include facilities of national concerns which are likely to be the first to be cut back and the last to be brought into production. This reflects the fact that some of the District plants in these industries are better suited to job-order or "tailor-made" projects than to mass output. As a result the machinery industries in this area have had wider swings than those nationally.

Continued growth of District dampens downswings

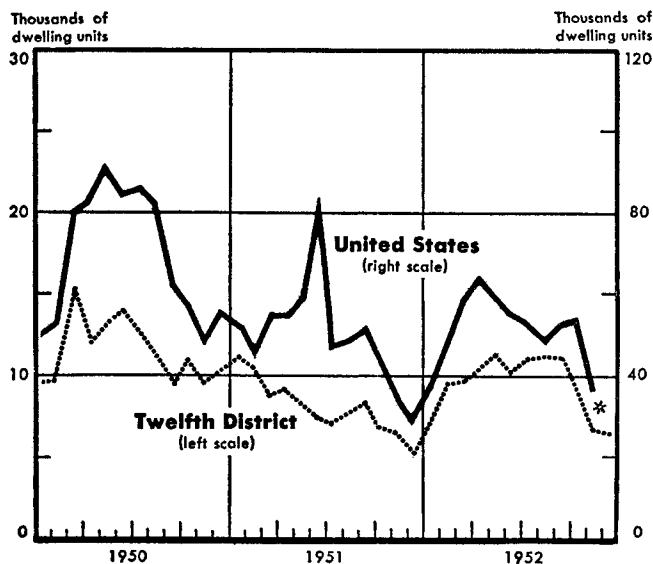
As a result of the peculiar characteristics of the aircraft, shipbuilding, and machinery industries, one would

**DEMAND DEPOSITS ADJUSTED¹—MEMBER BANKS
UNITED STATES AND TWELFTH DISTRICT, 1950-1952**



¹ Demand deposits other than interbank and United States Government, less cash items reported as in process of collection.

**NUMBER OF NEW DWELLING UNITS AUTHORIZED
UNITED STATES AND TWELFTH DISTRICT, 1950-1952**



* Latest data charted: United States, November; Twelfth District, December.
Source: United States Department of Labor, Bureau of Labor Statistics.

expect the District to show much wider swings than the nation. Fluctuations in the aircraft and shipbuilding industries, however, have not had significant influence on the over-all level of economic activity in the District, except during periods of expanding or contracting defense activity. The defense character of these two industries resulted in more contraction here after World War II than in the country as a whole. But this gap was made up in fairly short order because of the District's new and strengthening position as a major market. Since Korea, of course, the rapid rise in the use of District aircraft facilities has generated expansionary influences that have not been offset by other forces.

The movements that can be attributed to the machinery industries—except in the post-Korean period—have had but little effect, particularly on the downside. The steady migration of industry to the District has partly offset recession losses in these industries. In addition the District does not react to the swings in consumer durable output or the recurring crises in textile production which have a marked effect elsewhere. As a result, therefore, the District has not shown much more instability than the nation as a whole during periods of recession.¹ An added favorable factor in the future will result from the continued growth of the machinery industries in this District. More and more the newer plants—suitable for mass output—will dominate the picture, and the marginal plants will recede in importance.

Some segments need watching

Liquidation of the defense effort could create problems in two industrial segments. A decline in aircraft production and a reduction in military establishments

¹ See *Monthly Review*, June 1949, pp. 63-65.

would cut the number of jobs. There is not now the void which existed at the end of World War II in service, trade, and construction, which absorbed large numbers of the then displaced workers. Many of the jobs which might be lost now would have to be replaced by economic growth within the District—a steady but slower process than that which accompanied transition at the end of World War II. Less vulnerable are the machinery industries which have peacetime outlets—particularly for electronics—that might prevent a significant decline.

Another potentially weak area is the lumber industry. This is particularly important in Oregon and Washington where diversification and growth rates are less pronounced than in California. The lumber industry depends to a large extent for its prosperity upon the housing market. A further decline in construction, independent of any defense activity reduction, could cause a considerable amount of unemployment. At present, home-building seems destined for another good year, but in the future it may be necessary to develop new industries to absorb the lumber workers if serious unemployment is to be averted.

Vulnerability not confined to District

Though the District has obvious areas of potential weakness, it is not significantly more vulnerable than the nation as a whole. Consumer durable output in the nation as a whole could suffer severe reverses in a period of decline. For some items the margin of unsatisfied new demand is relatively thin compared to earlier years. Sustained production depends in large measure on more extensive use of automobiles and appliances by families already owning such equipment and on a good replacement rate. In turn this requires at least a steady if not an expanding flow of income. A recession could cause a sharp reduction in the output of these items, but such a turn of events would have little direct effect upon the basic industries of this District. The textile industry has been in chronic throes of recession and revival since the end of World War II and is exceedingly sensitive even to small changes in consumer outlays. But again in this case the

Twelfth District is not likely to be affected as much as the country as a whole.

On the other hand, a reduction in defense activity would leave a smaller imprint elsewhere in the nation for aircraft and other items which are also produced in the Far West, but the imprint would be there. Indeed, it could cause more difficulty in the Pittsburgh-Chicago belt than it could in this District. Machine tool production, heavily concentrated in that area, might suffer a substantial reduction in activity. Even in late 1952, the volume of new orders for machine tools fell sharply while production expanded rapidly. The backlog of orders is still so large that some time will pass before any distress appears. Production of steel and processed metal items in which that area leads would also be affected. Even in that area industrial diversification is such that a decline in defense spending might result only in reduction in the output of certain products, but total production might change very little if civilian demand expands.

The problems of this District differ from those nationally in some respects. The Far West has experienced the largest impact from the defense program, and declining defense activity may become a relatively greater dampener here than elsewhere. Aside from defense industries proper, the lumber industry is subject to wide fluctuations as a concomitant of variations in home building. On the other hand, fluctuations associated with consumer durable goods, producer durable goods, and the textile industry can result in sharp reductions of employment in the country as a whole but not in the Twelfth District. The over-all difference between the nation and the Twelfth District is more pronounced as to the industries that might be affected rather than as to the degree of distress resulting from reductions in defense spending or a business recession. The more rapid rate of growth of the District, which seems likely to continue, acts as a partial buffer. This tends to give the Twelfth District a relative advantage over the country as a whole, but the growth factor alone probably is not sufficient to offset the entire impact of all possible downward pressures—it can merely moderate their effects on this District.

PRICES—THE RETURN TO STABILITY

THE over-all stability that has characterized the economy of the United States for the past year and a half has been the result of a rather precarious balancing of inflationary and deflationary forces. Those segments of the economy most closely allied with the defense procurement program have expanded and are continuing to expand output and productive capacity. This is evidenced by the record rates of expenditure by business firms for new plant and equipment, a major share representing added capacity for military production, and by the rising rate of defense expenditures, which are largely for goods of a durable nature. Segments of the economy that are closely dependent upon consumer buying have undergone rather wide swings in activity in the past two and

a half years. The buying sprees which followed upon the Korean outbreak and again when the Chinese communists entered the war sent consumer expenditures to extremely high levels. During the period between the two major buying waves, and subsequently, consumer spending, measured as a percentage of income, fell sharply and, although it has risen somewhat since the low in early 1951, it remains below most post-World War II years. Reflecting these shifts in expenditure rates by consumers, the inventory and output policies of the consumer goods industries have experienced marked changes over the post-World War II period, especially in those industries producing the major items of household durable equipment.

The major restraints imposed upon the growth of credit in the past two years have contributed significantly to the general stability of the country's economy. Both general and selective credit controls have been used in the period since Korea, supplemented by the Voluntary Credit Restraint Program. The removal of Reserve System support of Government bonds at par, following the Reserve-Treasury "accord" of March 1951, has had the general effect of tightening the reserve position of the banking system as a whole, with a consequent increase in the cost of borrowed funds. Member bank borrowing from the Reserve Banks has risen sharply, but owing to the short-term nature of such borrowing and the reluctance of banks to remain in debt, this method of obtaining bank reserves has exerted a greater restraining influence on bank credit expansion than existed when Government securities could readily be sold at par for that purpose.

Although the expansion in bank loans since Korea has been substantial, it was much smaller than the increase that might have occurred in the absence of credit restraints. Reflecting the expansion in private bank credit as well as the reappearance of Federal deficit financing, the total money supply has risen substantially. However, during 1952 most of the increase in the privately-held money supply occurred in time deposits, which are much less active than demand deposits. This reflects the substantial rate of personal saving that started in early 1951 and has continued since.

Direct controls over wages, prices, and materials, imposed by the Federal government under the Defense Production Act of 1950, have also contributed to the containment of inflationary pressures during the past two years. Major revisions have occurred in these controls since their imposition in early 1951, however. Price ceilings have been allowed to rise in certain instances as circumstances and Congressional mandates have demanded such action, and the regulations have been suspended where prices have fallen well below ceiling levels. Wage increases have been granted to reflect rises in living costs and in order to maintain production in strategic industries threatened with prolonged labor difficulties. Restrictions on the use of materials have generally been relaxed and greater quantities of critical metals have been made available for civilian uses as supplies of these items improved.

The factors outlined above and the generally increased costs of production and changes in the basic supply position of some major commodities represent the main elements affecting prices over the past year and a half or so. The average level of wholesale and consumer prices has changed only moderately since mid-1951. Prices of individual or particular types of commodities, however, have moved divergently, but on balance the movements have been largely offsetting in character. The Bureau of Labor Statistics index of primary market prices has declined about 3 percent in the past year and a half, which contrasts sharply with the rise of some 16 percent in these

prices in the first seven months following Korea. The consumer price index since mid-1951, while continuing to rise steadily throughout most of the period, has risen less than 3 percent compared with an increase of 8 percent from mid-1950 to February 1951. Movements within the major commodity groups, reflecting developments which affected particular markets at different times, form the basis of much of the discussion to follow. The major distortions which occurred in the structure of prices during the highly inflationary period were largely eliminated during the second and third quarters of 1951, although the pre-Korean relationships were not finally restored until the latter half of 1952.

Large harvests and heavy marketings reflected in the decline of farm prices

The prices of farm products, which have declined substantially from their 1951 peaks, account for a major share of the total decline in average wholesale prices since the end of the immediate post-Korean inflation. At the end of 1952 farm product prices were some 13 percent below their peak level of February 1951 but were still on the average approximately 9 percent ahead of the level prevailing just prior to the Korean outbreak. The principal portion of this decline occurred during the past twelve-month period, largely as the result of the heavy movement of meat animals to market, especially beef cattle and hogs. Numbers of meat animals on farms reached record proportions in the first half of 1952, and this combined with a relative shortage of cattle feed has forced the speed-up in the movement of meat animals to final consumer markets. Other farm products, notably cotton, have also been in somewhat more than ample supply and as a consequence have shown significant price weakness. A reduced foreign demand, stemming from a continuing dollar shortage plus increased farm production abroad, has added to the weakness in farm product prices generally. As a result of these demand and price developments, combined with a rise in farm operating costs, the net income of farmers has declined somewhat from the very high level reached in 1951. A further decline appears to be indicated for the year ahead, and some farm crops whose prices have been above support levels will once again have to be propped up by Government action under existing farm parity formulae.

Processed and manufactured foodstuffs, other than meat, have fluctuated somewhat less in price on wholesale markets than have farm products generally, although they have tended to follow substantially the same pattern. Lowered raw materials costs have been at least partially offset by increased costs of labor and other materials and services involved in their production. These cost factors have contributed an element of stickiness in the prices of processed and manufactured foods, and consequently their prices have not fluctuated as sharply as those of foods that reach the ultimate consumer in substantially the same form as that in which they are originally produced. Also, demands for foods

that have been processed or manufactured have remained somewhat firmer, reflecting rising consumer incomes and a continuance of a high rate of population increase.

Shifts in consumer buying patterns decisive in some price movements

The rate of buying by consumers has varied rather markedly in the past two and a half years, both as to the proportion of current incomes spent and the classes of goods or services purchased. Spending rates were upped drastically in the major buying waves which followed the Korean outbreak and were curtailed sharply subsequently. The first of the buying waves was concentrated largely in the stocking-up on major durables, while the second affected the markets for durable and nondurable goods about equally. Since the last wave of buying subsided in February 1951, consumers have restricted their buying rate out of current incomes, although until the latter half of 1952 there has been a tendency for this rate to rise. These shifts had sharp repercussions on business policies affecting rates of production and more importantly regarding the level of inventories to be held. Inventories of consumer items that accumulated in great quantities during the latter half of 1950 and the first two quarters of 1951 were instrumental in maintaining output of the producing industries during that period. The slackening in consumer purchasing, however, caused these inventory holdings to be excessive in terms of current sales levels and resulted in a sharp cutback in new orders, with a consequent severe impact upon the level of manufacturing operations. As consumers have digested their purchases made during the buying waves, they have re-entered the markets as more vigorous purchasers, first for nondurable goods. Beginning in the second and third quarters of 1952, they have also shown an increased interest in the major household durables and automobiles. Inventories have been adjusted to a level more in line with sales, and in late 1952 some new accumulation became noticeable, most pronounced in the durable sector.

Prices in those markets dealing with commodities important in consumer budgets have reflected these developments. Textile and apparel prices and prices for leather products (including hides and skins) have fluctuated most widely. The prices of hides, skins, and leather products as a group rose an average of almost 30 percent in the inflationary upswing, but have since fallen drastically and in mid-November were slightly below their level of June 1950. Since May of last year, however, these prices have firmed somewhat and have risen moderately, 2 to 3 percent. This trend may be reversed, however, by the recent sharp decline in hide prices. Textile and apparel prices, while remaining 16 percent ahead of June 1950, are down about 15 percent from their 1951 peak. Since the middle of last year prices in this area have fluctuated only fractionally.

Wholesale prices on household appliances and furniture have remained near their 1951 peaks despite the

fairly wide swings which have taken place in total consumer expenditures on these items. Average prices at wholesale on household appliances in mid-November were less than 1 percent under their post-Korean high and were some 7 percent ahead of June 1950. The principal decline in this major group of commodities has occurred in the prices for radios, television sets, and phonographs. Consumer resistance to high prices as well as the existence of relatively large unsold stocks held by manufacturers and dealers resulted in a price decline of 10 percent between June and August 1950. Since then these prices have fluctuated only moderately, with virtually no change occurring in the last half of 1952. This stability has developed along with the working off of a major portion of the excess in inventory holdings and the granting of a large number of new broadcasting permits throughout the country as many new areas have been opened up for television reception. The continued high rate of new residential construction during the past year and in 1951 has also been a sustaining force in the over-all firmness of prices for household durables and furniture.

Industrial equipment and metal prices remain near their 1951 peaks

The sustained high rate of expansion in plant and equipment by business firms, a record rate of total new construction activity, and a rising rate of defense expenditures by the Government, combined with continued tightness in the supply of some metals, have been the major factors sustaining prices of industrial equipment and metals at near peak levels. Also playing a significant role in the maintenance of these prices at or near their ceilings under price stabilization regulations are the increased costs of labor, materials (generally down from former peaks but still substantially ahead of June 1950), and many essential business services. Increased excise taxes, especially those imposed upon manufacturers, have also contributed to the maintenance of high prices for particular goods.

Metal and metal products prices rose some 14 percent during the post-Korean inflation and have declined only fractionally since reaching their peak in February 1951. Steel prices have remained at ceilings imposed by the OPS throughout the period of control, and ceilings were advanced only last summer as a result of the wage increase granted the steelworkers following the nationwide strike in June and July. Ceiling prices on imported copper were increased last year when foreign producers found it unattractive to sell copper at the ceilings set for domestic supplies. This change has resulted in an increased inflow of copper from abroad and has been an important factor in the over-all easing of some of the tightness that has surrounded this metal since the war. Aluminum producers also were granted higher ceiling prices following the negotiation of a new labor contract resulting in in-

creased wage costs to the producers. Under existing OPS pass-through regulations, these increased ceiling prices on the major metals have resulted in increased costs to fabricators of metal products and have insofar as possible been passed on to the ultimate consumers.

Automobile manufacturers have also been faced with rising costs of production, both from rising wages and from the increased prices charged by suppliers of raw materials and component parts. As a result they have been granted increased ceiling prices on three separate occasions since the general freeze on prices in February 1951. Federal excise taxes have also risen significantly.

Upward pressures still exist on the prices of most items of industrial mechanical equipment. Unlike the situation in most other markets, this pressure has come from both sides of the market mechanism. On the one hand, there are the record high and still rising demands for industrial equipment to complete the major expansion programs of many industries to meet expanded defense needs and rising civilian requirements. On the other hand, there are the pressures from increased production costs, particularly wages and the principal metals. It would appear, further, that no significant easing in these pressures is in prospect for the coming half year or so, judging from already announced plans for further plant and equipment expansion.

There has been a considerable easing in some metal markets in the past year which has resulted in some price weakness relative to the first year and a half following Korea. This has been particularly noticeable in nonferrous metals, especially for lead and more recently for zinc. Largely responsible for this weakness has been a decline in the world prices of the nonferrous metals, including to some extent copper, although foreign copper prices are still well above domestic ceilings. This easing in the foreign markets stems from the fact that the expected total requirements by the various countries of the free world in their defense build-ups have fallen significantly below what was anticipated earlier. These declines in foreign prices have had a more or less serious impact upon the economies of some of the foreign countries whose earnings of needed foreign exchange, including scarce dollars, are based upon sales of these metals in world markets.

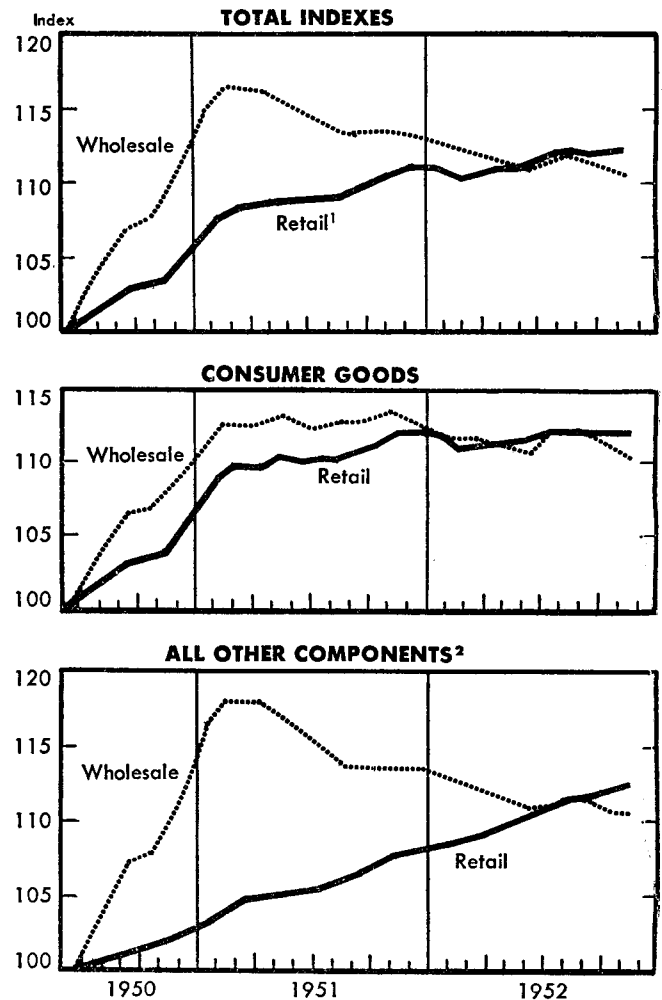
Consumer prices steady at record levels

The prices paid for goods and services by moderate income families in large cities throughout the United States have remained at the record level reached last August. In mid-December the Bureau of Labor Statistics index of consumer prices stood at 190.7 percent of the 1935-39 average, 0.2 percent lower than the August and November peaks and more than 12 percent above its level which existed in the month just preceding Korea. About three-fourths of the total rise in living costs over the past two and a half years occurred in the first seven months after Korea and the remaining 4 percent has been

gained in a gradual but persistent upward movement since then.

It is important to note that the consumer price index is not wholly a commodity index but includes items such as rent and a variety of personal and household services. The rent portion of the index has risen steadily and at about the same rate of increase since the latter half of 1947. Since Korea this element of consumer prices has increased somewhat more than 10 percent. The component of the index containing the services mentioned above as well as a wide variety of miscellaneous articles of consumption, including recreation, amusement, non-food beverages, transportation charges, tobacco, and similar items has risen more than 13 percent since June 1950, again in a steady and persistent fashion. Charges for fuel, electricity, and household refrigeration, also rising without any significant interruption throughout the period, have gained some 7 percent since June 1950.

COMPARISON OF WHOLESALE AND CONSUMER PRICES - 1950-1952
(June 1950=100)



¹ The Consumers' Price Index.

² This Wholesale group includes raw and semimanufactured materials and producers' equipment; the Retail includes rents and services. Source: *Economic Report of the President, January 1953*. Charts prepared by the Board of Governors of the Federal Reserve System, based on data from the Department of Labor.

The major fluctuations in living costs have occurred in the apparel, food, and housefurnishings groups. Each of these major categories of goods rose very sharply in the inflationary period of 1950 and early 1951, but have moved somewhat divergently since then. Retail food prices have been the most volatile of the major items of consumer expenditures and, as they comprise some 40 percent of the total consumer price index, account for the largest proportion of the over-all gain in the cost of living since Korea. In mid-November food costs on the average were 14 percent above mid-June 1950, but were down slightly, a little more than 1 percent, from their postwar peak reached last August. The decline since August reflected largely the heavy marketings of meat animals and a seasonal decline in fresh fruit and vegetable prices following last year's record harvest.

Apparel and housefurnishing prices have generally declined, with some minor interruptions, since the latter months of 1951. These prices, however, are still well ahead of pre-Korean levels, 9 percent for apparel and almost 16 percent for housefurnishings. Consumer resistance to high prices for these goods during much of 1951 and a generally burdensome level of manufacturer and dealer inventories account for the price weakness in these retail markets for most of 1952. It is also probable that the official measures of these prices fail to reflect the true extent of this weakness as many of the attempts to move these commodities took the form of concessions on trade-ins and other terms of sale. However, a considerable firming in the prices for both of these major consumer items was discernible in the latter half of 1952 as the rate of consumer expenditures rose over earlier periods. Retail and wholesale trade inventories also, after more than a year of consistent decline, tended to turn up in the late months of the year and added to the firming of these prices, particularly in the durable sector.

Price controls suspended on growing list of goods and services

The Office of Price Stabilization in April last year initiated a policy of price decontrol designed to remove ceilings from goods and services whose prices had fallen well below ceiling levels and where there appeared little chance of their rising to ceilings in the foreseeable future. This policy has been carried forward and the number of ceilings removed has grown to fairly significant proportions. The most important of these decontrol actions in the consumer sector include textiles, adult apparel, footwear, bedding, carpets, radio and TV sets, distilled spirits, cigars, and certain fats and oils. In percentage terms, the number of consumer goods and services remaining under ceiling price regulations has fallen to about 55 percent, compared with the maximum coverage at the time of the price freeze of 71 percent. Congress specifically exempted commodities comprising some 29 percent of all consumer items of consumption, including utility rates and processed foods. Decontrol actions have also occurred in

wholesale markets which have reduced the coverage of price ceilings from 87 percent of all items sold at wholesale to some 70 percent at the end of last year.

Price stability appears likely to continue

The question of where we are going is always more interesting (and in many cases more significant) than the question of where we have been. While the first of these questions can never be answered with any great degree of positive assurance, there are some segments of the economy for which the course of the near future is pretty well set, and other areas where past events are strong indicators of things to come.

The general level of economic activity in the United States appears most likely to rise somewhat further from its currently high level. This is a reasonable expectation because of a number of factors. National security expenditures already scheduled and funds appropriated will rise throughout the first half of 1953 at least. Business demands for plant and equipment, based upon a recent joint survey by the Securities Exchange Commission and the Department of Commerce, are expected to remain high and at about the record level sustained in 1952. Also, business demands may be bolstered by some new inventory accumulation, the first indications of which appeared in the closing months of last year. Such an accumulation would be most likely to occur if aggregate consumer demand should rise as a result of an expanded disposable income and a possible increase in the percentage of income spent.

On the basis of the factors just mentioned and with the further assumption that no major upset occurs in the state of our international relations, the level of aggregate demand should rise and exert some upward pressure on the level of commodity prices generally. However, important offsetting influences are also present in the situation. The most important of these is the large expansion in productive capacity that has occurred since Korea and the substantial additions that will come into operation in the coming period. Also of considerable importance in the price outlook are the significant gains that have and will occur in output per man-hour with consequent cost saving and a downward influence on the price structure. Further, demands for wage increases are likely to be less intense than during 1952 with favorable implications for both prices and production, particularly from the consumer's point of view. Wages, it must be recalled, are both a principal element of production cost and the major proportion of total consumer income.

The present relations between demand, supply, and costs of production indicate that no major change is likely to occur in the over-all level of commodity prices during the period just ahead. Particular commodities will no doubt move as a result of special circumstances that may confront individual markets and through the operation of usual seasonal forces.

RELATIVE PAY LEVELS IN THE TWELFTH DISTRICT AND THE NATION

SEVERAL Twelfth District cities ranked relatively high in a recent survey made by the Bureau of Labor Statistics of wage differentials existing among 40 labor markets during late 1951 and early 1952.¹ Average earnings in particular areas were determined for 24 types of office jobs and 17 manual-type jobs which were common to various manufacturing and nonmanufacturing industries. The following job classifications were studied: office workers, plant workers in general, and specific plant groups of maintenance, custodial and warehouse-shipping workers. Office workers' pay levels were based on average weekly salaries whereas plant workers' pay levels were based on straight time earnings (premium pay and overtime were excluded). The average pay levels in the 40 labor market areas, which are distributed among 28 states, were ranked according to their position relative to New York City's average pay level which was expressed as 100.

The San Francisco-Oakland area and four other cities of the Twelfth District were among the 40 labor markets selected. In all job categories the District labor markets, with the exception of Phoenix and Salt Lake City, tended to rank high within the nation and generally higher than New York City. Phoenix and Salt Lake City tended to be higher than most Southern cities and a few New England cities. In all job categories the San Francisco-Oakland labor market pay level ranked first, although the Detroit pay level was also equal in a few instances.

¹ United States Department of Labor, Bureau of Labor Statistics, *Monthly Labor Review*, December 1952, pp. 620-623.

Other cities outside of the Twelfth District whose relative pay levels ranked high were Detroit, Chicago, Cleveland, Newark-Jersey City, and New York City. Within the office worker classification, Detroit ranked first along with San Francisco-Oakland, while Chicago ranked fourth, New York fifth, and Cleveland sixth. For general plant workers, Detroit ranked second, with Chicago, Newark-Jersey City, and New York ranking fourth, sixth, and ninth respectively. Detroit also ranked first with San Francisco-Oakland in the relative pay level for maintenance workers. Chicago, Newark-Jersey City, and New York followed with third, sixth, and twelfth place ratings in this category. Within the custodial job group ratings, Detroit was second, Chicago fourth, Newark-Jersey City fifth, and New York ninth. Within the warehousemen-shipping job classification, Detroit again ranked second, Chicago fifth, Newark-Jersey City seventh, and New York eighth.

The relative pay levels and rank of five Twelfth District labor markets and New York City are listed below.

RELATIVE PAY LEVELS OF TWELFTH DISTRICT LABOR MARKETS

(New York=100)

	Office Workers		Plant Workers		Maintenance		Custodial		Warehouse-Shipping	
	Relative	Rank	Relative	Rank	Relative	Rank	Relative	Rank	Relative	Rank
San Francisco-Oakland . . .	106	1	113	1	111	1	114	1	113	1
Seattle	99	6	106	3	104	5	108	3	106	3
Los Angeles . . .	105	3	105	4	106	4	103	6	105	4
Phoenix	90	24	88	27	97	18	85	29	86	26
Salt Lake City . .	85	35	88	27	92	27	88	26	87	24
New York City . .	100	5	100	9	100	12	100	9	100	8
Range of relative pay levels	79-106		69-113		80-111		60-114		64-113	

THE UNITED STATES SHIPPING ACCOUNT AND THE BALANCE OF PAYMENTS

Few sectors of United States business are subjected to wider fluctuations in activity than the shipping industry. Even more discouraging, however, is the fact that since the end of the clipper ship era the fortunes of United States shipping have usually been on the downside. Only the advent of World War I and World War II provided a stimulus to our shipping industry and thus a brief respite. But in neither instance did the stimulus provide a lasting resurgence of our merchant marine.

Following World War I an increasing share of United States foreign trade was returned to foreign flag carriers as their fleets were restored and expanded. The share of our foreign trade (total United States exports and imports) carried by our own ships decreased steadily from 49 percent in 1921 to a low of 22 percent in 1939.

Following the most recent World War a similar trend has been developing. The percentage of our foreign trade carried by United States ships decreased from 65 percent in 1946 to 42 percent in 1951. This trend has been viewed with growing alarm by those concerned with the need for maintaining a strong merchant marine, and it was the subject of a recent study by the Maritime Administra-

tion of the United States Department of Commerce.¹ Increasing competition resulting from the rapid restoration of foreign merchant fleets depleted during the war and a fall in shipping rates during the past year indicate rough sailing ahead. The rapidity with which competition has increased is indicated by the fact that, while at the end of World War II United States flag ships constituted 65 percent of the world's merchant ships, our fleet today, including the Government's inactive reserve ships, constitutes about 30 percent of the total. If all Government-owned tonnage is excluded, our share would be reduced to less than 20 percent. With the completion of all new construction presently on the ways our share of the world's privately owned merchant ships will be reduced to the 1939 level, or about 14 percent. This decline has occurred despite the fact that during the post-war period the United States has been by far the most important trading nation in the world.

Since 1921, with the exception of the years 1943-48, our ships have carried less than 50 percent of our own trade. This fact and the rather sharp decline in recent

¹ United States Department of Commerce, Maritime Administration, *Participation of United States Flag Ships in American Overseas Trade, 1921-1951*.

years have led to requests by shipping interests that the Merchant Marine Act of 1936 be revised and broadened to strengthen our merchant marine.

Such requests, however, are likely to encounter opposition from those who feel that we should encourage, and certainly not oppose, the efforts of other countries to earn dollars through the sale of shipping services to us. By earning dollars in this way, the need for foreign aid is alleviated to the extent that the dollar shortage is reduced. If reduced foreign aid is partly replaced by shipping income, our exports may be maintained at a higher level than would otherwise be possible. During the interwar period many of the other maritime countries, such as Japan, the United Kingdom, and the Scandinavian countries, were able to cover an important part of their deficit in merchandise trade with the United States by the sale of shipping services to us.

On the other hand, those favoring greater Government support for our merchant marine point out that it is essential to maintain a strong merchant fleet as "our fourth arm of defense," to be immediately available in time of war. In times of peace, moreover, if the nation's foreign trade is to be maintained at present levels, or expanded, we must have a strong merchant marine. This is necessary to insure that our foreign traders have adequate and regular shipping service and to guarantee that our traders receive equal treatment along the world's trade routes.

A reconciliation of these divergent views is difficult because there is considerable merit in both of them. As

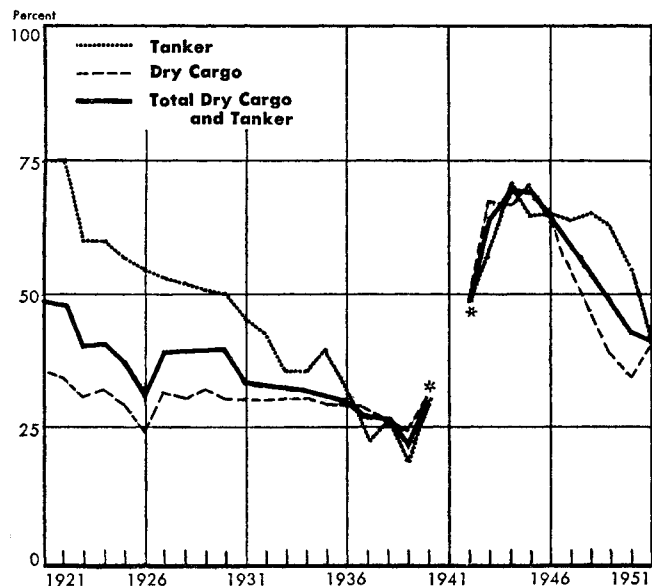
an important problem, however, which is facing the Government, a consideration of some of the relevant facts should be of value, even in the absence of any definite conclusions.

The United States merchant marine since World War I

From World War I until 1936 there was little legislation providing for the construction and maintenance of our merchant marine. The gradual decline in United States shipping during the twenties resulted in its reaching its lowest point during the thirties. Deterioration of existing vessels, high operating costs, low freight rates, the introduction of subsidies by foreign countries, and the depressed level of world economic activity during a large part of this period—all combined to reduce the United States merchant marine and diminish the share of United States flag participation in its foreign trade.

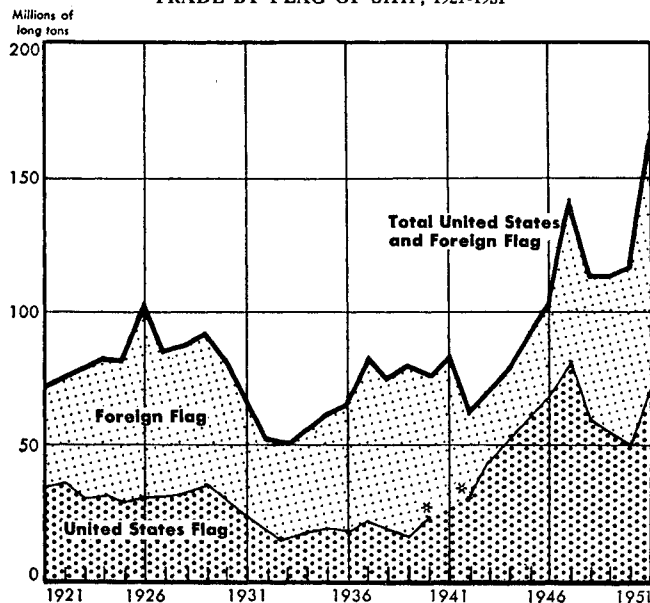
The passage of the Merchant Marine Act of 1936, however, paved the way for the construction of a modern merchant fleet through a system of construction subsidies. The Act also provided for regularly scheduled liner service under a program of operating subsidies. Although there was not sufficient time in the remaining prewar years for a real test of the direct effects of this Act, there were important indirect effects. For example, it influenced the distribution of our shipping and our trade. Largely as a result of this Act, regular liner services were established by American operators to areas where our trade had previously been restricted by inadequate ship-

PERCENTAGE OF UNITED STATES FOREIGN TRADE CARRIED BY UNITED STATES FLAG SHIPS, 1921-1951



*No breakdown available for 1941.
 Note: Tonnages for 1942 through 1946 are by control of ship rather than by flag. From 1921 through June 1950, cargoes under the control of the Army and Navy for military use were excluded from the data. Beginning with July 1950, shipments of "Special Category" cargoes were excluded, as were shipments to the armed forces abroad for their use and shipments of Department of Defense controlled cargoes under special programs.
 Source: United States Department of Commerce, Maritime Administration, *Participation of United States Flag Ships in American Overseas Trade, 1921-1951*.

TOTAL CARGO CARRIED IN UNITED STATES FOREIGN TRADE BY FLAG OF SHIP, 1921-1951



*No breakdown available for 1941.
 Note: Tonnages for 1942 through 1946 are by control of ship rather than by flag. From 1921 through June 1950, cargoes under the control of the Army and Navy for military use were excluded from the data. Beginning with July 1950, shipments of "Special Category" cargoes were excluded, as were shipments to the armed forces abroad for their use and shipments of Department of Defense controlled cargoes under special programs.
 Source: United States Department of Commerce, Maritime Administration, *Participation of United States Flag Ships in American Overseas Trade, 1921-1951*.

ping services and by the failure of foreign lines to provide equal services to all traders regardless of nationality. In addition, the inauguration of these new services by United States companies forced foreign lines to improve their services at United States ports. The net effect was an increase in the number of direct line services to foreign ports and an increase in the number, regularity, and dependability of sailings—both of our own and of foreign ships.

During World War II United States flag shipping became the major carrier as a result of our wartime shipbuilding program and losses of foreign ships. Our expanded merchant marine carried the major share of the cargoes of United States foreign trade in the years immediately following the war. The depletion of European merchant fleets because of the war, high freight rates, increased and abnormal demand for bulk and other commodities, and the legislative requirement that 50 percent of all United States foreign aid shipments be carried in United States flag ships also helped to maintain the position of our shipping industry.

But as foreign countries recovered from the destruction of the war, competition from foreign flag ships increased. This was brought about in part, initially, by the United States program of disposal of surplus ships and, in part, by the high rate of foreign shipbuilding. By 1951 foreign flag participation in United States foreign trade had increased to 58 percent by volume, compared to 35 percent in 1946.

ESTIMATED FREIGHT EARNINGS OF UNITED STATES AND FOREIGN SHIPS IN THE CARRIAGE OF UNITED STATES IMPORTS AND EXPORTS¹—1946-51

(millions of dollars)

Year and item	Import earnings		Export earnings		Total earnings	
	United States ships	Foreign ships	United States ships	Foreign ships	United States ships	Foreign ships
1946						
Ocean freight	248	163	893 ²	443	1,141	606
Dry cargo	194	147	860	385	1,054	532
Tanker	54	16	33	58	87	74
1947						
Ocean freight	320	225	961 ²	808	1,281	1,033
Dry cargo	246	200	932	738	1,178	938
Tanker	74	25	29	70	103	95
1948						
Ocean freight	308	188	531 ²	507	839	695
Dry cargo	203	154	516	449	719	603
Tanker	105	34	15	58	120	92
1949						
Ocean freight	274	201	455 ²	420	729	621
Dry cargo	194	185	442	405	636	590
Tanker	80	16	13	15	93	31
1950						
Ocean freight	313	268	322 ²	334	635	602
Dry cargo	225	232	307	321	532	553
Tanker	88	36	15	13	103	49
1951						
Ocean freight	390	366	699 ²	888	1,089	1,254
Dry cargo	249	245	671	805	920	1,050
Tanker	141	121	28	83	169	204

¹ These freight charges are included in the Transportation Account in our Balance of Payments. Such items as receipts and payments for passenger fares, expenses of United States carriers abroad, and expenses of foreign carriers in the United States are not included in the table, however.

² Excludes freight on Civilian Supply and other aid program shipments on Army or Navy operated or owned vessels totaling \$93 million in 1946, \$196 million in 1947, \$223 million in 1948, \$193 million in 1949, \$52 million in 1950, and \$46 million in 1951.

Source: United States Department of Commerce, *Balance of Payments of the United States, 1949-1951*.

The outbreak of the Korean war in June 1950, however, caused United States flag participation to rise again. The increased demands of the Korean war stockpiling programs and unusually large shipments to meet coal and grain shortages abroad led to a sharp demand for shipping and an increase in freight rates. This increased demand for shipping resulted in the reactivation of over 500 surplus ships from the Government's so-called "mothball fleet," most of which were put into operation by private companies under General Agency Agreements with the National Shipping Authority. But by the end of 1952 most of these ships had been returned to the reserve fleet, reflecting a decreased demand for shipping and a fall in shipping rates. On January 1, 1953, the United States active merchant fleet numbered 1,469 ships, which was 25 percent, or 540 ships below a year earlier. Most of this decline took place in the Government-owned fleet which decreased from 721 to 208 ships.

Freight rates, after reaching a postwar peak in 1948, dropped by 50 percent in 1949, recovering shortly after the outbreak of the Korean war in June 1950. In 1951 freight rates rose above the 1948 level, but dropped sharply in 1952. By the end of 1952, for example, the rates on coal and grain were less than half the level which prevailed at the beginning of the year. The earnings of United States shipping firms have oscillated with these changes.

United States shipping by trade area

The share of United States foreign trade with particular trade areas which is carried by United States flag ships depends upon several different factors. Proximity of the trading partners, the amount of private American investment, the degree of competition from foreign carriers and from other nations in foreign markets, the composition of trade, and, since the war, the amount of United States foreign aid to the individual areas all affect the direction and distribution of United States flag shipping. For example, a larger percentage of trade with the Caribbean, the West Coast of Central and South America, and Canada is carried by United States ships than with most other areas. The importance of American shipping in these areas can be explained by the proximity of these countries, the absence of an adequate merchant marine in the Southern Hemisphere countries, and a relatively large investment of private American capital. It is a characteristic of private United States ship ownership that more than half of the tonnage is controlled by industrial concerns which have large foreign investments and are important in our foreign trade. This is particularly true of many steel, aluminum, fruit, and oil companies which have important investments in those areas where United States shipping plays an important role. On the other hand, in other parts of South America, in particular the East Coast, the pressure of European competition has resulted in a smaller share of United States trade carried by American ships.

Because they maintain their own merchant fleet, the United Kingdom, other Commonwealth countries, and Scandinavia carry a major share of their trade with the United States, resulting in a lower percentage for the United States. The return of Japan as a maritime country will also probably reduce United States flag activity in the Pacific area although the outbreak of conflict in Korea in 1950 temporarily raised the level of American flag participation.

It should also be noted that certain countries, in particular the Scandinavian countries and Japan before the war, are specialists in carrying the trade of other countries. Income from the sale of shipping services in the carrying trade is a major export for these countries, and they send their ships wherever freight is available, providing stiff competition for American carriers. In contrast, United States lines primarily carry cargoes to and from the United States.

The dollar shortage, in addition, has forced many countries to reduce their payments to the dollar area for both goods and services such as shipping. Decreased use of United States shipping services in the Bayonne-Hamburg range in Western Europe because of the dollar shortage has been offset to some extent, however, by the importance of United States programs for foreign aid and more recently for the North Atlantic Treaty Organization.

Grain shipments to India in 1951, under a United States credit, increased American participation to that area and demonstrate the fact that in many instances the share of United States flag shipping is affected by nonrecurrent factors. It may also be noted that the accompanying table showing United States flag participation in our trade with particular areas is in terms of volume, with the result that bulk commodities figure more importantly than

DISTRIBUTION OF UNITED STATES FOREIGN TRADE BY TRADE AREA AND FLAG OF CARRIER, 1948-52

Percentages Show Distribution of United States Exports and Imports by Trade Area and the Degree of Participation by United States Flag Ships in Each Instance
(percentage of shipping weight)

	1948		1949		1950		1951		Jan.-July 1952	
	Total	American Flag	Total	American Flag	Total	American Flag	Total	American Flag	Total	American Flag
EXPORTS TO:										
Total	100.0	39	100.0	36	100.0	33	100.0	37	100.0	33
Canada	33.4	30	29.7	31	43.4	27	23.9	31	21.3	33
Caribbean	6.6	57	7.9	48	8.3	46	5.2	46	6.5	39
East Coast South America.....	5.2	33	3.1	29	4.2	23	4.6	36	4.9	28
West Coast South America.....	1.1	58	1.8	42	2.0	37	1.5	42	1.5	39
West Coast Central America and Mexico	0.7	51	0.7	40	1.3	30	0.9	32	0.6	22
Gulf Coast Mexico	0.4	32	0.4	34	0.8	31	0.4	34	0.5	22
United Kingdom and Eire.....	4.9	20	6.5	31	6.3	32	7.8	27	6.2	27
Baltic, Scandinavia, Iceland and Greenland	2.9	17	3.9	25	2.6	30	5.0	25	5.1	28
Bayonne-Hamburg Range	21.3	48	17.7	34	12.1	39	23.6	45	23.6	36
Portugal and Spanish Atlantic....	0.9	7	0.9	2	0.7	28	0.5	11	0.5	41
Azores, Mediterranean and Black Sea	12.6	50	13.3	55	7.4	35	11.1	41	9.7	36
West Coast Africa	0.8	30	1.1	28	0.7	34	0.7	26	0.8	25
South and East Africa	1.5	58	1.6	39	1.0	40	0.9	56	1.1	45
Australasia	1.0	21	1.5	23	1.0	21	1.3	15	1.2	18
India, Persian Gulf and Red Sea..	2.5	42	2.9	33	2.4	25	4.1	58	5.4	39
Straits Settlements and Netherlands East Indies	0.5	37	0.7	39	0.5	44	0.7	31	0.6	29
South China, Formosa and Philippines	1.9	53	2.8	52	2.2	50	1.3	50	1.2	45
North China including Shanghai and Japan	1.8	49	3.5	27	3.1	50	6.5	35	9.3	24
IMPORTS FROM:										
Total	100.0	60	100.0	53	100.0	44	100.0	43	100.0	41
Canada	12.8	21	12.7	21	12.6	13	12.3	15	10.3	27
Caribbean	50.2	71	49.3	65	49.8	54	48.4	51	54.8	47
East Coast South America.....	3.4	54	2.9	44	2.7	36	2.9	42	2.3	40
West Coast South America.....	7.1	85	6.4	79	4.8	85	5.0	77	4.2	67
West Coast Central America and Mexico	1.1	74	1.0	76	0.9	69	0.9	58	0.9	61
Gulf Coast Mexico	2.0	64	2.4	55	3.5	58	3.4	57	2.4	24
United Kingdom and Eire.....	1.0	33	0.7	33	1.1	34	1.2	32	1.0	26
Baltic, Scandinavia, Iceland and Greenland	4.0	28	4.0	24	3.8	21	3.9	27	3.1	29
Bayonne-Hamburg Range	1.5	39	2.0	20	3.4	27	4.8	24	3.1	22
Portugal and Spanish Atlantic....	0.4	37	0.2	31	0.3	35	0.3	20	0.3	19
Azores, Mediterranean and Black Sea	3.4	41	2.2	31	2.3	23	4.4	19	4.6	20
West Coast Africa	0.8	31	1.0	22	1.1	23	1.3	32	1.8	24
South and East Africa	1.3	90	1.3	69	1.5	48	1.3	60	1.1	70
Australasia	0.5	64	0.4	38	0.3	35	0.3	36	0.4	39
India, Persian Gulf and Red Sea..	6.6	68	9.0	50	8.0	23	5.2	34	5.5	40
Straits Settlements and Netherlands East Indies	1.5	68	1.6	55	1.3	54	1.7	41	1.4	28
South China, Formosa and Philippines	2.1	51	2.4	46	2.0	43	2.3	40	2.4	36
North China including Shanghai and Japan	0.3	61	0.5	25	0.6	53	0.4	55	0.4	46

Source: United States Department of Commerce, Bureau of the Census, FT973, *Waterborne Trade by Trade Area*.

other lower-weight, higher-value commodities. As a result, oil imports from the Caribbean area and bulk commodities from South America dominate the import scene to a greater degree than would be the case if they were expressed in terms of value.

Shipping services in the balance of payments

Aside from considerations of national defense and the maintenance of a strong merchant marine in case of emergencies, low-cost, efficient shipping services—rather than the flag of the vessel—are important to individual shippers. At the present time, however, there is an additional advantage to be derived from the use of foreign flag shipping, that is, the earnings of foreign operators and their contribution to the solution of balance of payments problems.

From 1921 through 1939 the United States had a surplus of receipts over payments on current account in each year. This surplus was created by a continuing large sur-

plus of merchandise exports over imports. In each of those years, however, a part of this "dollar gap" in merchandise trade was offset by net out-payments for shipping services. For the entire period 13 percent of our export surplus was covered by such payments; during the thirties, however, this percentage was much larger. During the depression years 1930-35, slightly less than one-quarter of our export surplus was paid for by services provided by foreign ship operators to United States traders, and during 1936 and 1937, almost three-quarters.

Since the end of World War II, however, this situation has been reversed, and in each postwar year the United States has received more for shipping services than it has paid out, thus adding to the dollar shortage. But since reaching a peak of over \$1 billion in 1947, our net receipts on transportation account declined sharply to \$128 million in 1950. While there was an increase to \$554 million in 1951, this was due to the stimulus of the Korean war and the increase in United States flag par-

THE BALANCE ON MERCHANDISE AND TRANSPORTATION ACCOUNTS OF SELECTED COUNTRIES

(in millions of United States dollars)

Country	Year	Total Merchandise Trade			Total Transportation			Trade with the Dollar Area ¹		
		Exports	Imports	Balance	Receipts	Payments	Net	Exports	Imports	Balance
United States	1938	3,101	2,177	924	267	303	36	...	...	...
	1947	15,977	6,129	9,848	1,788	761	1,027	...	...	...
	1948	13,346	7,822	5,524	1,299	630	669	...	...	...
	1949	12,337	7,066	5,271	1,176	676	500	...	...	...
	1950	10,658	9,315	1,343	926	798	128	...	...	...
	1951	15,485	11,668	3,817	1,487	933	554	...	...	...
France	1938 ²	640	870	— 230	...	...	— 14	53	171	— 118
	1947	1,028	2,292	—1,264	125	428	— 303	111	1,162	—1,051
	1948	1,054	2,287	—1,233	69	331	— 262	127	874	— 747
	1949	1,543	1,999	— 456	89	260	— 171	112	711	— 599
	1950	1,880	1,958	— 78	...	...	— 141	200	462	— 262
	1951	2,496	3,266	— 770	...	...	— 203	388	689	— 301
Italy ³	1938	423	582	— 159	67	71	— 4	41	70	— 29
	1947	680	1,312	— 631	38	195	— 157	44	575	— 531
	1948	1,170	1,462	— 292	45	157	— 112	95	517	— 422
	1949	1,162	1,375	— 213	71	177	— 106	49	466	— 417
	1950	1,201	1,358	— 158	...	...	— 62	93	356	— 263
	1951	1,640	1,914	— 274	...	...	— 101	113	455	— 342
Japan	1936 ⁴	1,035	1,049	— 14	96	32	64	121	260	— 139
	1947	182	449	— 267	1	89	— 88	20	484	— 464
	1948	262	547	— 284	3	123	— 120	70	422	— 352
	1949	533	728	— 195	9	173	— 164	79	575	— 496
	1950	911	970	— 59	9	96	— 87	179	427	— 248
	1951	1,582	1,641	— 167	30	251	— 221	320	945	— 625
Netherlands	1938	586	675	— 89	...	...	7	13	53	— 40
	1947	716	1,413	— 697	116	96	20	47	584	— 537
	1948	1,002	1,612	— 610	168	97	71	43	340	— 297
	1949	1,277	1,646	— 369	...	...	102	57	372	— 315
	1950	1,368	1,823	— 465	...	...	68	68	250	— 182
	1951	1,764	2,114	— 350	...	...	97	126	326	— 200
Norway	1938	192	260	— 68	157	68	89	4	10	— 6
	1947	386	747	— 361	264	143	121	46	250	— 204
	1948	438	700	— 262	363	246	117	37	125	— 88
	1949	406	731	— 325	366	250	116	30	122	— 91
	1950	408	633	— 225	...	...	142	40	95	— 55
	1951	642	809	— 167	...	...	234	47	142	— 95
United Kingdom	1938	2,474	3,876	—1,402	464	371	93	256	962	— 706
	1947	4,430	6,102	—1,672	842	729	113	512	2,279	—1,767
	1948	6,376	7,209	— 833	1,007	701	306	771	1,623	— 852
	1949	6,765	7,333	— 569	1,023	714	309	672	1,604	— 932
	1950	6,216	6,644	— 428	854	543	311	865	1,203	— 338
	1951	7,599	9,779	—2,180	...	...	336	1,068	2,046	— 978

¹ United States and Canada.

² Private estimate published by the Economic Cooperation Administration.

³ 1938 data for trade with the Dollar Area include only the United States.

⁴ Data for 1938 not available.

Note: For the balance on trade and transportation, no sign indicates credit, minus sign indicates debit.

Sources: International Monetary Fund, *International Financial Statistics and Balance of Payments Yearbooks*; United States Department of Commerce, *Balance of Payments of the United States, 1949-1951*.

ticipation through the activation of reserve ships, most of which were returned to inactive status during 1952.

The situation in selected countries

An examination of the balance of payments data of the important shipping countries shown in the accompanying table indicates that their deficits on merchandise account consist, in large part, of deficits with the dollar countries (principally the United States and Canada). In several cases these countries also had deficits on their over-all transportation account during the postwar period. Not only were trade deficits with the United States financed by our foreign aid programs, but transportation deficits were also similarly financed. These countries, in anticipation of a discontinuation of such aid, have strived not only to bring their merchandise trade closer to a balance but also to increase their earnings from the sale of shipping services.

An excellent illustration of the importance of shipping in the balance of payments is Norway. During the prewar period this country normally had a deficit in its merchandise trade with the rest of the world, but this deficit was completely covered by its net income from the sale of shipping services. For example, in the year 1938 its trade deficit of 292 million kroner was more than covered by a net income from shipping services of 383 million kroner.

Wartime losses reduced the Norwegian merchant fleet from 4.5 million gross tons in 1939 to 2.7 million tons in 1945. As a result Norway no longer could cover her excess of imports by shipping income during the postwar period. Her fleet, however, was rapidly rebuilt and between 1948 and 1951 her income from shipping services almost tripled. By 1951 the total tonnage of her merchant fleet exceeded that of 1939, and once again her net income from shipping of 1.7 billion kroner was ample to cover the trade deficit of 1.2 billion kroner.

Japan is another country for which shipping income has been an important balance of payments item. In the prewar period Japan was able to cover her deficit in merchandise trade by a large surplus on service account, consisting of shipping, insurance, and other services. Following the end of World War II, Japan was unable to participate in shipping since her merchant fleet had been virtually eliminated. But, as Japan recovered, shipbuilding was resumed, and the Japanese have gradually returned to the world's seaways. In 1951 Japan superseded the United States in second place behind the British in the volume of new construction. United States occupation authorities encouraged this trend as a step towards relieving the United States of the burden of the enormous aid program and replacing it by earnings from trade, shipping and other services, and the construction of merchant tonnage for other countries. Japan's merchant fleet, however, is still only about half of the prewar tonnage.

Still another country which depends heavily on earnings from shipping services to balance her deficit in goods is the Netherlands, and the United Kingdom is in a similar position. An over-all deficit on the United Kingdom trade account is partially counter-balanced by net receipts from shipping (figures in the table include only dry cargo trade). The United Kingdom has normally had a deficit in trade with the United States, which formerly was paid for by dollar earnings of other sterling area members. Since the war, however, net dollar earnings of other sterling area members have declined. As a result, earnings from services have assumed a greater importance in helping to balance accounts with the dollar area. The critical position of France's balance of payments since the war is also illustrated in the table. France's over-all excess of imports over exports is aggravated by a deficit on the transportation and merchandise accounts in trade with the dollar area, including large net payments to the United States for shipping services.

The importance of shipping services to other countries in the current international payments situation is exemplified by the above cases. As a part of the drive towards the substitution of trade for aid, therefore, the role of shipping and other services can be an important one.

To permit foreign carriers to carry an increasing part of our foreign trade, however, may mean the sacrifice of one of our most important national defense objectives—a strong merchant marine. A large part of our merchant marine at present can be considered marginal because of falling freight rates and increasing numbers of foreign carriers, which can be operated at lower costs than our own. Many of our ships are finding it more and more difficult to pay their way.

Because of the manner in which it came into existence, our merchant marine is faced with another serious problem. The bulk of our present fleet was built during the war, and at the present time the average age of our ships is ten years. On the other hand, the most important part of the merchant fleets of other countries has been built since the war, and most of them are less than five years old. By 1965 our present fleet will be over twenty years old and past the normal replacement age. This so-called "block obsolescence" means that, if the decision is made to maintain a strong merchant marine, some program of systematic replacement must be initiated. In the interim it appears that our carriers must face a losing battle in ship operating efficiency against newer foreign ships. The same problem applies to our reserve fleet, which played such an important role during the early part of the Korean emergency. If our defense authorities consider it essential to maintain such a fleet to supplement our active merchant fleet, a replacement program will be needed.

Correction: In the chart on page 107 of the December 1952 *Monthly Review* the unit of graduation on the vertical scale is in millions of dollars.

BUSINESS INDEXES—TWELFTH DISTRICT¹

(1947-49 average = 100)

Year and month	Industrial production (physical volume) ²								Total nonagricultural employment	Total mfg employment ³	Car-loadings (number) ²	Dep't store sales (value) ²	Retail food prices ⁴	Waterborne foreign trade ⁵	
	Lumber	Petroleum ²		Cement	Lead ²	Copper ²	Wheat flour ²	Electric power						Exports	Imports
		Crude	Refined												
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	135	109
1936	70	64	61	58	96	64	81	34	....	54	77	28	131	116
1937	74	71	65	56	114	88	84	38	....	60	81	30	170	119
1938	58	75	64	45	92	58	81	36	....	51	72	28	164	87
1939	72	67	63	56	93	80	91	40	....	55	77	31	163	95
1940	79	67	63	61	108	94	87	43	....	63	82	33	132	101
1941	93	69	68	81	109	107	87	49	....	83	95	40	....	....
1942	93	74	71	96	114	123	88	60	....	121	102	49	....	....
1943	90	85	83	79	100	125	98	76	100	164	99	59	....	....
1944	90	93	93	63	90	112	101	82	101	158	105	65	....	....
1945	72	97	98	65	78	90	112	78	96	122	100	72	....	....
1946	85	91	91	81	70	71	108	78	95	104	101	91	89	57	
1947	97	100	98	96	94	106	113	90	99	100	106	99	129	81	
1948	104	101	100	104	105	101	98	101	102	100	104	103	86	98	
1949	99	99	103	100	101	93	88	108	99	98	94	98	85	121	
1950	112	98	103	112	109	115	86	119	103	105	97	105	91	137	
1951	114	106	112	128	89	115	95	136	110	119	100	108	186	157	
1951															
November	109	107	116	124	85	114	99	140	111	121	101	119r	114	144	
December	99	106	109	119	88	118	101	136	111	120	100	110	117	130	
1952															
January	93	106	111	94	88	109	112	142	113	122	86	106	183	146	
February	107	106	113	112	104	109	105	139	113	124	101	108	208	138	
March	108	106	115	113	96	115	90	142	112	125	100	103	210	157	
April	110	107	114	120	95	117	88	141	112	126	106	106	185	143	
May	94	108	114	129	89	116	87	147	112	125	98	118	207	143	
June	117	107	116	126	87	112	84	150	113	126	108	114	187	182	
July	108	107	116	125	68	106	90	150	114	127	96	110	144	187	
August	106	107	122	131	81	105	103	153	114	129	101	116	153	293	
September	109	107	122	131	78	112	99	145	114	128	108	114	142	253	
October	116	107	117	142	80	115	96	146	115	130	98	118	...	...
November	105	107	118	133	...	116	93	141	116	130	102	128	...	...

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT

(amounts in millions of dollars)

Year and month	Condition Items of all member banks ⁷				Bank rates on short-term business loans ⁸	Member bank reserves and related items ¹⁰					Bank debits Index 31 cities ¹⁴ (1947-49 = 100) ²	
	Loans and discounts	U.S. Gov't securities	Demand deposits adjusted ⁹	Total time deposits		Reserve bank ¹¹	Commercial operations ¹²	Treasury operations ¹³	Coin and currency in circulation ¹¹			Reserves
										
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
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	2,380	....	+ 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	8,293	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	7,018	9,536	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	7,807	6,593	9,940	6,720	3.66	- 21	- 1,582	+ 1,983	+ 189	2,269	132	
1952	8,844	6,627	10,504	7,522	3.95	+ 7	- 1,912	+ 2,265	+ 132	2,514	140	
1951												
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	6,409	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	
October	8,605	6,765	10,125	7,336	....	+ 236	- 294	+ 267	+ 32	2,527	146
November	8,805	6,808	10,281	7,331	....	+ 72	- 29	+ 79	+ 34	2,616	141
December	8,844	6,627	10,504	7,522	3.95	- 299	- 240	+ 422	- 12	2,514	157	

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. ¹⁴ Revised.