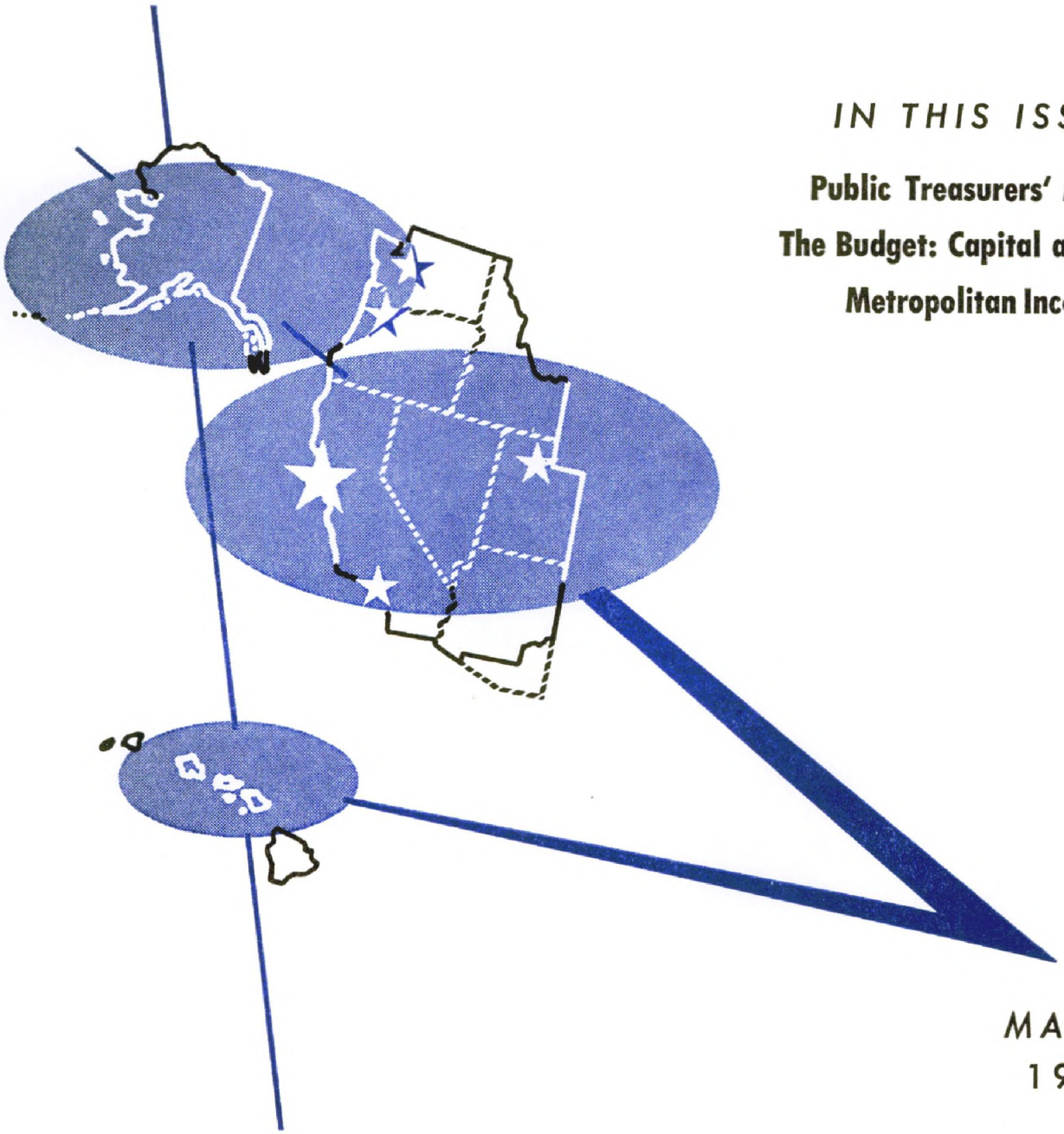
FEDERAL RESERVE BANK OF SAN FRANCISCO

MONTHLY REVIEW



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MARCH
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Public Treasurers' Money

. . . Aggressive bankers and sophisticated public treasurers have brought about a sharp rise in banks' public time deposits.

The Budget: Capital and Other

. . . Over one-third of the Federal budget is spent for major equipment, research and development, and other types of investment.

Metropolitan Income

. . . The West's 14 largest centers contain almost three-fourths of the region's population and income.

Editor: William Burke

Public Treasurers' Money

NEW DEPARTURES in banking practices have been frequent in recent years as banks have attempted to maintain, or to improve, their competitive position vis-a-vis other financial institutions. On the asset side, banks have increased their penetration into the fields of long-term business lending, mortgages, and municipal financing; on the liability side, they have been more active in soliciting personal savings deposits and in obtaining funds through negotiable time certificates of deposit, capital notes and debentures, and unsecured notes. Not surprisingly, the resultant changes in the composition of banks' assets and liabilities have altered the reading of traditional measures of bank liquidity, so that it has become increasingly difficult to assess the margins within which banks can safely and prudently operate.

In this situation the past record of the pace-setting Western banks may provide a useful guide, since many of the recent developments have not represented as basic a change in banking practices for them as for banks elsewhere in the nation. In other words, what for some banks have been innovations have been for Western banks simply extensions of long-established practice—particularly in the time-deposits area. A major case in point is "public" time deposits—that is, time deposits of states, municipalities, and other governmental units (except the Federal Government).

One-third of the total

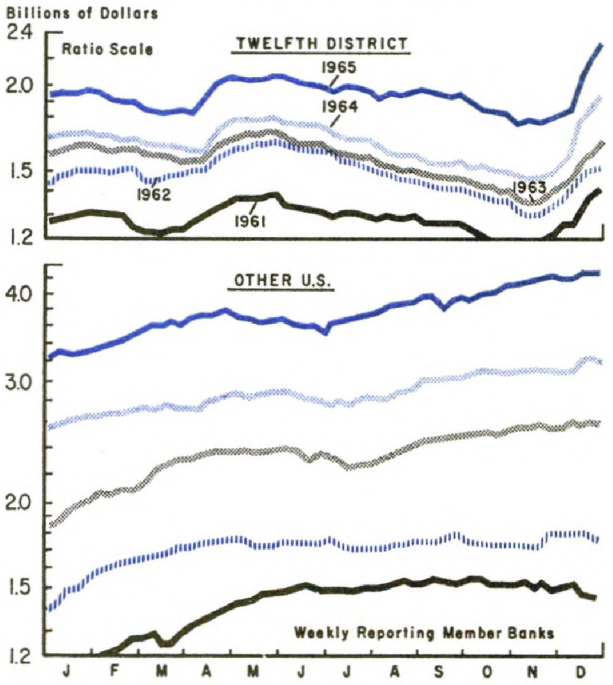
Early in this cyclical expansion (June 1961) Twelfth District commercial banks accounted for one-third of total bank holdings of public time deposits. Their share of this category was even greater than their widely noted one-fifth share of savings deposits, and it was in striking contrast to their one-seventh share of total demand deposits. During the current cyclical upturn, District banks increased their holdings of public time deposits 61 percent, from $1.7 billion in June 1961 to $2.7 billion in June 1965. But banks elsewhere recorded an even faster increase, from $3.5 billion to $7.8 billion, so that the District's share dropped from one-third to about one-fourth of the total over four years' time.

These developments have brought several questions to the fore. Why have Twelfth District banks maintained such a large share of public time deposits over the years? Why have banks elsewhere evidenced such strong interest in such deposits during this cyclical expansion? How stable are such funds? And what effects do they have on banks' problems of liquidity?

District dominance

District banks have built up their public time deposits largely because of deliberate policy decisions. They have been active in the solicitation of such deposits—as they have

Public time deposits grow rapidly, but with some seasonal variation



in the case of savings deposits and corporate time deposits—in order to meet the strong mortgage-financing demands generated by the rapid growth in the West. This development has been made possible, moreover, by the existence in most District states of legislation permitting the investment of state and local funds in interest-bearing deposits. Specific legislative or regulatory authorization is required before the funds of states and political subdivisions may be invested in the form of interest-bearing commercial bank deposits. Each District state, except Idaho, has long authorized such investment, and as a consequence, banks in practically every District state have substantial holdings of public time deposits.

On the surface it might appear that District banks built up these time deposits at the expense of their public demand deposits. In June 1961, for example, public time deposits in District commercial banks were 20 percent greater than public demand deposits, whereas public time deposits amounted to only one-half of public demand deposits at banks elsewhere. But legislation in all District states, except Arizona and Nevada, permits investment of public funds in other forms of interest-bearing assets (generally United States Government securities and municipal issues). Therefore, by accepting time deposits from public treasurers, District banks retained balances which might otherwise have been withdrawn for investment in securities. Thus, at a relatively early date, District banks faced, in connection with public deposits, the type of situation which in 1961 led major banks in the East to introduce negotiable time certificates of deposit in an effort to retain their corporate deposits.

Solicitation, legislation, and . . .

Active solicitation of funds from states and political subdivisions and legislative authorization permitting investment of public funds in time deposits, therefore, were the basic factors supporting the large holdings of public time deposits at District banks throughout past years. In the 1961-65 period, however, several other factors as well contributed to the very rapid growth in these deposits. Successive revisions in Federal Reserve Regulation Q allowed banks to pay higher rates on time deposits and thus to remain competitive in a period of rising money rates. These higher rates induced governmental units to invest more of their idle funds in interest-bearing certificates or open time accounts. In fact, state and local treasurers responded with alacrity to these higher rates and became increasingly alert to the earnings possibilities inherent in investing tax receipts between the date of collection and the date of disbursement. At the same time, increasing state and local budgets placed additional pressure on public treasurers to obtain interest income as a means of at least partially stemming steadily rising tax rates. Not surprisingly, then, District banks recorded a 61-percent increase in public time deposits as against an 8-percent rise in public demand deposits between June 1961 and June 1965.

Over the same period, commercial banks and state and local treasurers elsewhere realized the mutual advantages of public time deposits and began to follow the Western lead with enthusiasm. These banks outside the Twelfth District actually increased their public time deposits 121 percent over the four-year period, as against only a 13-percent increase in their public demand deposits.

Throughout the country there existed the same heavy demand for deposit money, the same rate competition among banks, and the same alertness by state-and-local treasurers to the investment possibilities of time deposits. Many banks that had not been interested previously in paying interest on corporate and public deposits finally shifted their policy and

actively sought such deposits as a means of augmenting their loanable funds. In the West and elsewhere, banks were increasingly able to attract funds through higher and more competitive rates. Moreover, public treasurers throughout the country became increasingly sophisticated and enthusiastic about the investment of their idle balances. These developments influenced a number of states to enact new legislation (or to broaden existing legislation) regarding the investment of public funds in interest-bearing deposits.

Seasonality

In view of this growing dependence of banks on public time deposits, the question arises: How stable are such deposits as a source of loanable funds? How has District-bank experience differed from that of those banks which only recently have begun to move into this field? An analysis of weekly-reporting bank data shows a strong seasonal fluctuation in such funds at District banks, in contrast to a minor seasonal fluctuation and a very strong secular uptrend at banks elsewhere.

Public time deposits at District weekly-reporting banks displayed a distinct seasonal pattern in the 1961-65 period. These deposits generally peaked in late January, then declined through March, rose again through May, and then dropped steadily until early November. In recent years, the January-March decline has averaged about 6 percent while the May-November decline has averaged almost 18 percent.

The regularity of this seasonal movement has given banks leeway to plan any adjustments in loan and security portfolios needed to meet the withdrawal of these time deposits. (The rising trend in public time deposits of course has eased this task even more.) Moreover, the seasonal peaks in public time deposits have come at very appropriate points of time, since they coincide with the two periods, in April and December, when passbook-savings accounts decline; in fact, as individuals withdraw their savings to pay income and property taxes, the banks recapture these funds in the form of public time deposits.

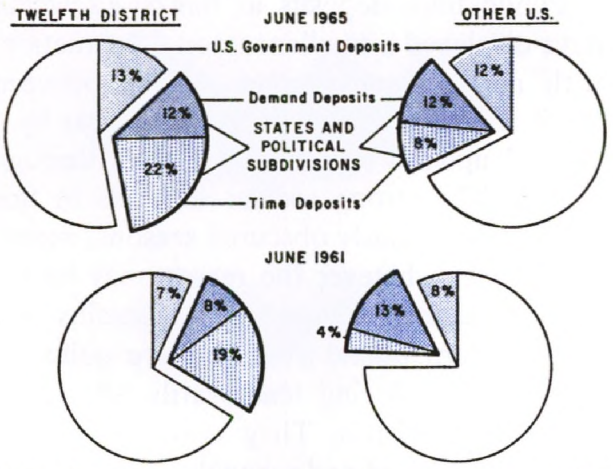
Public time deposits at banks elsewhere have displayed a smaller seasonal fluctuation, with a 6-percent average decline between April and July being followed each year by a general upward surge from August through March. The strong secular increase in this series has obviously obscured seasonal movements. But whatever the reason may be for the difference in seasonality, it remains true that Western public treasurers are quite accustomed to placing temporarily idle funds in time certificates. They normally deposit funds as collected and schedule the maturities of their certificates to meet expenditure needs. Treasurers elsewhere have been more conservative in this regard, but the increasing seasonality in their deposits in 1965 suggests that they now are beginning to emulate their Western colleagues, depositing funds for shorter time periods than heretofore.

Collateral and liquidity

Public time deposits create few worries when allowance is made for the predictability of their seasonal fluctuations. Nonetheless, one aspect of public deposits—collateral requirements — raises important problems of liquidity.

Most state and local governments, along with the U. S. government, require commercial banks to maintain certain specific types of securities as collateral against their deposits. All Western states permitting such deposits (except Utah) require collateral ranging from 100 to 120 percent of the amount of public deposits. The state of California, which accounts for one-fifth of the national total of public time deposits, requires 110-percent collateral against deposited funds. Most District states accept a wide variety of securities for collateral purposes — direct and guaranteed obligations of the U. S. government, Fed-

District collateral requirements immobilize half of security holdings



Note: Chart shows percentage of banks' security holdings required as collateral for deposits.

eral agency securities, state, county, municipal and special district bonds, and state and municipal registered warrants. The amount of the collateral demanded sometimes varies with the type of security or with the measure of value (market or par value).

Collateral requirements are no problem when banks are highly liquid, with a high ratio of securities to deposits. But each successive business expansion over the postwar period has entailed a reduction in banks' excess cushion of securities, especially short-term governments. In the Twelfth District the proportion of banks' security holdings immobilized as collateral against Federal and public deposits increased from one-third in June 1961 to one-half in June 1965. (This assumes a 100 percent collateral requirement, although some states require more.) The increase in this ratio was largely due to the increase, from 15 to 22 percent, in the proportion of banks' security holdings pledged as collateral against public time deposits. Elsewhere in the nation the amount of collateral required against all Federal and public deposits increased from one-fourth to one-third of total security holdings in the 1961-65 period. Thus, by mid-1965, banks elsewhere approached the one-third involvement that District banks had already reached in 1961.

At a time like the present—with loan demand strengthening even after a five-year-long expansion, and with the loan-deposit ratio at the highest point since the 1920's—any factor that reduces banks' flexibility in handling their security portfolios also impinges on their liquidity. A security portfolio functions not only as a source of earnings or as a potential source of loanable funds, but also as a liquidity reserve available to meet large and unexpected demands on bank resources. For any individual bank, the margin of liquidity required varies with its asset and liability structure. But any prior demand on a bank's security holdings automatically reduces the flexibility needed for meeting potential liquidity requirements.

Meanwhile, from the standpoint of public treasurers, bank time deposits continue to serve as a worthwhile repository for temporarily idle funds. By placing these funds with banks, treasurers earn an attractive interest return—and, in view of the recent revision in Regulation Q, interest rates offered by banks should remain attractive because banks are presently able to offer rates competitive with other money-market instruments.

—Ruth Wilson.

The Budget: Capital and Other

THE FEDERAL budget for fiscal 1967 is truly an awesome document, with its 440 pages of text and its 1,308 pages of appendices. But although the bulk of the document is in keeping with its purpose—after all, it deals with the raising and spending of over $100 billion—a close reading of the entire budget document is limited to the dedicated few.

To help focus attention on precisely where the money goes, the Bureau of the Budget in recent years has compiled a number of special analyses giving detailed expenditure breakdowns. One especially useful treatment is presented in Special Analysis D ("Investment, Operating and Other Expenditures"). This analysis arranges administrative budget expenditures functionally in several broad categories, with each category broken down into civilian and military components.

A capital budget?

Special Analysis D permits a distinction—although not a clear-cut one—between investment-type expenditures and current operating expenditures. The classification hinges upon the question whether outlays provide benefits beyond the current year. The distinction is self-evident in several cases; for example, capital investment includes public works and other development expenditures which provide long-run benefits, and current expenditures include outlays for operating purposes. The difference is less obvious, however, in the case of some current disbursements for grants-in-aid; for example, welfare payments are current outlays, but payments for urban renewal have an investment flavor because they promise future benefits.

At any rate, Special Analysis D presents a rough approach to the type of capital budgeting which is common in business and widespread among governmental units. (Sweden for the past generation has operated with capital budgets.) The purpose of capital budgeting is to ensure that assets which have a useful life of many years are financed over the life of such assets, so that this financing is segregated from current op-

INVESTMENT, OPERATING, AND OTHER EXPENDITURES
FEDERAL ADMINISTRATIVE BUDGET, FISCAL YEARS 1965-67

(millions of dollars)

	1965	1966	1967
Additions to Federal assets			
Civil			
Loans and financial investments	1,873	67	—2,338
Physical assets	2,603	3,309	3,208
National defense	14,007	16,272	17,854
Total	18,483	19,648	18,724
Developmental expenditures			
Civil	8,084	10,502	12,538
National defense	7,884	8,045	8,090
Total	15,968	18,547	20,628
Additions to non-federal assets: Total	1,554	1,711	2,191
Current expenses for aids and special services			
Civil	17,807	18,986	20,370
National defense	1,333	1,330	1,149
Total	19,140	20,316	21,519
Other services and current-operating expenses			
Civil			
Interest	11,435	12,104	12,854
Other	3,878	3,773	3,865
National defense	26,920	30,897	33,426
Total	42,233	46,774	50,145
Allowances and contingencies and interfund transactions	—870	—572	—362
Grand total	96,507	106,428	112,847

Source: *The Budget of the United States Government, 1967*. Data for 1966-67 are estimates.

erating expenditures. The classification of expenditures in this fashion recognizes the difference in character and purpose between investment and current spending.

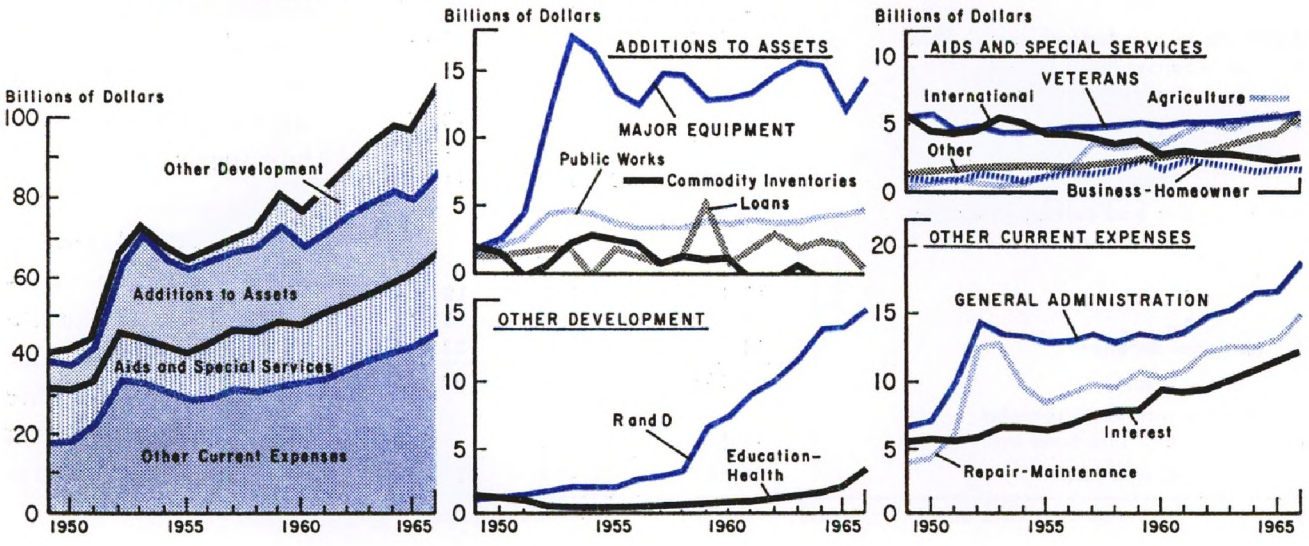
Although Special Analysis D segregates capital items as those with a life expectancy beyond the year in which outlays are made, this analysis — unlike a strictly defined capital budget — does not distinguish between the budget year in which expenditures are made and the year or years in which benefits are received. In this respect, all budget expenditures are viewed essentially as current-expenditure items; for example, the same treatment would be accorded the construction of a new post office, the day-to-day maintenance of that facility, and the salaries of postal workers employed therein. All expenditures would enter the budget on the same footing and would have equal weight in determining budget surpluses or deficits. This approach ignores the fact that benefits from the construction of the capital facility would be spread out over a number of years, while maintenance spending would confer benefits only in the current period. The analysis thus tends to present a somewhat misleading picture of the distribution of government benefits in relation to costs at any point of time.

How much for investment?

Despite these qualifications, Analysis D presents a very useful distinction between investment-type spending and current expenditures. In fiscal 1965, investment-type spending included $18.5 billion for additions to Federal assets and $17.5 billion for other developmental expenditures, while current expenditures included $19.1 billion for current aids and services and $42.2 billion for other current expenditures. ("Investment" is defined broadly to include financial as well as real investment.)

Additions to Federal assets provide the best approximation to gross investment. This category includes spending for major equipment, public works, loans, and commodity inventories. Each of these four elements amounted to roughly $2 billion or less in the pre-Korean period, but since Korea two of them have increased substantially while the other two have stabilized or declined. Spending for major equipment has risen sharply under the stimulus of military hardware procurement. Public works spending also has expanded over time, but with an especially large upsurge in 1949-53 associated with Korean War military construction. On the other hand, Federal

Investment-type spending rises sharply under stimulus of military-hardware procurement and research-and-development



loans have fluctuated at a relatively low level because of changes in the agricultural support program, and commodity inventories have trended downward because of reductions in stockpiles of strategic materials and agricultural commodities. (Loan programs and commodity inventories are related, of course, since the Commodity Credit Corporation adds to its inventories when crop loans are not repaid.)

Other development spending has risen sharply in recent years as a consequence of the research-and-development boom. R & D spending rose gradually over the 1951-58 period, but it subsequently skyrocketed in both military and civilian fields. The remaining components of this category have entailed considerably smaller amounts. Spending for education, training, and health declined during the 1949-52 period as G.I. Bill education benefits came to an end, but it is now rising rapidly as disbursements have begun for the economic opportunity program, vocational education, and manpower training. Additions to state-local assets resulting from Federal expenditures have shown no discernible trend, with the exception of a 1957 decline associated with the transfer of Federal highway expenditures to the highway trust fund.

And for current spending?

In the current expenditure category, some funds are allocated in the form of current aids and special services. Most of these consist either of transfers to veterans and welfare recipients or of subsidies to farmers, businessmen, and homeowners. Agricultural subsidies have exhibited the most rapid growth, with the bulk of the payments being made by the Commodity Credit Corporation under the special export program and the commodity price-support program. Veterans' benefits have remained large but relatively stable, except for a 1950-54 decline due to the drop in G.I. Bill subsistence allowances. Foreign aid expenditures, on the other hand, have dropped sharply as grant programs have been replaced by lending programs. (Loans are included in Federal asset accumulation rather than in current spending.)

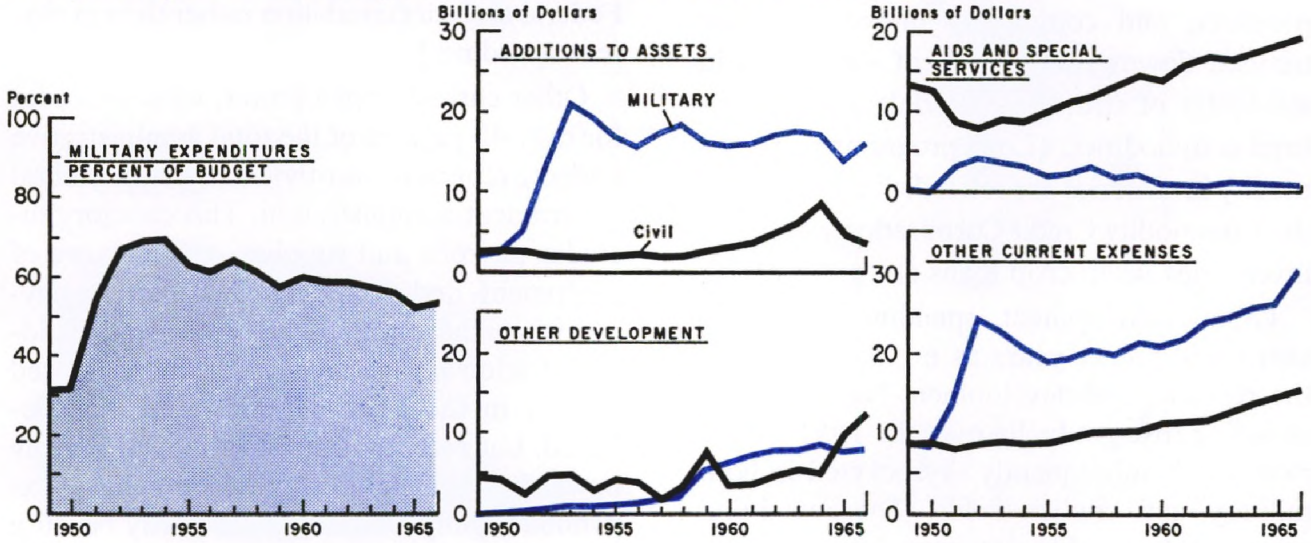
Other current expenditures, which account for over 40 percent of the total administrative budget, represent mostly outlays for general government administration. This category includes payrolls and supplies, maintenance of equipment and facilities, and interest payments on the public debt. Both general administration and repair-maintenance increased sharply in the Korean period and then declined, but recently they have moved sharply upward again. Interest payments have expanded rapidly over the years, partly because of the growth of the public debt but mostly because of the increasing interest rate on the debt, from 2.24 percent in 1949 to 3.68 percent in 1965.

Impact of defense

The growth of military spending has been probably the most important structural change in the administrative budget in the post-1949 period. The military sector accounted for less than one-third of the administrative budget in the 1949-50 fiscal years, but it rose to two-thirds of the total in 1952-54 before tapering off. Military spending even now accounts for over half of the administrative budget, and military demands are diverse as well as large, encompassing as they do substantial requirements for personnel, equipment, and the development and evaluation of weapons systems. In the investment category—additions to assets plus other development spending—military spending of $21 billion in fiscal 1965 substantially exceeded the civilian total, while in the current-expenditure category, the $28-billion military total fell somewhat below the civilian total.

Over the years, military investment has increased rapidly. Expenditures for military

Diverse military requirements—for personnel, equipment, and weapons-systems development—account for half of total spending



hardware and for military public-works facilities jumped from $2 billion to $22 billion over the 1949-53 period, and since then they have remained in the range of $14-$18 billion a year. Civilian investment meanwhile has fluctuated around the $4-billion level, except for a 1959 bulge associated with an increase in crop-support loans. In the other-development category, military spending has increased substantially to a level of about $8 billion today, but civilian spending recently has risen even more sharply to $10 billion, on the basis of the post-1957 boom in space spending.

In one current-expenditure category, aids and special services, military spending has been overshadowed by civilian transfer and subsidy payments; outlays recently have totaled about $1 billion for the military as against $18 billion in civilian payments. But other current expenditures—that is, general operating expenses—have become dominated by the military, with spending now at the $27 billion level as against $15 billion for the civilian sector. Military expenditures in this category were higher in 1965 than at the Korean War peak. Most of this spending is related to the maintenance and repair of military equipment and facilities; the total stock of such facilities has increased over the years, even in the face of declining expenditures for military hardware, so maintenance costs have grown apace with the rising stock.

Investment's growing role

Although current expenditures continue to grow and to account for the bulk of administrative-budget spending, investment-type programs have become increasingly important over time. In relation to the pre-Korean period, a definite shift has occurred in the budget in favor of investment spending. Investment-type programs accounted for less than one-fourth of total spending in 1949, but they now account for about three-eighths of the total.

At the present time, investment-type programs are showing divergent movements. In the category of asset expansion, military spending is scheduled to increase from $14.0 to $17.9 billion between fiscal 1965 and fiscal 1967, but this increase should be offset by a

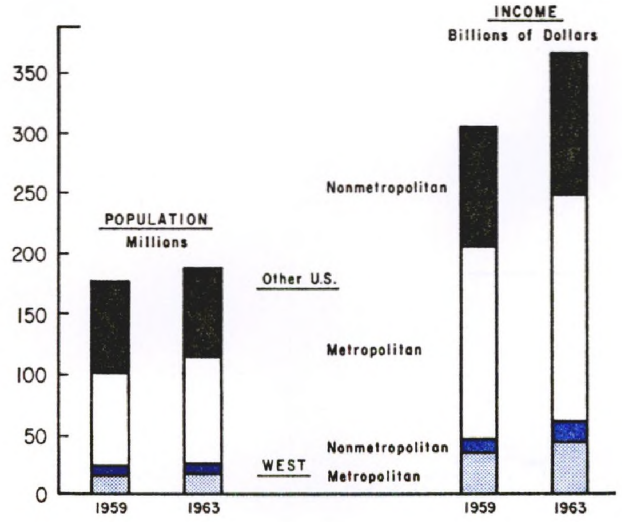
shift in civilian loans, which grew by $1.9 billion in 1965 but are due to drop by $2.3 billion in 1967. In the category of other-development expenditures, on the other hand, military spending is budgeted to rise slightly from $7.9 to $8.1 billion, but civilian spending is budgeted to soar from $9.6 to $14.7 billion. Substantial gains are scheduled for education, training, and health, as well as for the expansion of Federal grants that will increase state-local government assets.

—*Herbert Runyon.*

Twelfth District Business

Year and Month	Condition items of all member banks (millions of dollars, seasonally adjusted)				Bank debits 31 cities (1957-59 = 100)	Bank rates: short-term business loans	Total nonfarm employment (1957-59 = 100)	Industrial production (1957-59 = 100)		
	Loans and discounts	U.S. Gov't. securities	Demand deposits adjusted	Total time deposits				Lumber	Refined Petroleum	Steel
1959	15,908	6,514	12,799	12,502	109	5.36	104	109	101	92
1960	16,612	6,755	12,498	13,113	117	5.62	106	98	104	102
1961	17,839	7,997	13,527	15,207	125	5.46	108	95	108	111
1962	20,344	7,299	13,783	17,248	141	5.50	113	98	111	100
1963	22,915	6,622	14,125	19,057	157	5.48	117	103	112	115
1964	25,561	6,492	14,450	21,300	169	5.48	120	109	115	130
1965	28,115	5,842	14,663	24,012	182	5.52	124	...	120	138
1965: Jan.	25,853	6,337	14,430	21,669	179	...	122	110	116	138
Feb.	26,120	6,659	14,453	21,878	176	...	123	109	117	144
March	26,539	6,538	14,714	21,996	181	5.44	123	119	119	151
April	26,525	6,212	14,405	22,184	180	...	123	101	120	149
May	26,755	6,183	14,365	22,211	182	...	124	103	122	147
June	27,059	6,010	14,832	22,492	168	5.47	124	104	120	147
July	27,327	5,813	14,532	22,718	186	...	124	112	125	143
Aug.	27,283	5,881	14,521	22,805	180	...	125	108	122	139
Sept.	27,409	5,894	14,730	23,084	187	5.53	125	113	121	134
Oct.	27,595	6,203	14,705	23,261	188	...	126	115	122	126
Nov.	27,796	6,103	14,653	23,596	184	...	127	111	123	125
Dec.	28,115	5,842	14,663	24,012	187	5.62	128	...	116	121
1966: Jan.	28,497	5,840	14,761	23,869	195	...	128	...	...	128

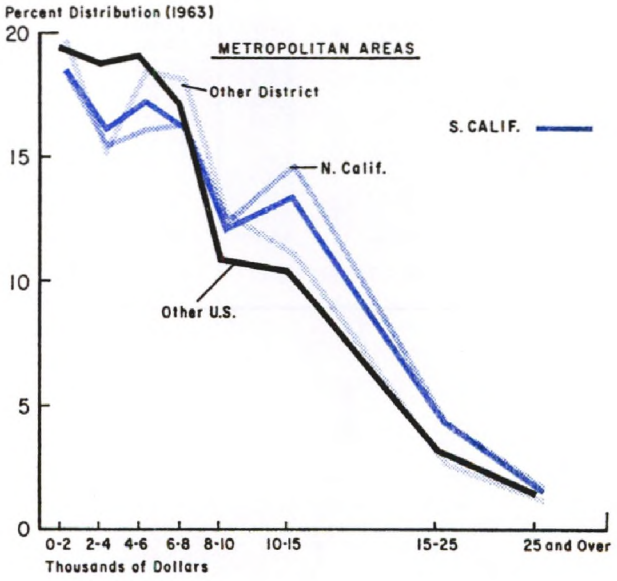
Concentration in the Cities



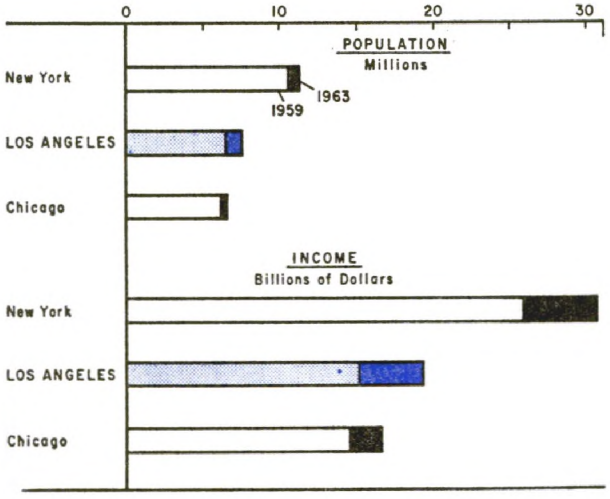
The West's 14 largest metropolitan areas accounted for 70 percent of the region's total population and for 73 percent of its total income in 1963. Metropolitan concentration was less marked elsewhere, since the rest of the nation's 100 largest centers accounted for 53 percent of the total population and for 61 percent of the total income outside the Twelfth District. . . . Between 1959 and 1963, the large Western centers recorded a 15-percent increase in population and a 28-percent gain in income. Metropolitan areas elsewhere scored a 12-percent population increase and a 20-percent income gain in the same period. (The charts show Census population data and Internal Revenue income data.)

Concentration in Higher Brackets

Metropolitan-area taxpayers in both Northern and Southern California were more strongly concentrated in high-income brackets in 1963 than were their counterparts elsewhere. Almost 21 percent of Northern California city-dwelling families, and 19½ percent of those in Southern California, received $10,000 or more in adjusted gross income in that year, while only 15 percent of metropolitan-area families elsewhere were above that income line. . . . At the other end of the scale, about 35 percent of the city families in California and other District areas reported incomes of less than $4,000 in 1963. The proportion was 38 percent in metropolitan areas elsewhere.



L. A.: The Second City

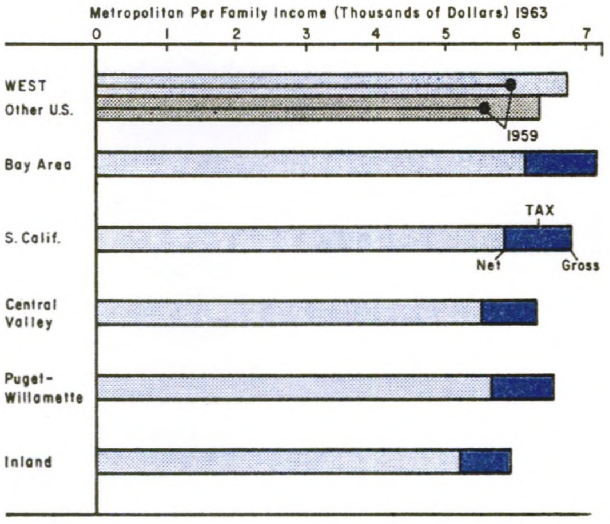


The nation's second largest city grew faster than either of its two major competitors during the 1959-63 period. Metropolitan Los Angeles (Los Angeles and Orange counties) increased its population 15 percent (to 7.6 million) and its income 27 percent (to $19.2 billion) over that four-year timespan. L. A.'s percentage gains were roughly twice as great as those of New York and Chicago. . . . Metropolitan Los Angeles, as a consequence of this rapid growth, accounted for 4 percent of the nation's total population and over 5 percent of total income in 1963. But New York still remained about half again as large as the California metropolis.

Gain in Family Income

Average family income in the 14 largest Western centers grew from $5,990 to $6,720 between 1959 and 1963. In metropolitan areas outside the District, average income increased from $5,610 to $6,330 over the same period. . . . The San Francisco Bay Area led other Western centers in 1963 with a $7,150 average per family. The Southern California metropolitan average was $6,780, and this was followed by $6,530 for Puget-Willamette cities, $6,300 for California's Central Valley cities, and $5,920 for the major inland centers. . . . Average family income, after payment of Federal income tax, ranged from $6,120 in the San Francisco Bay Area to $5,210 in the major inland centers.

—*Paul Ma.*



Western Digest

Banking Developments

For the first two months of 1966, total bank credit at Twelfth District weekly reporting member banks declined $500 million. This decrease, which was about four times greater than the year-ago decline, was due mainly to large reductions in holdings of short-term Government securities. . . . The loan expansion in the first two months of 1966 roughly matched the early-1965 increase. In particular, the $130-million business-loan increase approximated last year's contra-seasonal rise. Other plus factors were loans to securities dealers and mortgage financing. Consumers, however, reduced their borrowings. . . . The early-1966 reduction in demand deposits adjusted was slightly less than the decline in the first two months of last year. District banks, however, showed a decline of $13 million in total time-and-savings deposits, as contrasted with last year's substantial $643-million gain. The reduction was centered in public time deposits and passbook savings; negotiable time certificates and savings certificates both rose in response to higher interest rates.

Employment and Unemployment

Labor demands created by the rapid pace of business activity continued to reduce the ranks of the unemployed in early 1966. In February, for example, the jobless rate dropped sharply, from 5.4 to 5.1 percent in California and from 4.0 to 3.7 percent in the nation as a whole (seasonally adjusted). . . . Aerospace employment continued its recovery in January, as District manufacturing facilities added about 8,000 workers during the month. With 602,000 employees at work in the industry, about two-thirds of the 1963-65 employment decline has now been offset. In fact, a growing shortage of qualified aerospace workers now appears to hamper the industry's attempts to expand employment further.

Production Developments

Accelerated strike-hedge buying and heavy Government purchases boosted West Coast lumber and plywood prices to near-record levels in early March. With union contracts expiring June 1, and with Vietnam construction demands increasing, lumber prices were 13 percent and plywood prices 28 percent above year-ago levels. . . . Strikes at Chilean copper mines and Government set-asides restricted the supply of copper for civilian purposes during February. Beginning in the second quarter, 10 percent of the copper refined from domestic ore will be set aside for defense purposes; the limitation to domestic copper is to ensure that Defense Department purchases will be based on the domestic 36 cents-a-pound price quotation. . . . In aluminum, set-asides for defense purposes were increased in January to about 10 percent of total industry shipments. In view of the industry's recent boom, one major aluminum producer announced plans to spend about $100 million over the next several years in expanding its primary reducing facilities at Longview, Washington, and Troutdale, Oregon.

Publication Staff: R. Mansfield, Chartist; Phyllis Taylor, Editorial Assistant.
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