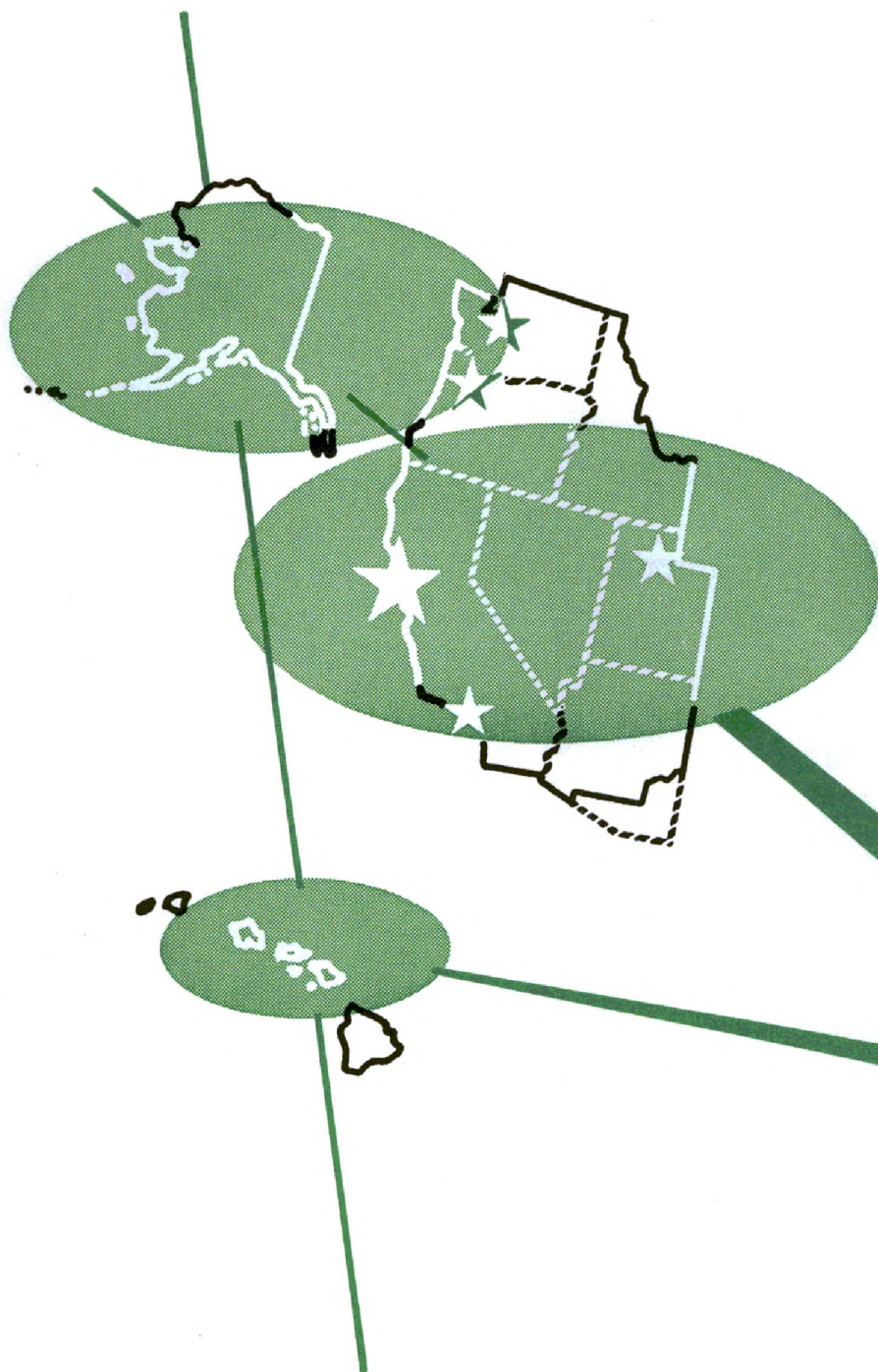


FEDERAL RESERVE BANK OF SAN FRANCISCO

# MONTHLY REVIEW



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SEPTEMBER  
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## **Credit—and Credit Cards**

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## **Time-Deposit Trends**

. . . Savings finally turned upward in early 1967, while other deposit categories showed mixed results.

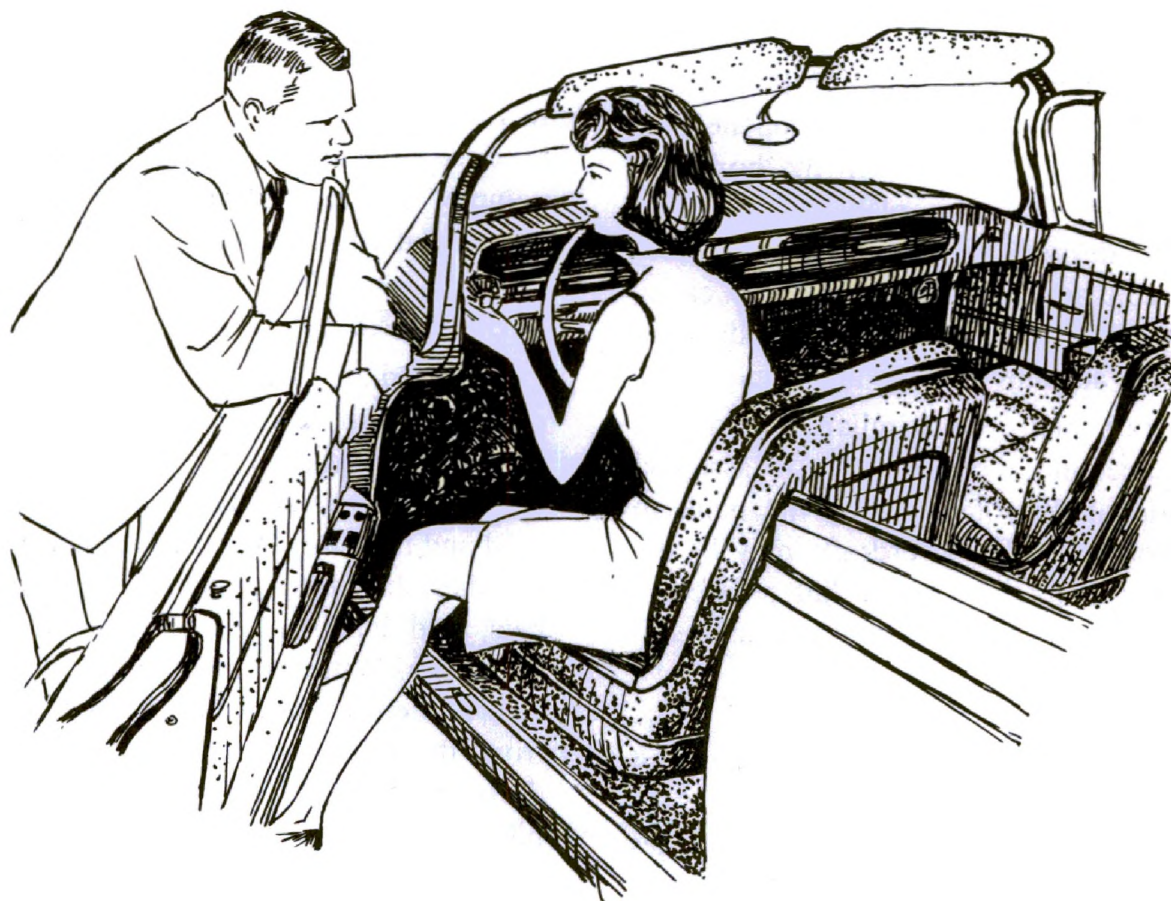
## **Brushfire: Korea vs. Vietnam**

. . . Although Vietnam's impact on the Western economy has been less than Korea's, the similarities are still striking.

**Editor: William Burke**

# Credit—and Credit Cards

## RENT-A-CAR



**T**HE bank credit card has now spread across the country, bringing both opportunities and problems to the banking system. As late as two years ago, bank credit-card plans were relatively unimportant except in California; almost everywhere else, they were limited to local merchants and operated by small to medium-sized banks. But last year marked a major turning point for these plans.

In early 1966, some of the nation's largest banks, undoubtedly impressed by the profitability of existing credit-card plans, decided to enter this field, and the largest operator (Bank of America) announced the creation of the first nationwide system through a na-

tional licensing scheme. In response to these developments, still more banks decided to issue credit cards. By the end of 1966 new plans were either operating or in the planning stage in the Pacific Northwest, the Chicago area, and many areas of the East; the credit card was now the latest in thing.

Although the bank credit card has basked in the spotlight for several years now, relatively few reliable statistics were available on the subject until quite recently. Even now, the available statistics combine bank credit cards with other plans which, though often regarded as substitutes, are not exactly the same as credit cards. The other types are check-credit plans and nonbank credit-card

plans—which include the so-called travel and entertainment (T&E) cards such as American Express, Diners Club and Carte Blanche.

### Type I: check credit

Check-credit is a method whereby a bank automatically makes consumer loans on a pre-arranged revolving credit. The customer applies for a line of credit and, if the application is accepted, an account is opened on borrowed funds against which the borrower writes checks. In some plans, checks with distinctive designs are provided to identify check-credit accounts, while in other cases, ordinary checks with no special identification beyond the account number are employed.

Overdraft plans are similar in that the existing account of a customer is assigned an additional line of credit by the bank to cover overdrafts. The overdrafts may be accidental or deliberate; in the latter case the line of credit plays the same role as a check-credit account.

For both the check-credit and the overdraft plan, the check remains the instrument for making purchases, and so the adoption of either variation involves minimum changes in existing banking procedures. Both types

of plan compete with credit cards because of their provision of revolving credit, but they avoid the heavy administrative costs and the credit-control problems of a credit-card plan. Furthermore, customer-pleasing features such as check-guarantees can easily be added through the use of identification cards or special checks designed like travellers checks. Nevertheless, in comparison to the bank credit card, these plans do not produce significantly large increases in credit volume. The reason, as will be seen, lies in the special characteristics of the credit card.

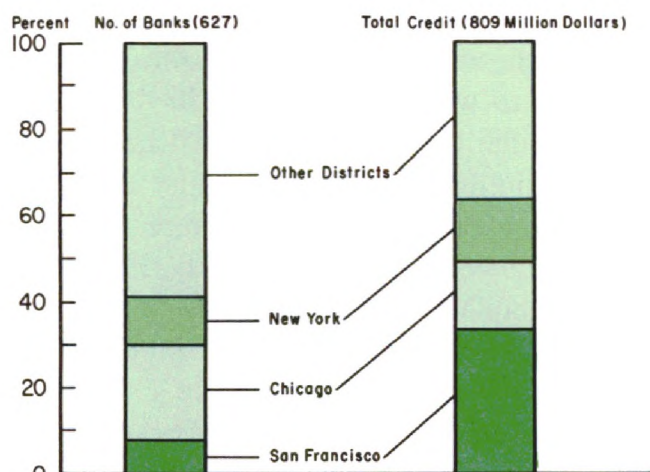
### Type II: T&E card

Intermediate between the check-credit plan and the bank credit-card plan is another revolving-credit plan, the T&E card. Because of some obvious similarities, the bank credit card and the T&E card are frequently lumped together, but they appeal to different markets, and banks play different roles under each plan. With the bank credit card, banks run the entire operation, extending credit from the day a merchant deposits a sales draft to the time the cardholder pays his bill. With the T&E card, a bank becomes involved only if the cardholder, after signing the appropriate bank agreement, decides to let his bill go on a revolving-credit basis or to use his card to borrow from the bank.

The principal advantage of the T&E card is that it allows the bank a credit-card service to its customers with a minimum of direct expense; the bank only has to set up an organization to administer revolving credit. But at the same time, the bank will not obtain as large a volume of operations from this plan as it would from its own plan. First of all, T&E cardholders generally have superior credit ratings and therefore are less likely to resort to revolving-credit to pay their bills — and when they do so, they tend to be in debt for only short periods of time.

T&E cards thus are basically a conveni-

### District holds one-third of credit outstanding in all bank-credit plans



## Everything Card

“Dear Customer: We’re sending you Everything, and it costs you nothing.” So read the blurb which a major New York bank used in a recent mailing of a million “Everything Cards” to a half million of its select customers. Some 21,000 retail establishments in the New York metropolitan area, mostly clothing and other soft-goods stores, are enrolled under the plan. . . . The first day’s response to the new plan literally blew a fuse at the bank’s specially installed switchboard, despite the use of 77 special phone lines for clearing credit purchases above floor limit and for handling “instant” loans at bank branches.

ence service for people who want to avoid carrying cash but who do not need credit on a regular scheduled basis. Furthermore, T&E cardholders need not even sign up with a bank to obtain revolving credit, since they can repay major transportation expenses on a time-payment basis with the card company. This is the only exception to the requirement that accounts are due when billed, but it is an important one, since these big-ticket items are the ones most likely to be deferred and most likely to have otherwise required bank financing.

### Type III: bank credit card

The prime advantage of the bank credit card is its simplicity: banks can even use it to attract loan demand without first establishing a regular banking relationship in the traditional sense with the customer. Cardholders do not have to be depositors of the bank which issues the card. Thus, in effect, the card-issuing bank is able to make consumer-type loans to other banks’ customers as well as its own.

One alternative, check-credit, is at a disadvantage because most people, when planning on major purchases, will obtain revolving credit through a retail store rather than through a bank. In contrast, the bank credit card fits easily into habits already established by department-store and oil-company cards. In the public’s mind, this is just

another plastic credit card, but one with a greater acceptance at a number of different businesses. And in further contrast to check-credit and overdraft plans, there is no need to minimize the number of transactions in order to avoid service charges on the checking account.

Another alternative, the T&E card, also has important shortcomings. The excellent credit rating of T&E cardholders means that they are least likely to resort to revolving credit, the stage where the bank finally makes a loan under this plan. In contrast, bank credit cards rely upon a mass market—they are designed for local expenditures on a wide range of items and are issued to people with average incomes.

Of course there is some overlapping of markets, in regard to both the cardholders who use these cards and the purchases they make. Yet the fact remains that the bank relies upon a high volume of revolving credit for its credit-card revenues. There is no membership fee for the cardholder and merchant discounts tend to be low. Therefore, the interest from revolving credit must be the main source of income, and the bank’s goal must be to stimulate the regular use of cards by a large number of people for a wide range of purchases. A high volume of card transactions is required to support the credit balances needed to produce sufficient interest income.

A fully-operational credit-card organization has other advantages too. As it is geared to handle a mass of small transactions with a minimum of decision-making, this organization can easily take over from the bank-office level those functions whose processing costs are high relative to their return. A prime example would be small personal loans; in some banks, all personal loans below a certain size are processed as credit-card cash advances, and overdraft facilities for depositors can be treated in a similar fashion. There are also the benefits arising from the usual requirement that merchants accepting cards open an account with the bank operating the plan. In practice this requirement is a further source of new customers; since many merchants dislike having several accounts, non-card banks tend to lose accounts to the card-issuing bank.

The major disadvantages of a full credit-card plan are simply the reverse of its advantages. Mass issuance of cards and high volume of transactions create both heavy start-up costs and high credit risks. The latter can be a particularly difficult problem, since the mass distribution of cards, which is at the heart of the plan's ultimate profitability, prevents application of unduly restrictive credit standards. Lack of a regular banking relationship with all cardholders also increases risk. The pressures to recover initial expenses and to reach a profitable level of operations too quickly may force a bank to be overly generous in its initial issue of cards and may thereby expose it to even higher credit losses.

The first few years are the key ones: this high-cost period determines whether a bank abandons its credit-card plan, as some major banks have done in the past, or whether it finally achieves a profitable position. In a well-run plan, the profits can be substantial—but so too are the costs of reaching that position.

### The statistics

Statistics on the credit-card phenomenon are rather scanty, but some data are available from the April 27 Call Report of the three Federal bank-regulatory agencies. As of that date, \$809 million in credit was outstanding at the 627 banks which offered some kind of plan.

Unfortunately, no exact breakdown is possible between bank credit-card plans and T&E cards and check-credit plans, although it is estimated that about 60 percent of the total is in bank credit-card systems and the remainder in other plans. Moreover, there are probably more than 627 banks involved with credit cards, since in many areas (Illinois, for example) correspondent banks offer cards and service merchants but do not carry any credit balances. In the Call Report, also, some banks probably over-stated their lending, while others did not report at all, because of some confusion as to what kind of loans should be classified as credit-card and check-credit loans. Despite these qualifications, however, the returns do permit some useful generalizations to be made on the subject.

At the moment, credit cards and check credit appear to be a big bank's game. Of the 40 largest banks — those with deposits of \$1 billion or more — all but five offer some kind of credit-card or check-credit plan, and in the \$500 million-\$1 billion deposit-size category, over two-thirds of the banks have a plan. Thereafter, percentage participation falls off rapidly with size. For banks with less than \$5 million in deposits, fewer than .5 percent offer a credit plan. Yet 48 percent of the banks with credit outstanding under these plans had less than \$50 million in deposits.

Credit cards and other credit plans are concentrated in a few geographic areas, principally the Pacific Coast, the Midwest and the North East. The Twelfth District leads,

having twice the credit outstanding of any other district — or about one-third of the national total — and it is followed by the Chicago and the New York Federal Reserve Districts. On a state basis, the leaders are California, New York, Pennsylvania, Illinois and Massachusetts, in that order. In terms of numbers, the Chicago District is first because of the local predominance of unit banks.

In the field of bank credit cards alone, the San Francisco District's role is even more striking — bank credit cards account for perhaps 80 percent of the District's credit-plan outstandings, as against roughly 50 percent elsewhere. Indeed, with the single exception of Alaska, the credit card is a regular feature of the District banking scene.

California leads the way in bank credit cards, followed by Illinois (Chicago), Pennsylvania (Philadelphia and Pittsburgh), and New York. As of the April Call Report, New York City did not have any major bank credit card in operation; that area's large total in outstanding credit was due largely to T&E cards and check-credit. However, one major New York City bank has since started a credit-card operation, and still others might follow.

## Effects on banking practice

The key to a successful credit card program lies in the control of credit—for example, supervising the distribution of cards with their associated lines of credit, and supervising their subsequent use to prevent excessive indebtedness and, most important, fraud. Generally the task of credit control is greatest during the first years, but it then becomes more manageable as the bad cards are gradually eliminated. Credit supervision is ultimately a technical problem but by no means a minor one.

Another aspect of credit control concerns the policy of each bank regarding the amount of credit it commits relative to its total resources. The total commitment can be substantial, since cash advances are a regular feature of most plans. Additionally, since these lines are unsecured and automatic, the bank may expose itself to unpredictable surges in credit demand which it must meet by adjusting its asset portfolio. The bank cannot reduce credit lines that have been widely advertised without destroying much of its earlier selling efforts aimed at creating a credit-card habit. The mass distribution of cards makes it administratively difficult to cut back on credit lines; thus the success

## BANK CREDIT CARDS AND CHECK-CREDIT

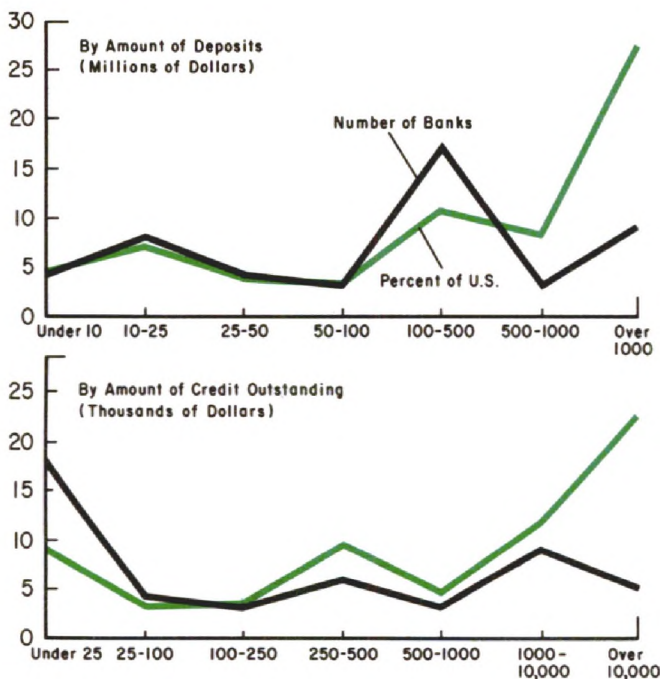
Total Credit Outstanding as of April 25, 1967  
(Amounts in millions of dollars)

Federal Reserve District	National banks		State member banks		State non-member banks		All banks	
	No. of banks	Total credit	No. of banks	Total credit	No. of banks	Total credit	No. of banks	Total credit
1. Boston	28	44	11	13	8	2	47	59
2. New York	34	61	25	46	11	9	70	116
3. Philadelphia	23	20	7	40	9	6	39	66
4. Cleveland	27	54	1	*	8	1	36	55
5. Richmond	16	18	5	12	7	2	28	31
6. Atlanta	51	40	7	3	23	5	81	48
7. Chicago	78	95	12	18	48	9	138	122
8. St. Louis	22	10	6	2	17	2	45	13
9. Minneapolis	15	4	1	*	6	*	22	4
10. Kansas City	29	10	6	1	5	*	40	12
11. Dallas	19	3	3	2	11	5	33	10
12. San Francisco	30	248	6	13	12	11	48	272
<b>Total</b>	<b>372</b>	<b>607</b>	<b>90</b>	<b>150</b>	<b>165</b>	<b>52</b>	<b>627</b>	<b>809</b>

\* Less than \$50,000.

Source: Federal Reserve Board of Governors.

## West dominates large-bank activity in credit-plan accounts



of a credit-card plan may require a bank to make fundamental policy changes in its credit priorities.

There is also the administrative problem of handling the mass of paper created by the credit card. It may well be that the credit card reduces reliance on checks and thereby reduces the burden of handling checks. Indeed, the credit card is quite likely to reduce the number of checks written, since one check per month can pay for a number of transactions that normally require payment by separate checks. But one problem is now replaced by another; the bank now must process an even larger volume of paper, including both the sales drafts that would normally be paid by check and those that replace former cash purchases.

The immediate effect of the credit card is an increase in internal clearing problems. Ultimately, some have argued, it is a step toward the "checkless society." This is true only in the sense that the system puts pressure on the banks to develop a technology

capable of handling transactions more quickly and cheaply. The techniques which can process sales-drafts can also do the same thing for checks. Thus the credit card—although it may be an indirect step toward a more sophisticated payments transfer mechanism—in the meantime tends to increase the banks' burdens.

### Effects on banking structure

As the statistics indicate, the credit card is typically a service offered by medium-or large-size banks. The high start-up costs put a premium on financial strength, and the recent trend to regional and national coverage points even more to the advantages of size. Consequently, there is concern that the credit card will weaken the competitive position of the smaller banks.

But this pessimism may be unwarranted, since the major banks are now adapting their plans to allow varying degrees of participation by smaller banks. A prime example is the California Bankcard Association, whereby 73 banks of varying sizes have formed a joint program. Under this program, a central organization owned by the banks and set up as a non-profit organization takes care of certain tasks created by the use of a common card. The individual banks can share fully in all plans of the credit-card program, regardless of size. In fact, approximately one-third of the membership consists of banks with deposits of \$10 million or less.

In an alternative development, the Bank of America under its licensing program has permitted correspondent banks of its licensees to issue BankAmericards under their own name or some common name, and to extend credit if they wish. This arrangement is being used in Colorado and Ohio. Another variation is the agency-bank arrangement, whereby a bank avoids the risk of a full credit-card operation by participating on a limited basis, accepting sales-drafts deposited



by merchants and processing card applications of its customers. The agency arrangement, besides being widespread on the Pacific coast, is dominant in the Chicago area, where unit banking makes it essential to achieve adequate coverage.

These new variants of the normal pattern of "one-bank-one-card" help encourage smaller banks who are trying to enter the credit-card field. As there is no inherent barrier to the entry of smaller banks, it is still too early to tell whether the credit card will ultimately shift the competitive advantage more towards larger banks.

Quite apart from inter-bank competition, the bank credit card may also affect the position of banks relative to other financial institutions. Bank credit cards are already involved in business accounts-receivable financing and in some consumer-credit activities previously financed by non-bank institutions. However, banks are limited in their ability to take over larger-sized contracts by their relatively low credit limits (often only \$300) and by credit requirements which are stricter than those of many consumer-finance companies. Nonetheless, the basic administrative machinery of a credit-card plan can, in principle, be adapted to larger credit contracts, and thereby can support the expansion of the banks' competitive position in the lending field.

But this relative improvement should not be exaggerated. Bank credit cards now account for about one-sixth of all credit extended by credit cards, but this still leaves five-sixths in other hands. Moreover, they amount to less than 1 percent of all non-auto

consumer credit (\$62 billion outstanding in April). Therefore, bank credit cards have far to go before they can become a dominant factor in consumer credit, let alone in bank lending.

### Future Effects?

Bank credit cards, to conclude, have attracted well-deserved attention since they are an important innovation in banking services. For the individual bank, the credit card presents a difficult management choice of whether or not to enter this field. If the bank does decide to enter, then there are critical operational problems created by the issuance and control of cards. And while these problems can be costly and difficult to resolve, the trend is toward greater bank participation in this or similar credit programs. After all, cards can be very profitable, and besides they may be necessary as a defensive reaction to a competitor's program.

In the overall banking system, credit cards currently absorb only a small part of total bank resources, and they are not yet an essential banking service. Partly for this reason, the most important policy tasks of the regulatory agencies at this time are likely to be in supervision — to insure that there are proper credit standards — and in market structure — to preserve the ability of small banks to compete in this area — rather than in the area of monetary control. All in all, the bank credit card may create difficulties for individual banks, but its recent growth testifies to its ability to provide a useful and popular banking service.

*Robert Johnston*

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# Time-Deposits Trends

**T**IME and savings deposits rose sharply as monetary policy eased during early 1967, but growth was more striking in other areas of the country than in the Twelfth District. The strengthening of deposit flows shows up clearly in a detailed Federal Reserve survey of member-bank deposits conducted in late April. More recent (but incomplete) data indicate a continued expansion of deposits — and if anything, an acceleration in some deposit categories.

## Passbook savings

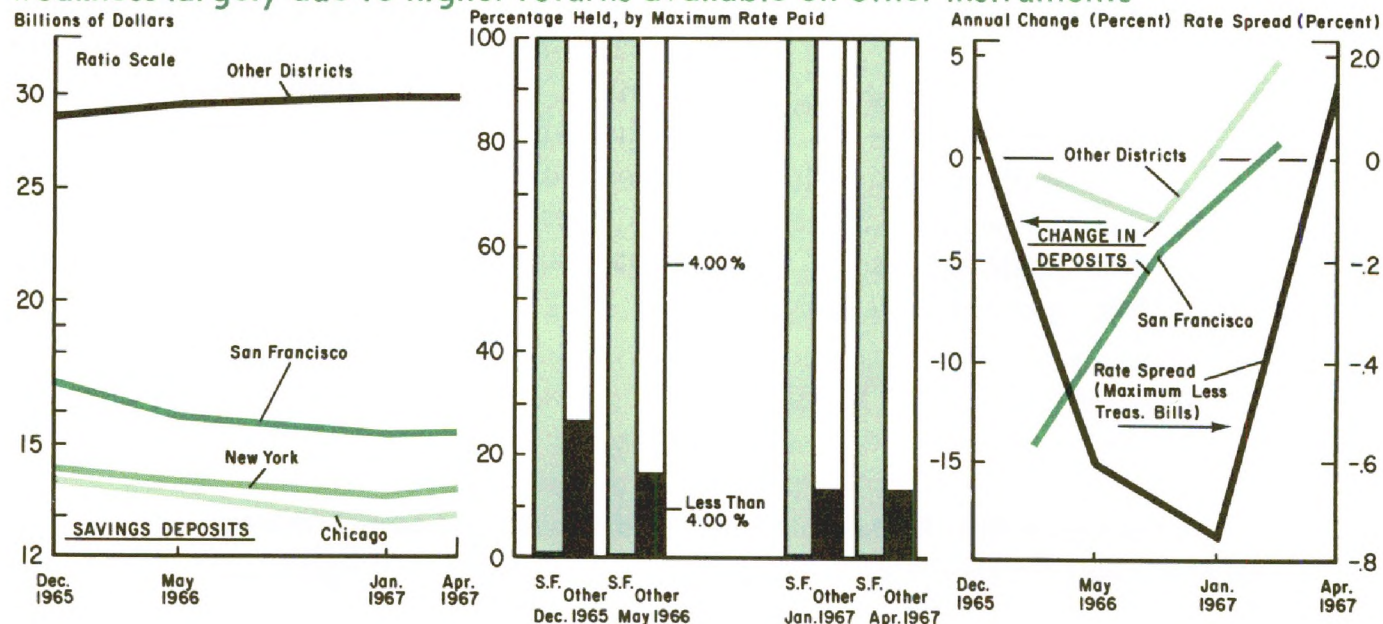
Savings deposits increased throughout the country between late-January and late-April '67, in sharp contrast to the 1966 experience. In this District, passbook savings rose at close to a 1-percent annual rate, to \$15.4 billion, whereas elsewhere they increased at a 5-percent annual rate. The slower regional rate of growth, following a greater-than-national decline last year, caused a slight reduction in the District's share of such deposits — from 23 percent in late 1965 to 21½ percent this past spring. Even so, the

San Francisco District still boasted the largest volume of passbook-savings activity.

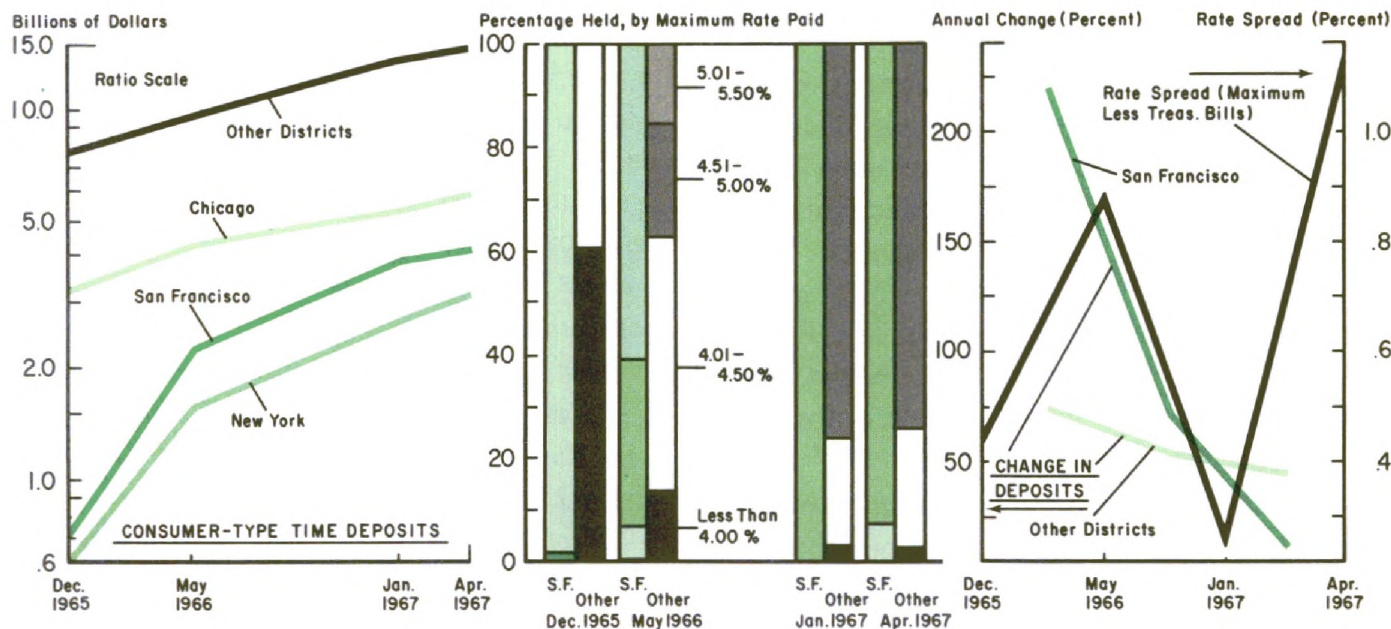
The District share declined despite the fact that District banks tended to pay the 4-percent ceiling rate on practically all (99 percent) of their savings deposits, not only during the late-April survey but also at the time of each preceding survey. In contrast, banks elsewhere paid below the maximum 4-percent rate on 13 percent of their deposits this past January and April.

The inflow of funds into savings this year, like the substantial outflow during 1966, reflected the sophisticated response of savers to interest-rate considerations. During 1966, the 4-percent ceiling rate lagged behind other deposit rates and behind market rates (such as the Treasury-bill rate), and funds consequently flowed out of such deposits. During the early part of this year, on the other hand, as the easier tone in the market brought the bill rate below 4 percent, savers again began to see the attractions of the traditional passbook form of savings.

## Inflow into passbook savings improves after 1966 decline . . . weakness largely due to higher returns available on other instruments



**High rates stimulate sharp expansion of consumer-type deposits . . .  
West offers highest rates, so West outpaces nation until recently**



**Consumer-type time**

Consumer-type time deposits continued to expand rapidly in all Districts during the most recent survey period, although the growth was not quite so explosive as it was during 1966. These deposit instruments, all under \$100,000, include savings certificates, savings bonds, and other negotiable and non-negotiable instruments, as well as time deposits on open account.

The San Francisco District posted a 22-percent annual rate of gain in such deposits during January-April 1967 — only half the rate of gain reported elsewhere. But in earlier survey periods, covering roughly the first and second halves of 1966, consumer-type deposits in this District increased at annual rates of 218 and 72 percent, respectively — far greater gains than those reported elsewhere. With deposits of \$4.0 billion on the books this past April, the District's share of the total thus was 14½ percent as against only 6 percent in December 1965.

The rapid growth of consumer-type deposits reflects the higher return available

from them than from passbook savings. After rate ceilings were first raised above 4½ percent in December 1965, District member banks on successive survey dates paid maximum rates of over 4½ percent on 93 percent of their deposits. (In fact, prior to the Federal Reserve rollback of rate ceilings last summer, they paid over 5 percent on 60 percent of their deposits.) Yet, all this time the ceiling rate on passbook savings remained at 4 percent.

In the rest of the nation, member banks have consistently paid a lower maximum rate on consumer-type deposits than have their Western counterparts. This April, for example, they paid over 4½ percent on 74 percent of such deposits. Yet in the latest survey period, with consumer-type deposits as with passbook savings, they increased their deposits faster than District banks despite a lower structure of deposit rates. But the Western banks' performance was affected of course by the higher rates offered by the highly competitive savings-and-loan associations in this region.

**Business-type time**

Business-type time deposits, especially the large-denomination time certificates of over \$100,000 denomination, posted mixed results during each of the survey periods. New York, which accounts for about two-fifths of such deposits, experienced large declines in late 1966 and early 1967, but other Districts—especially San Francisco and Chicago—meanwhile posted substantial gains. (This summer, however, major New York banks recorded a very large increase.) San Francisco, with \$3.1 billion on the books this past April, at that time accounted for 18 percent of business-type deposits.

This District overshadowed the national performance during each survey period, despite a gradual slowdown in its rate of growth. In two survey periods last year, it posted 49-percent and 29-percent annual gains, respectively—far in excess of the national growth—and in January-April 1967, it posted a 9-percent annual gain at a time when the New York decline was causing a net decline nationally.

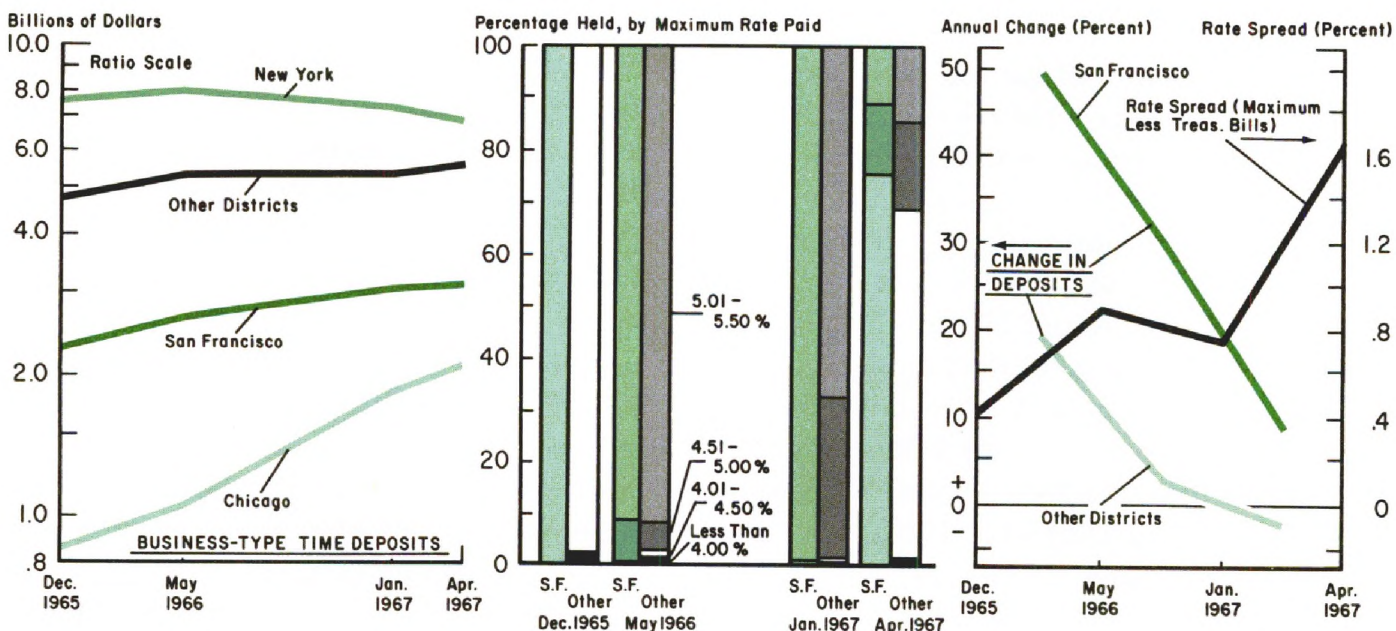
The slower District growth this year re-

flected a reduction in rates offered on large CD's. Maximum rates of over 5 percent were paid on 99 percent of such deposits on the January survey date, but on only 12 percent of such deposits in late April. (In April, maximum rates of 4½ percent or less were offered on three-fourths of the total.) The same downward shift in rates was evident elsewhere; maximum rates of over 5 percent were paid on 67 percent of CD's in January, but on only 15 percent of such deposits in April.

The spread between the ceiling rate on CD's and the Treasury-bill rate widened to 165 basis points in April, but the reduction in *effective* CD rates and the continued competition for funds affected the inflow into business-type deposits. The San Francisco District, as mentioned above, reported a slowdown in its inflow early this year. Most notably, New York suffered a 27-percent annual rate of decline in the January-April period—a decline more than twice as great as the one it recorded during the 1966 tight-money period—before staging a sharp turnaround this past summer.

*William Burke*

**Western banks attract increasingly large share of business-type deposits . . . slower growth in early '67 reflects rate reductions on large CD's**



# Brushfire: Korea vs. Vietnam

**T**HE nation is now involved in its second limited war of the last 15 years. In each case, military requirements reached beyond existing inventories of military personnel, materiel and equipment to utilize some of the nation's general resources, including those that had to be bid away from civilian use.

Military actions became significant, in 1950 and again in 1965, when the national economy was already at a high level of activity. Some slack was available both times—more so at the time of Korea than Vietnam—but manpower and machinery were fairly well utilized before either of these military actions got underway. World War II, in sharp contrast, began when the nation was operating well below its potential.

In mid-1950, when full-scale invasion of South Korea brought an end to an uneasy peace, 87 percent of the nation's manufacturing capacity and all but 5.4 percent of its labor force were already being utilized. In mid-1965, when escalation of the Vietnam conflict took place after several years of limited American involvement, 89 percent of the nation's manufacturing capacity and all but 4.6 percent of its labor force were at work.

## Towards full utilization

During that earlier brushfire war, military expenditures of the Department of Defense rose from \$12 billion in fiscal 1950 to \$44 billion in fiscal 1953. During the present conflict, DOD spending has risen from \$46 billion in fiscal 1965 to perhaps \$76 billion in fiscal 1968. (Thus, outlays attributable to Vietnam have jumped almost \$30 billion over the last several years.)

Although the dollar increases are comparable, the overall burden was larger in the Korean conflict of 1950-53. Military ex-

penditures then increased from 5 to 12 percent of the nation's output of goods and services, whereas spending now has risen from 7 to 10 percent of GNP. Also, in the first two years of armed strife, the armed services expanded from 1.5 to 3.6 million men in the Korean war and from 2.7 to 3.4 million in the Vietnam war. Besides, it must be remembered that in the interval between the two conflicts the civilian labor force increased about one-fourth and manufacturing capacity practically doubled.

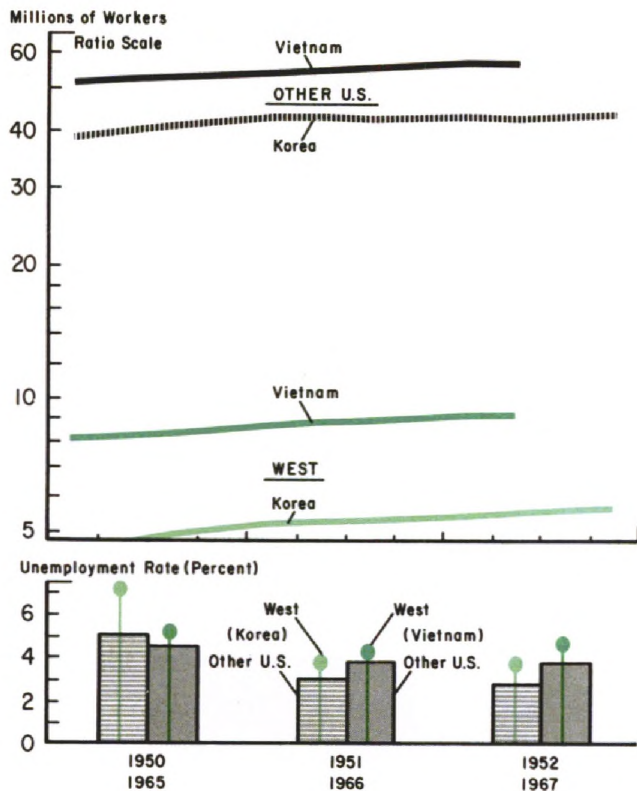
Because of the larger buildup during the Korean conflict, the movement of civilians into the military services was greater then than now. Moreover, the military at that time relied more heavily on those who were likely to be in the work force, such as reservists and National Guardsmen, whereas the military today depends on the conscription not only of workers but of many who are outside the labor force. Consequently, the unemployment rate dropped more steeply during the Korean conflict, from 5.4 to 2.5 percent, as against a downtrend of 4.6 to 3.9 percent during the present war.

## Korea: three stages

A detailed examination of the Korean-war period reveals a sharp expansion of employment paralleling the expansion of military demand. Rising civilian demand of course played an important role in GNP and employment growth, but a sizable share of the increased labor requirement was attributable directly or indirectly to the war effort.

Nonfarm employment rose substantially between June 1950 and June 1953. National employment increased at a 4-percent annual rate during this period and Western employment increased at a 6½-percent rate, with strong gains being reported by almost every industry. Aircraft plants, especially in the

## Korean period displayed faster rise in jobs, faster decline in jobless



West, added workers at a much faster rate than did other installations. Employment gains were notable throughout Twelfth District states, but (Southern) California, Idaho, and Nevada expanded far more rapidly than others. This expansion largely reflected the West's increasing share of DOD contract awards, from 16 percent in fiscal 1951 to 22 percent in fiscal 1953.

The first stage of the conflict, between June 1950 and April 1951, was marked by sharp employment gains—especially in the West, which grew 50 percent faster than the rest of the nation. This rapid expansion was made possible by the greater slack then available in the Western economy; in June 1950 the jobless rate in the District was 7.6 percent, as against 5.4 percent nationally. Moreover, the expansion was made possible by accelerated migration into this region; California, for example, had 73 percent more immigrants in fiscal 1951 than in the preceding year.

The second stage, between April 1951 and April 1952, was marked by a slowdown in Western growth and by the stabilization of employment elsewhere. Nationally, activity declined in the auto, textile, and furniture industries, but these industries were relatively unimportant in the West's industrial structure. In this region, meanwhile, employment in aircraft plants continue to increase sharply, but activity declined in the construction and lumber industries, in part because of Federal Reserve restrictions on mortgage lending.

In the third stage of the conflict, between April 1952 and June 1953, national business activity became stronger and at the same time more diverse, being concentrated in other industries than aircraft. Regional business activity also accelerated, but most of the growth occurred in California, since a continued slowdown in construction and lumber hampered the further expansion of the Northwest economy.

### Vietnam: two years

In the Vietnam conflict, nonfarm employment rose substantially between June 1965 and June 1967, increasing at a 4.1-percent annual rate in the nation and at a 4.3-percent rate in the West. The West's slightly faster rate of growth was made possible, just as before, by the greater slack already existing in the regional economy; the jobless rate in June 1965 was 5.5 percent in the West as against 4.5 percent elsewhere. The faster Western pace was also made possible by continued in-migration, although the migration rate in the last several years was lower than it was during either the Korean conflict or the early 1960's.

The growth of employment, during the present conflict as during Korea, has depended heavily on the aircraft sector. Growth has been most notable in the Seattle area; here an aerospace expansion, based on the commercial-aircraft boom as well as on Vietnam

demands, has stimulated the expansion of many other industries. (Construction, for example, has been strong in Seattle but very weak in other Western areas.)

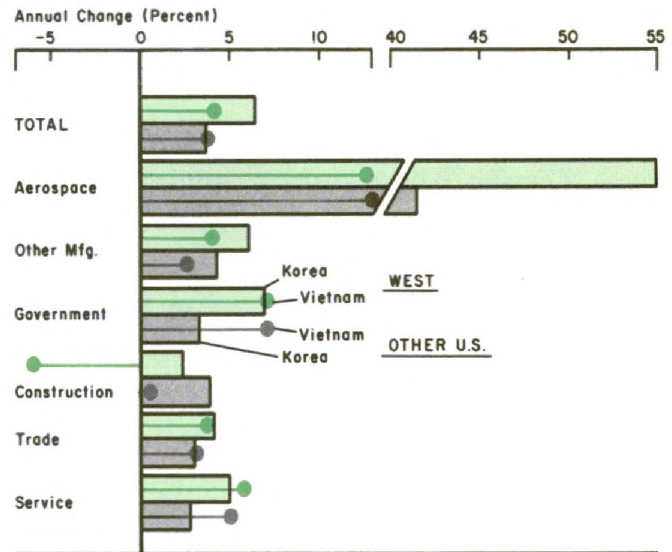
Perhaps the most notable aspect of the recent period, however, has been the failure of the West to outstrip other areas as it did during the Korean period. In the present conflict, the West's share of DOD contract awards has actually declined, from 27 percent of the total in early 1965 to 20 percent in late 1966. Moreover, expansion has been hindered by production problems in plants producing commercial aircraft. In those installations, the delivery of engines and components has failed to keep up with orders, causing some retrenchment in hiring activity. This pause, coming at the same time as the recent weakening in business investment spending, has contributed to the first-half '67 sluggishness in the District's economy.

### Why the periods differ

The West's faster rate of growth during the Korean period was sparked by a greater gain in aircraft manufacturing. Of course that growth started from a very low level of activity, whereas the recent growth occurred when the aircraft industry was already booming because of commercial-jet orders. The regional aerospace industry has lagged slightly behind its national counterpart's 13-percent growth rate over the past several years, whereas it exceeded the national growth rate with a 55-percent annual gain during the Korean period.

The regional defense-manufacturing industry received a rising share of an increased volume of DOD contracts during the Korean period. Besides, it was able to take advantage of this increased inflow because of its reservoir of idle workers and manufacturing facilities. More recently, however, the industry has received a declining share of a rising volume of DOD contracts—and besides, has

## West, unlike nation, grew faster during Korean-war period



not possessed the same large reservoir of idle facilities as heretofore. Consequently, the rise in regional aerospace employment, although noteworthy, has failed to match the phenomenal growth of the earlier period.

In construction, activity was stimulated during the Korean period—at least during the initial stages of that period—by the region's need for housing and manufacturing facilities to handle the inflow of defense work and defense workers. In the last several years, on the other hand, the defense expansion came at a time when housing was overbuilt. Besides, with a reduced rate of in-migration, new demand for housing decreased except in such areas as Seattle, and with a reduced availability of money, mortgage funds all but disappeared.

In sum, business activity in the West has responded more slowly to Vietnam-war demands than it did a decade-and-a-half ago to Korean requirements. Thus, despite the many striking similarities between the two periods, the growth pattern has been somewhat more modest to date in the present episode.

Donald Snodgrass

# Western Digest

## Changes in Bank Credit

Commercial-bank credit declined seasonally by nearly \$250 million at large District banks during August, with the reduction divided about equally between loans and investments. Most of the loan decrease was due to sizable repayments by petroleum refiners, retail firms, and sales-finance companies. The bulk of the reduction in investment portfolios was in Treasury bills.

## Overproduction of Petroleum?

The flow of crude petroleum to District refineries has surpassed processing activity in recent weeks, and inventories of crude have consequently increased. Imports of foreign crude have outstripped year-ago levels, and increased supplies have also been received from Alaska and from domestic sources outside the District. . . . On the national scene, fears of overproduction have now replaced the earlier fears of shortage inspired by the Mideast crisis. After an initial upsurge in production, the Louisiana petroleum regulatory agency cut back production and the Texas authorities announced plans to follow suit. Soon thereafter, the Arab countries announced that they would resume oil shipments to this country as well as to Britain and West Germany.

## Farm Labor Developments

Although California's harvest season was nearing its peak, employment of temporary domestic workers declined 19 percent (30,000) below the year-ago figure during August. But because of the greater-than-usual bunching of harvests in early September, the California Farm Labor Service filed a request to import 9,625 Mexican nationals for harvest work, and the U. S. Labor Department eventually permitted the importation of 8,100 workers. Last year, 7,800 contract foreign workers were employed during the peak harvest period.

## Prolonged Copper Strike

Despite heavy production losses caused by the two-month-old shutdown of copper mines and refineries, the strike has had only a minor effect to date on the dealer and exchange markets. The spot quotation for the metal on the London Metal Exchange has risen only 3 cents a pound—from 45 to 48 cents a pound—since mid-July. This easiness reflects the fact that fabricators' stocks are still considered sufficient to meet defense and civilian demand. However, Administration leaders met with the major copper firms and union negotiators in early September in an effort to settle the strike before it endangers the defense program and the regional economy.