

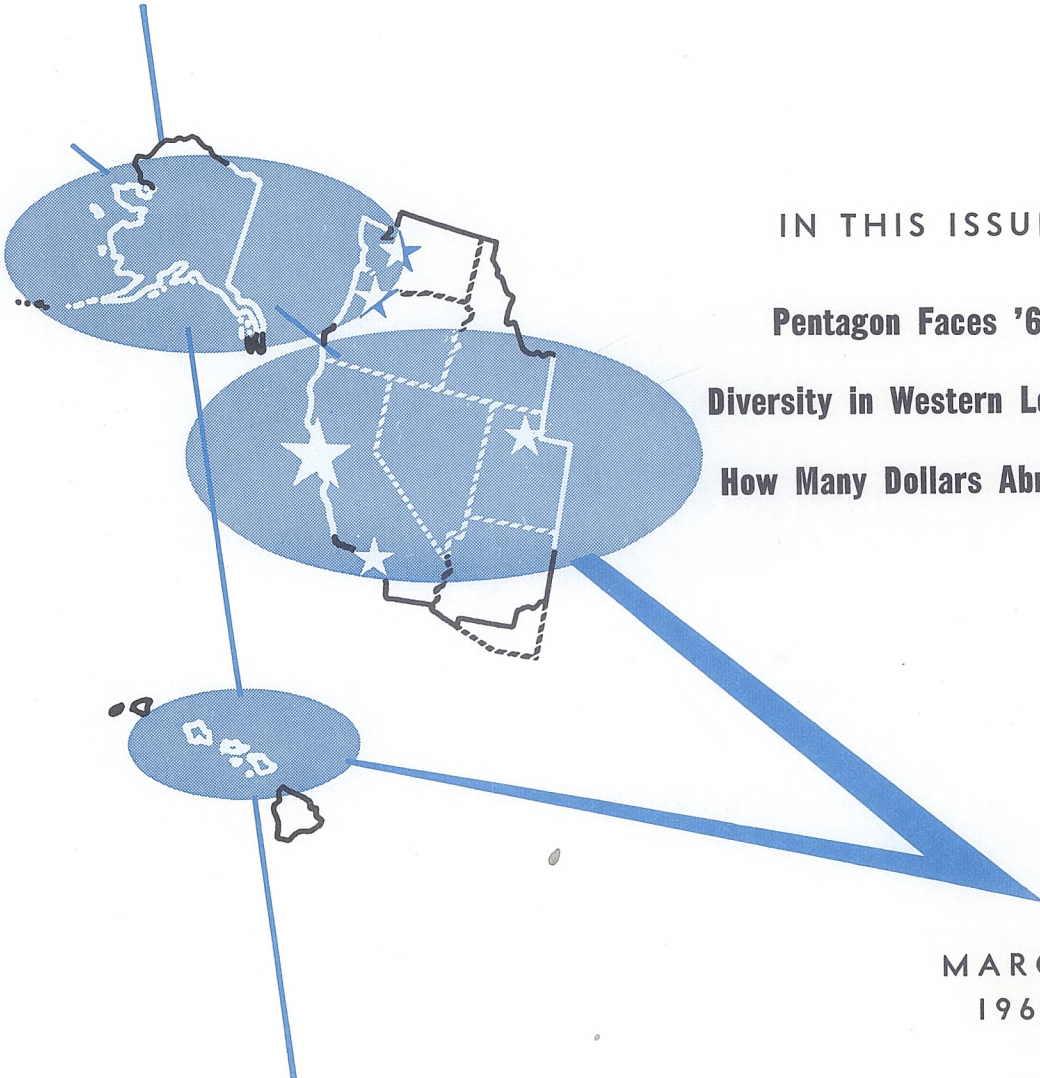
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MARCH
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Pentagon Faces '69

... The '69 spending figure may eventually exceed the World War II peak, as Vietnam and other crises generate increased pressures.

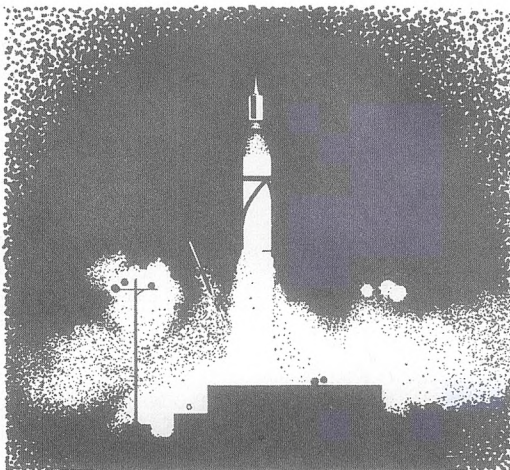
Diversity in Western Lending

... District states showed great diversity in their loan growth over the past decade, but all posted sharp gains in business loans.

How Many Dollars Abroad?

... The U. S. Government has sent about \$200 billion abroad over the past half-century, and private investment now totals \$90 billion.

Editor: William Burke



Pentagon Faces '69

A continuation of the rising trend in Pentagon spending appeared certain even before the recent intensification of the East Asian war, as the President's budget message proposed a \$3.3-billion increase for fiscal 1969 (to \$79.8 billion) on top of the \$6.4-billion increase expected in the current fiscal year. The 1969 total includes \$25.8 billion for Vietnam—with troop strength of 525,000 men in that theater—plus about twice that amount for a huge shopping list ranging from shoes to ships to the most sophisticated types of electronic gear.

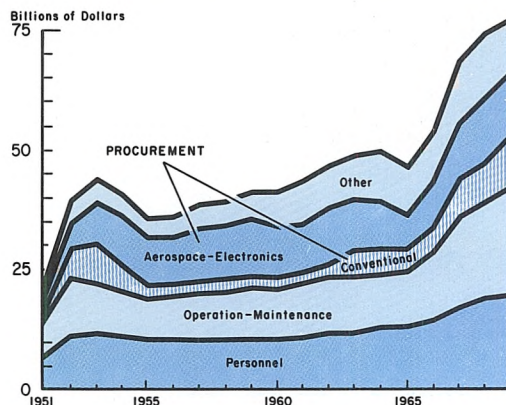
The figures are necessarily inexact, since no one can forecast the prospects for peace or war in this uncertain world of ours. In the last two fiscal years, for instance, midyear budget-review estimates showed increases of \$7 and \$13 billion, respectively, over the initial estimates of defense spending. Moreover, in a period when Pueblo and Hué citadel become household words overnight, it may be unrealistic to assume, as this latest budget does, that the armed forces will actually decline between June 1968 and June 1969. In fact, it is not at all unlikely that the '69 spending figure will exceed the figure reached at the peak of World War II.

Continued pressures

Even in its present tentative form, the defense budget indicates continued pressure on the nation's resources—from docks and airfields to Red Cross and USO facilities—but the pressures are felt most strongly in the defense-manufacturing sector. Between mid-1965 and late 1967, employment in "defense-related" manufacturing jumped almost 40 percent in Western states, to 780,000—far above the Cold War peak of the early 1960s—and rose about 25 percent elsewhere, to 1,071,000—not far below the Korean war peak.

These sharp gains are due not only to escalation but also to such factors as the changing mix of the defense budget and the continued boom in civilian aircraft. When the budget calls for increases in conventional-war ordnance and troop supply, the strongest stimulus is felt in the heavy manufacturing centers of the Northeast and Midwest. When the budget calls for sophisticated weapons, electronics, and research and development work, the strongest stimulus normally is felt in the West. In the present situation, then, the West not surprisingly has garnered less

Defense spending due to rise after third year of Vietnam war



than one-fourth of total military contract awards, as against a one-third share during the missile-R&D boom of the early 1960s. But employment in "defense-related" industry nonetheless has boomed in this region, aided by a strong expansion in recent years in the civilian-aircraft side of the business, which is not separated from the military side in the employment statistics.

Conventional: strong uptrend

The 1969 budget document emphasizes conventional-war spending, which is scheduled to rise about 10 percent over the present year's level. In comparison to the pre-escalation levels of fiscal 1965, spending for active-duty personnel should jump 50 percent to \$19.6 billion, and deployment and house-keeping for those troops (operations and maintenance) should almost double to \$22.3 billion. Similarly with hardware: in relation to 1965 levels, procurement of ordnance and vehicles should rise fivefold to \$6.4 billion, and procurement of other conventional equipment should almost double to \$4.0 billion.

The budget is predicated on a stabilization of the Vietnam commitment with manpower of 525,000 and costs of \$25.8 billion, but

recent developments suggest that the Vietnam spending estimates may again be too low. The budget may also be boosted because of Congressional disapproval of the Pentagon's tendency to live off its inventories while fighting a full-scale war. (The budget document shows a \$3-billion reduction in stocks for a wide range of military items.) In the same vein, when the President revealed that he had cut out about \$20 billion of Defense Department requests, he noted: "We may have to put some of them back."

In the procurement field, the Navy shows a sharp increase in spending for new ships in 1969. Included in this total are funds for five destroyers of a new design; the expectation is that an eventual order for hundreds of such ships could go to large builders, resulting in a standardization of ship design and a much-needed modernization of shipyards. The budget also asks for the first four of an eventual 30 fast-deployment logistic ships, that is, floating warehouses of heavy equipment to be stationed near potential trouble spots throughout the world.

Sophisticated: mixed trends

While the budget document is heavily weighted in favor of conventional-war spending, it shows rather mixed trends in the more sophisticated areas. Taken as a group (along with the civilian space agency), this sector shows hardly any increase in spending over the 1968 level. Procurement of military aircraft, which increased 40 percent over the last two years to \$9.4 billion, is now scheduled to drop to \$8.9 billion in the next fiscal year. Spending for research, development, test and evaluation—R&D for short—after recovering to \$7.2 billion in the present fiscal year, is now scheduled to rise further to \$7.8 billion. While spending for missiles and electronics similarly should rise from \$3.5 billion to \$4.1 billion, it will undoubtedly remain far below its earlier peak.

Sharp increases are budgeted for the R&D and procurement costs of the Sentinel anti-missile defense, the Minuteman land-based ballistic missile, and the Poseidon submarine-launched ballistic missile. The Sentinel is a "thin" anti-missile system adopted by the Administration last September for defense against the potential Chinese threat of the 1970s. The Minuteman project involves the deployment of Minuteman III, an advanced version of a solid-fueled missile with multiple war-heads designed to overwhelm Sentinel-style defenses, and also involves the "super-hardening" of the silos where the 1,000 ICBMs are now deployed. The Poseidon project, meanwhile, calls for the beginning of conversion work on the 41 Polaris-type submarines so that they can carry advanced missiles.

Several major projects are now in the contract-definition stage, that is, the pre-procurement stage which determines the size of purchase and choice of contractor. The new budget anticipates contract definition for the F106X, a new interceptor to replace the now obsolescent F106. This project would be developed in conjunction with R&D for a new

airborne radar system to detect the approach of "bogies" at great distances. The budget also anticipates contract definition for over-the-horizon radar—a warning system able to detect missiles immediately after firing, prior to their rising above the horizon.

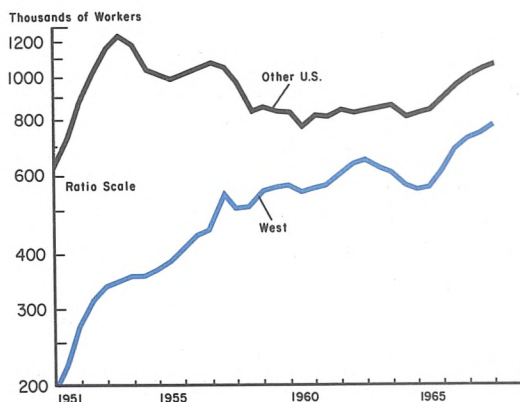
Aircraft procurement for fiscal 1969 may decline in dollar volume while rising in numbers, since relatively inexpensive helicopters will account for the bulk of the purchase orders. Almost one-fourth of the dollar volume is allocated to the F111, the controversial swing-wing plane which has been heavily criticized by Congressional committees and Navy admirals over the last several years, but substantial amounts will also be spent on the C5A cargo transport and assorted subsonic attack planes and supersonic fighter planes.

Out of orbit

The 1968-69 Western economy will be affected by the still-rising trend of defense spending and by the changing mix of the Pentagon budget. At the same time, it will reflect the problems of the civilian space agency, which has been stymied by budget pressures from the military side. NASA spending—which jumped from \$0.4 billion to \$5.9 billion in the 1960-66 period—dropped to \$4.8 billion in fiscal 1968, and is scheduled to show a further decline to \$4.6 billion in the next fiscal year. As an indication of these budget pressures, the Air Force is due for a \$200-million increase for the development of the manned orbiting laboratory—a space platform scheduled for launching in 1971—while NASA will suffer a \$450-million decline in outlays for the Apollo program.

Proposed NASA projects include development work on four unmanned scientific probes which will search for signs of life on Mars in 1971 and 1973. (Congress deleted the spending item for this Voyager program from the 1968 budget.) The space agency also hopes to obtain four advanced Saturn

Defense-related jobs rise sharply in West, reflecting aircraft boom



rockets in the 1970s for man-on-the-moon flights and prolonged earth-orbiting journeys; the "Apollo applications" scheduled for after the 1969 lunar landing would have astronauts orbiting for up to a year in order to study the sun and other stars.

Nonetheless, NASA's present reduced circumstances have forced its industrial contractors to reduce employment fairly substantially. Total employment in the space sector, now at about 300,000, may decline by 4,000 a month during the present year.

Up into the stratosphere

On the other hand, the Western-oriented aircraft industry is still booming as a consequence of the heavy demand from U.S. and foreign airlines as well as the upsurge in military requirements. (But military aircraft pro-

duction is shifting elsewhere; the District share of contract awards, at 11 percent in fiscal 1967, has been halved in the last five years.) Total industry shipments have practically doubled in the last several years, reflecting the 1966 peak in new orders, but the order inflow has been so great that backlogs—at \$15.7 billion in late 1967—have almost tripled in the same time-span.

Still, the aircraft industry's future may be somewhat murkier than these backlog figures indicate. The military, as noted above, plans to cut its spending in this sector in the next fiscal year. Moreover, many congressmen object to the projected budget increase for the supersonic transport, and foreign airlines might reconsider their orders for U.S. aircraft in light of the Administration's plans to hobble tourism abroad.

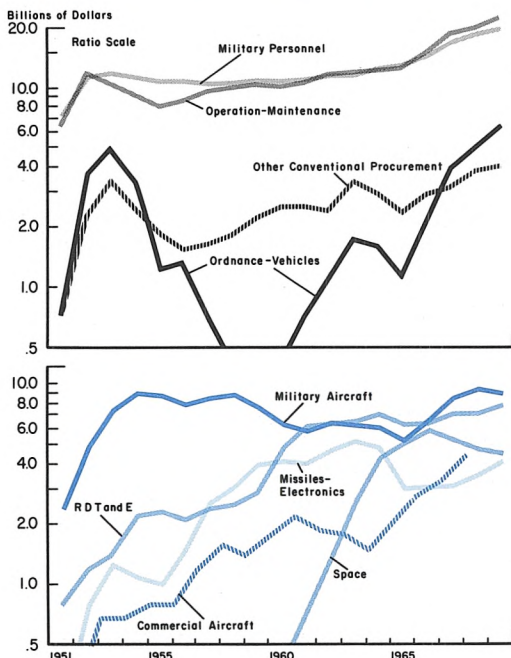
Inside profit statements

The trend of business for individual defense contractors, in the West and elsewhere, will depend on whether they are concentrated in those fields where activity is now strongest, such as conventional-war supply and commercial-aircraft production, or whether they are tied to those sectors where activity is declining. Their earnings will also depend on their relative concentration in military as against civilian work, since, as a recent DOD report suggests, the profit picture is somewhat different in those two fields.

In this Pentagon study, 65 participating defense contractors reported that their profit/sales ratio on defense business dropped from 2.7 percent to 2.4 percent between 1958 and 1966, whereas their profit ratio in commercial business rose from 3.4 to 5.0 percent over the same time-span. These firms also showed similar trends in the ratios of profits to capital investment.

The study showed that capital requirements of defense contractors have risen faster than their sales, reflecting the DOD

Conventional-war spending soars but other categories remain mixed



shift from cost-reimbursement to fixed-price contracts, which means that the Pentagon no longer absorbs all contractors' costs as incurred. The survey respondents thus reported some dissatisfaction with fixed-price contracts, which have risen from 57 percent to 79 percent of total DOD contract volume in the present decade alone. In response to these protests, the Pentagon recently boosted progress payments—the amounts paid out prior to contract completion—from 70 percent to 80 percent of total costs.

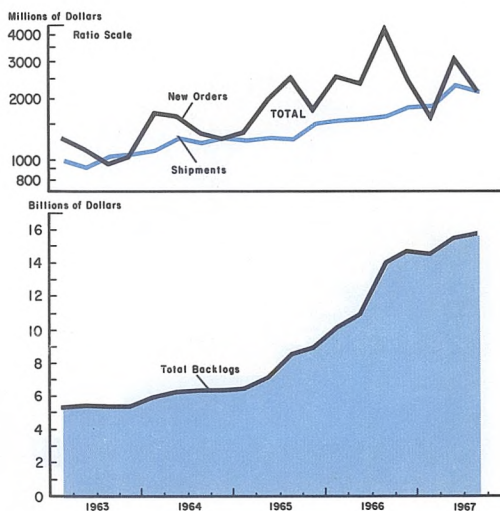
Before (and after?) Vietnam

The 1969 budget document shows a vast expansion of military capability since 1961—partly but not completely because of Vietnam. Over that period, the Army has increased the number of combat-assigned divisions from 11 to 16, the Navy has increased the funds available for general ship construction and modernization by over 60 percent, and the various services have recorded a 100-percent rise in payload capability of fighter and attack planes, a 185-percent increase in the number of strategic nuclear weapons, and a 400-percent increase in fixed-wing airlift capability.

With this much accomplished, the Administration recently has set an interagency study group to work on the problem of the post-Vietnam future. In its recent annual report, the Council of Economic Advisers noted that, just as a sharp buildup in war spending has raised stabilization problems for the economy, so too will any cutback in spending. Moreover, the task of reconversion could be complicated by the uneven impact of defense cutbacks on various regions, industries, and types of manpower.

Much would depend on the timing and magnitude of the phasing-out of the Vietnam war. If, for example, defense outlays in real terms should return to the level of 1963-65, the armed forces could decline by 50,000 a

Despite rising shipments, aircraft backlogs triple within brief timespan

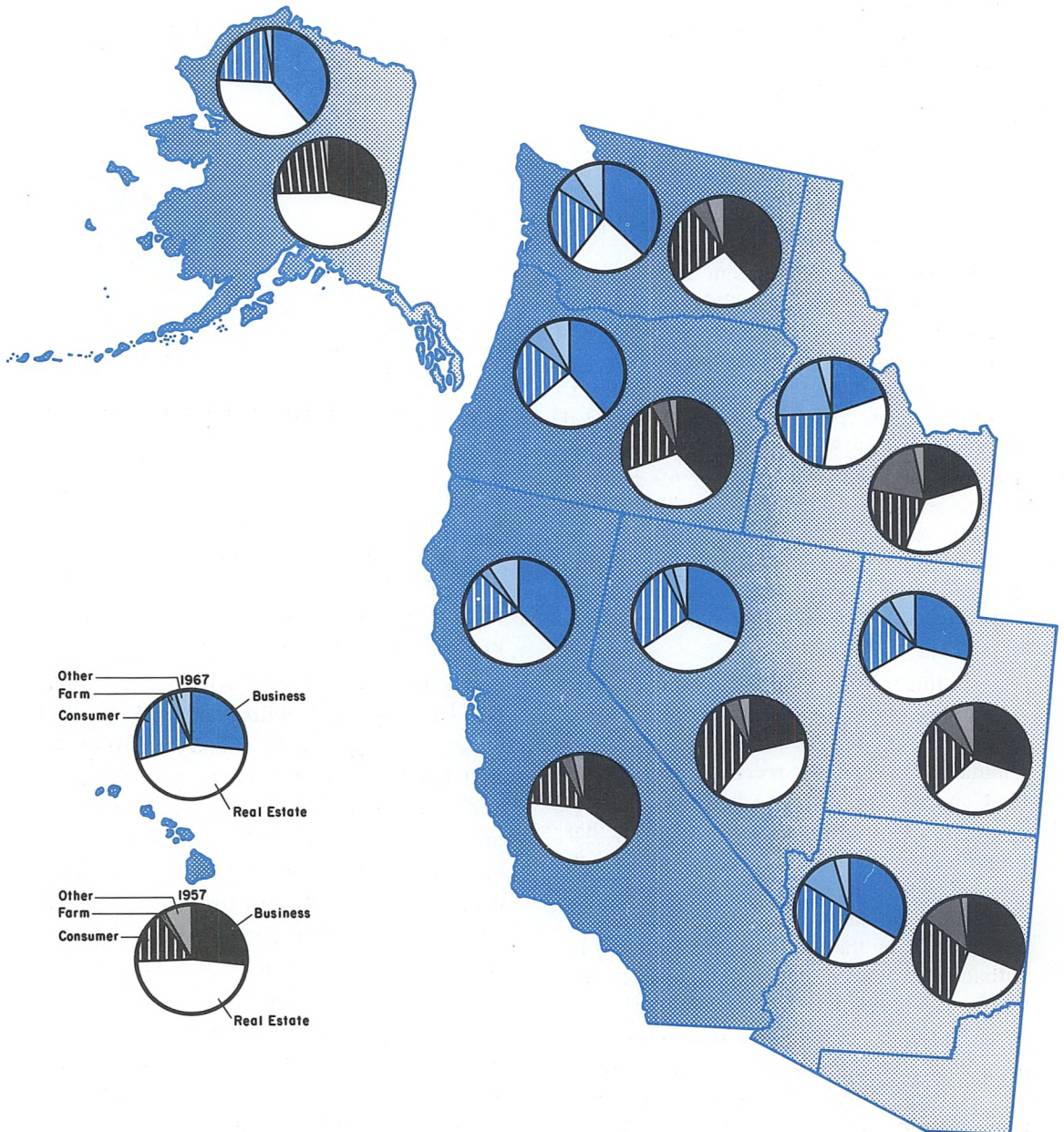


month over an 18-month period to a pre-Vietnam level of 2.6 million. Even allowing for those returning to school, this could mean an extra 400,000 a year entering the labor market in addition to the usual net annual increase of 1.5 million new workers.

The reduction in outlays in this hypothetical 18-month demobilization period could amount to \$5 billion in military payrolls and \$10 billion in procurement and operations and maintenance. These freed resources naturally would be available for civilian use, but—according to the Council's analysis—if no steps were taken to strengthen demand for civilian output, the reduction in the Federal contribution to activity could have a strong recessionary impact. Unlike the present period, then, when a major defense boom counsels fiscal and monetary restraint, that happy future day of reconversion could again call for expansive policy actions.

William Burke

Commercial Bank Loans ... 1957 and 1967



Diversity in Western Lending

Western bank lending increased one and one-half times in the last decade. This says a great deal, but it fails to indicate the great diversity within the regional banking picture. Aggregate data, which are heavily weighted by California, somewhat obscure the variations among the other eight states in the Twelfth District, in terms of loan expansion and shifts in the allocation of loan funds.

From June 1957 to June 1967, total loans (less loans to banks) increased 144 percent at insured commercial banks in District states, but individual state gains ranged from 113 percent to 285 percent. (In the rest of the nation, the overall increase was about equal to the District increase.) Alaska, Arizona, Nevada and Hawaii all recorded very sharp increases, and Idaho was close to the regional and national norm. Banks in three other states—Utah, Washington and Oregon—fell significantly below the regional average, which, of course, approximated that of California banks because of their two-thirds share of total District loans.

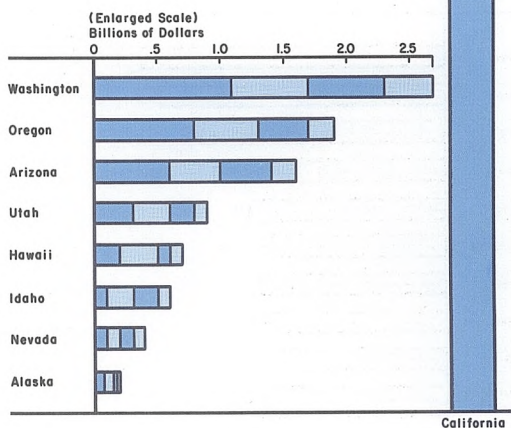
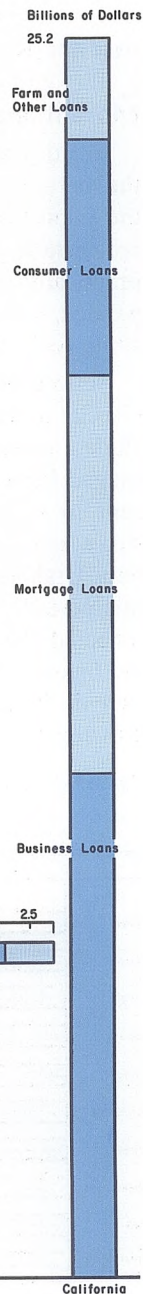
Small states gain most

Not surprisingly, the states with the greatest percentage increases in loans were those with the sharpest gains in employment and, except for Alaska, also those with the fastest rates of gain in population and personal income. Moreover, they were among the less populous states and the ones most distant from the major industrial centers. (It should of course be noted that in those states which began the period with relatively low absolute levels of loan portfolios, small dollar increases in loans produced large percentage gains.)

The states with slower loan growth, conversely, tended to be those with slower-than-average growth in the economic variables. Washington and Oregon were seriously affected at one time or another by reductions in lumber production and demand and, along with Utah, by reductions in aerospace activity. The 1957-67 decade, however, was not all of a piece; Washington and Oregon were among the fastest growing states in the latter part of the period, while Arizona and Nevada retreated from their earlier more rapid pace.

Despite the wide variation in growth patterns, relative standings by loan volume were

California dominates all loan categories at Western banks



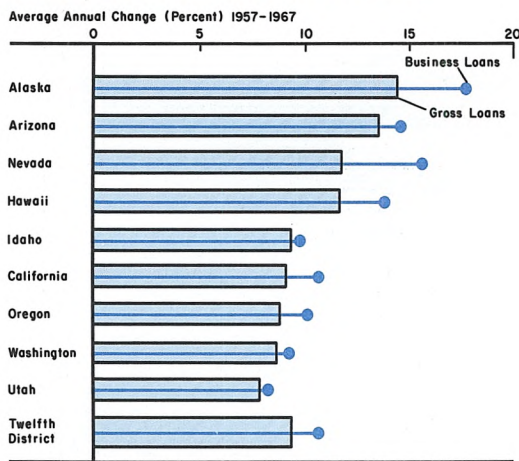
almost unchanged between 1957 and 1967. Hawaii replaced Idaho as the sixth largest state in terms of total loans and other shifts in rank occurred among states for individual loan categories. However, no state moved more than two places in any lending category over the ten-year period.

More money for business . . .

In most states loan profiles changed over the period as substantial shifts occurred in the allocation of funds among the business, real estate, consumer, and farm sectors. In practically every state, business loans expanded more rapidly than other categories while real-estate loans grew more slowly.

Between 1957 and 1967, increases in commercial and industrial loans (adjusted to include loans to sales-finance companies) ranged from 126 percent in Utah to 433 percent in Alaska. Four of the nine Western states had gains of 200 percent or more, and only Utah fell below the national pace over this period. The upsurge in business lending reflected the expanded credit demands—for the financing of new plant and equipment as well as inventories—generated by the fast-growing Western economy.

Business loans show sharpest gains, especially in small District states



In June of 1957 business loans were the largest loan category in only three states (Washington, Oregon and Arizona), and in only two of these did business loans account for over one-third of the total. But ten years later business loans were the largest category in five states, and in three states they accounted for over 40 percent of total loans.

. . . and less for mortgages

But while banks were directing relatively more funds into business they were allocating relatively smaller amounts to real-estate credit. Mortgage lending was the dominant category in six of the states in 1957, but in 1967 it was clearly dominant in only two states and was slightly larger than the business-loan category in two others. In spite of sharp gains in the dollar volume of mortgage holdings, each state (except Utah) had a smaller proportion of its outstanding loans in mortgages in June 1967 than it did a decade earlier. The two states—California and Hawaii—that were relatively most committed to the real-estate sector at the beginning of the ten-year period were among the states recording the greatest reductions in the mortgage share over the decade.

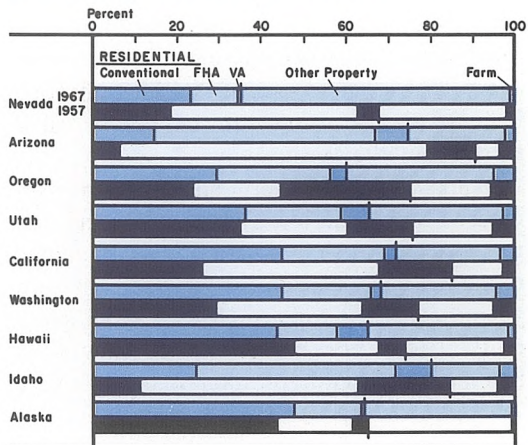
A number of factors influenced the reduced allocation of bank funds to the real-estate sector. Many banks curtailed their residential lending in the mid-1960's when over-building conditions became apparent, and when a slowdown developed in the inflow of savings deposits, which are generally earmarked for long-term mortgages. Conversely, the three states (Arizona, Nevada and Alaska) that had the fastest rate of growth in savings also posted the largest percentage increase in mortgages during this timespan.

Moreover, there was intensified competition for mortgages during the 1957-67 period; in almost every state (at least during the early part of the decade) savings-and-

loan associations expanded their mortgage holdings far more rapidly than banks, reflecting a faster inflow of savings into these institutions. Of course, bank loan portfolios were severely affected towards the end of this period by a mortgage-market crisis which was brought about by a sharp rise in business-loan demand, a reduced savings inflow, increased policy pressures on bank reserves, and reduced interest-rate differentials created by rising money-market rates.

Mortgage portfolios not only declined in importance between 1957 and 1967 but major shifts occurred in their composition. Residential mortgages remained the most important category, except in Nevada, but they grew more slowly than non-residential mortgages in every District state. The extremely rapid growth of commercial and industrial mortgages was a further reflection of the business and industrial expansion which took place during these years. The urbanization of the West also produced a reduction in the share of total mortgages which were secured by farm properties. Within the residential component, conventional mortgages assumed increasing importance as FHA and (especially) VA mortgages suffered from a competitive disadvantage resulting from the ceiling rates on federally-backed mortgages.

Mortgage portfolio composition shifts over ten-year timespan



In Hawaii data refer to 1960 and 1967.

Consumer, farm shares constant

Consumer loans ranked next to business loans in their rate of expansion. But their share of total bank financing remained fairly constant—except in Hawaii, where the consumer-loan share rose from 13 to 24 percent. Meanwhile, sizable shifts occurred within the consumer category over the ten-year period. Auto loans remained the dominant component at both points of time (except in Hawaii) despite a decline in their relative share.

PERCENTAGE CHANGE IN LOANS AT INSURED COMMERCIAL BANKS

June 1957 to June 1967

Gross Loans (Less loans to banks)	Commercial and Industrial Loans (Adjusted)	Real Estate Loans	Consumer Loans	Agricultural Loans (Excluding CCC)
Alaska 285	Alaska 433	Arizona 240	Hawaii ¹ 440	Hawaii ¹ 273
Arizona 253	Nevada 336	Alaska 204	Alaska 254	Arizona 232
Nevada 205	Arizona 296	Nevada 169	Arizona 225	Idaho 184
Hawaii ¹ 203	Hawaii ¹ 274	Hawaii ¹ 152	Idaho 193	Washington 184
Idaho 143	California 181	Utah 133	Nevada 171	California 178
California 140	Oregon 167	Washington 95	California 171	Alaska 167
Oregon 134	Idaho 161	Oregon 90	Oregon 119	Oregon 152
Washington 128	Washington 148	California 85	Washington 118	Nevada 88
Utah 113	Utah 126	Idaho 83	Utah 93	Utah 84
9-States 144	182	93	165	176

¹All operating banks in Hawaii included in 1957 data.

In 1957 they accounted for over one-half of the total in four states, but in 1967 they made up the majority in only two states, Oregon and Idaho. Over this decade, other installment credit loans became more important in every District state except Alaska, reflecting in part the growing use of credit cards throughout the West.

Banks in all Western states sharply increased their farm loans over the decade, but the agricultural share of total bank financing remained fairly constant. Farm loans in both years accounted for a relatively small share of total loan portfolios; in 1967 they were less than one-tenth of total loans in every

state except Idaho (20 percent) and Arizona (12 percent).

As the above indicates, the wide diversity in the Western economy has resulted in differences in the growth rate of bank loans and in variations in the application of loan funds. Aggregate loan data have consistently reflected, and will continue to reflect, the predominance of California. However, banking figures over time also depend on developments in other Western states—even some of the less populous states which have recently outstripped the more highly industrialized Pacific Coast states in their rates of growth.

Ruth Wilson

Computerized Communications System

The Federal Reserve System will install in late 1969 a computerized communications system with 40 times the speed and (initially) 10 to 12 times the capacity of the Federal Reserve's present teletypewriter-actuated leased-wire system. The specifications call for a communications system capable of being expanded to accommodate most intercity transfers of money from one checking account to another.

In its initial phase, the new network will not only handle the present traffic more efficiently but will also transmit a large volume of economic and banking data and, in addition, permit a vastly expanded system of fund transfers. The average daily number of transfers is presently about 21,500 and the average daily dollar volume of such transfers is in

excess of \$26 billion.

The new installation — like the present wire system — will at the outset link together in one communications network the Washington offices of the Board of Governors, the U.S. Treasury, and the 12 regional Federal Reserve Banks and their 24 branches spanning the entire country. The plans contemplate the subsequent linkage of computer-communications facilities operated by or on behalf of commercial banks, of which some 6,000 are members of the Federal Reserve System. This will enable a vastly expanded volume of wire transfers of funds directly from one bank to another — supplementing, and perhaps eventually replacing, the huge and rapidly growing volume of transfers of money by check.

Financial Ides of March

Gold rush of '68

The fateful fifteenth of March marked the climax of a headlong rush to convert U.S. dollars into gold in the London and Continental gold markets. The volume of trading in these markets was extremely heavy — as high as 300-400 tons on the most active day. The bulk of the gold supplies has come from the London Gold Pool, with the U.S. contributing 59 percent of the total.

In an effort to stem the rush, the seven London Gold Pool nations — the U.S., the U.K., Belgium, the Netherlands, Germany, Italy, and Switzerland — met in Washington March 16-17 to consider the gold crisis. The joint announcement from these central bankers signalled a distinct change in the role of gold in international trade and finance.

The new "rules of the game"

Under the system announced, the U.S. will continue to buy and sell gold at \$35 per ounce, but only to other monetary authorities. In effect, this action sets up two distinct markets for gold. The first would be the "official" market in which only monetary authorities participate and the price is set at \$35 per ounce. The second would be the "free" market, in which the forces of supply and demand on the part of industrial users and other holders will determine the gold price. The supply of gold in the "free" market will consist of gold already in private hands and accretions of newly mined gold.

The American response

The U.S. has taken a number of actions to defend the dollar in international markets. The statutory requirement of a 25 percent reserve of gold certificates behind Federal Reserve notes in circulation was repealed, making available the entire monetary gold stock of over \$11 billion for support of the dollar. On March 14, the Federal Reserve discount rate was raised from 4½ to 5 percent, reflecting a more restrictive monetary policy. And following the meeting of the central bank governors, the Federal Reserve announced an increase of about \$2.3 billion in "swap" agreements with foreign central banks and international institutions — an action that will also offset pressures against the dollar.

The new double-market system for gold does not offer a permanent solution to the current problems of the dollar. The cure depends on establishing a fundamental equilibrium in U.S. international accounts. The U.S. has simply bought time in order to achieve a resolution through means that are more prosaic but also more effective than changes in the price of gold.

How Many Dollars Abroad?

“They hired the money, didn’t they?”—Calvin Coolidge’s succinct contribution to the reparations controversy of the 1920’s—is being echoed by many citizens today as the restrictions necessitated by the nation’s balance-of-payments difficulties become increasingly stringent. But although this remark is eminently quotable, it may be somewhat beside the point, since it ignores the substantial benefits that this country as well as others have received from the massive American support of the world economy over the past half-century. At the same time, it is still relevant to measure the size of the world-wide commitment made by American taxpayers and investors during this history-making period.

Foreign aid, then and now

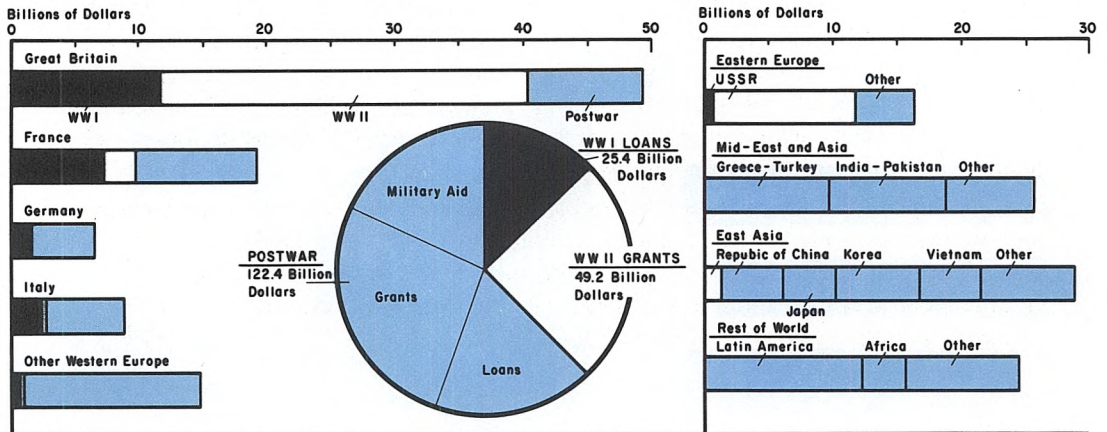
Official dollar outflows over the past half-century have amounted to about \$200 billion, according to a recent Library of Congress compilation. The total includes \$25 billion in World War I loans (roughly half of that

being accrued interest), \$49 billion in World War II grants, and \$122 billion in postwar loans and grants. In addition, U.S. private investment abroad now adds up to roughly \$90 billion, according to Commerce Department statistics.

The European nations received heavy U.S. Government support during the two world conflicts and during the Marshall plan era, but most official loans and grants made in more recent years have gone to the underdeveloped world. In the postwar period, the East Asia region, the Mideast-South Asia region, and the rest of the underdeveloped world have each received about \$25 to \$30 billion in aid. Eastern Europe obtained about \$16 billion, mostly of course during World War II.

On the other hand, four-fifths of the \$49 billion received by Great Britain and one-half of the \$19 billion received by France date back to the pre-1945 era. Italy’s \$9 billion, Germany’s \$7 billion, and other Western Europe’s \$15 billion are postwar figures, for the most part.

Most official dollar outflows due to postwar aid to underdeveloped world, but European aid concentrated in two world wars and Marshall Plan era



With its present balance-of-payments problems, and with taxpayers' long memories of these past outflows, the Administration has been hard put in recent years to maintain high levels of foreign-aid spending. In the 1969 budget document, the Agency for International Development requested \$2.9 billion in appropriations—\$2.5 billion economic aid and \$0.4 billion military—but a similar request last year was slashed by Congress to \$1.9 billion.

In presenting the latest budget request to the House last month, Majority Leader Albert used such phrases as “modest program,” “minimum we can do,” “obvious frugality,” and so on. Moreover, over 90 percent of AID funds will be spent for U.S. goods and services in the coming year (as in the last several years) and repayments of outstanding loans in fiscal 1969 actually will offset dollar outflows. Thus, according to the President’s message, “Ending foreign aid would not significantly improve the U.S. balance of payments, but it would adversely affect U.S. industries, workers, and farmers who are manufacturing, producing, and exporting aid-financed goods.”

Private outflow—and income

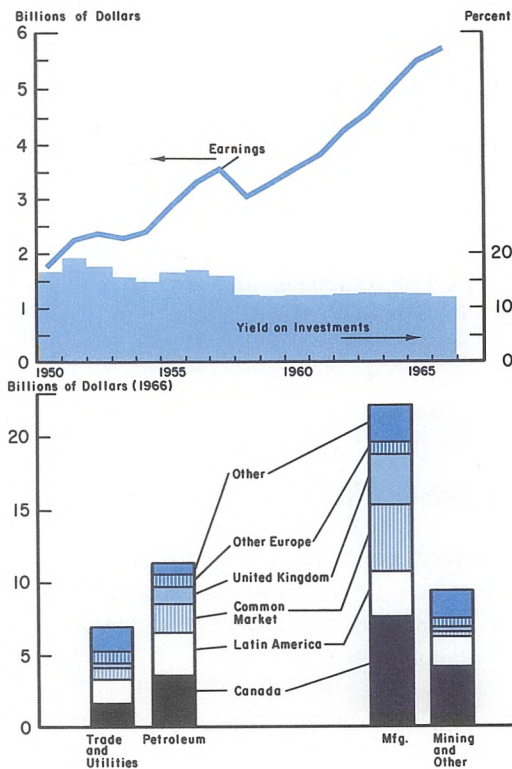
Private capital outflows, concentrated in the postwar period, have brought total private investment abroad to \$86 billion in 1966—more than four times the 1950 level. A little over one-third of the total is invested in Canada, slightly under one-third in Western Europe, and the rest in Latin America and elsewhere.

Great Britain and the Common Market countries account for almost one-half of the \$22-billion investment in manufacturing facilities. The Middle East accounts for the lion’s share of the petroleum industry’s \$16-billion investment, while the \$7 billion in

trade and utilities, and the \$9 billion in mining and other industries, are heavily concentrated in the Western Hemisphere.

Earnings on this massive investment have sharply increased over the years, from \$1.8 billion in 1950 to \$5.7 billion in 1966. In the latter year, Western Europe, Canada, and Latin America each accounted for one-fourth to one-fifth of the total earnings inflow. The average yield on the investment has tended to decline over the years, however. The peak return, 19.0 percent, was reached in 1951, but the average yield has hovered around 12.0 percent during the last decade, and in the last reported year (1966) it dropped to 11.5 percent.

Heavy private investment abroad generates sharp rise in earnings



Western Digest

Rise in Loan Demand

Large banks in the Twelfth District recorded a contra-seasonal increase in loan demand in the first seven weeks of 1968. Mortgage holdings, business loans, and consumer instalment loans all increased, in contrast to their behavior in the comparable year-ago period. . . . The total loan increase of \$192 million also stood out in contrast to the \$2.7-billion decline for large banks in the rest of the nation. But District banks, unlike large banks elsewhere, did not add to their security holdings during this period.

Rise in Deposit Inflow

District banks also recorded a more favorable deposit flow than their colleagues to date in 1968. Total deposits (less cash items) rose by about \$½ billion in the District, whereas the decline elsewhere reached almost \$4½ billion. . . . Although demand deposits adjusted declined by 4.5 percent at large District banks and by 7.9 percent elsewhere, total time deposits rose by 2.2 percent here and by 1.4 percent elsewhere. District banks posted increases in both consumer-type and large-denomination time certificates.

Copper Strike Settlement

A possible settlement is in sight in the nine-month copper strike. The first major breakthrough came in mid-March when one of the four major copper companies reached an agreement with the striking unions. It involved a concession on the unions' key demand for company-wide bargaining. The contract calls for wage and fringe benefit increases totalling \$1.13 an hour over 40 months at the Western mining, smelting, and refining facilities, and a 75-cent an hour boost over a three-year period for employees at the New York and Arkansas wire and cable plants. A full settlement at a second firm awaits agreement on terms for its fabricating facilities. Progress came after President Johnson summoned industry and labor representatives to the White House in early March for intensive talks. He said shortages resulting from the strike were having a "substantial" effect on the domestic economy and the U.S. balance of payments, and that the prolonged dispute was having a "devastating" impact on the workers, companies, and regions involved.

Jobless Rates in Major Cities

The nation's twenty largest cities posted a 4.7-percent unemployment rate in 1967, as against a nation-wide average of 3.8 percent, according to a Labor Department study of area-wide unemployment. . . . In these major cities, joblessness last year affected 3.7 percent of the white labor force and 7.6 percent of the nonwhite labor force. The average rate in the nation's suburbs was 3.1 percent. . . . Los Angeles (6.6 percent) and San Francisco-Oakland (6.3 percent) recorded higher jobless rates in 1967 than any other major city except St. Louis.