

Monthly Review

August, 1953

Volume XXXV

Number 8

The District Stake in World Trade



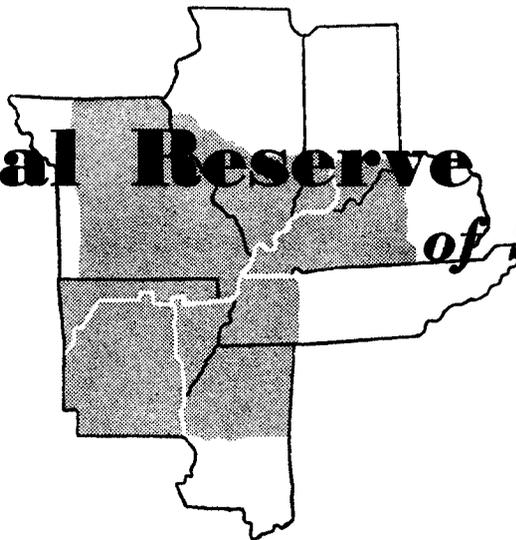
THE United States, possessed of a tremendous capacity and increasingly productive industries, is a key link in the network of world trade.

Exports are important in the demand for domestic production—district and national. In partial payment for this production Americans receive goods and services, many of which are essential to district industries. Loans and foreign aid finance the balance of the nation's exports.

The American balance of payments summarizes this story. The foreign aid section reflects the extent of American exports not exchanged for a return flow of goods and services. Whether to continue these unrequited exports, or to permit a decline in effective export demand, or to encourage an increase in paid exports—these are pressing questions for American foreign policy.

District residents, as taxpayers, consumers, and producers, have divergent stakes in the answers to these questions.

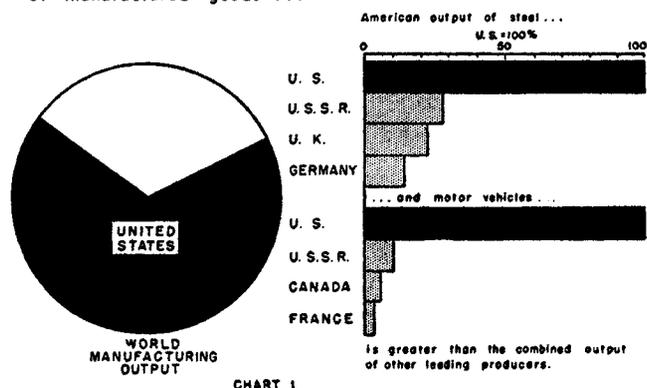
Federal Reserve Bank
of St. Louis



The United States, possessed of a tremendous capacity . . .

BEHIND the allied victory in World War II, underlying the rapid economic recovery of Europe in the postwar period, behind the Korean struggle, and bolstering the will of free people around the world to withstand Russian aggrandizement, stands the tremendous productive capacity of the American economy.

Producing over two thirds of the world's annual production of manufactured goods . . .

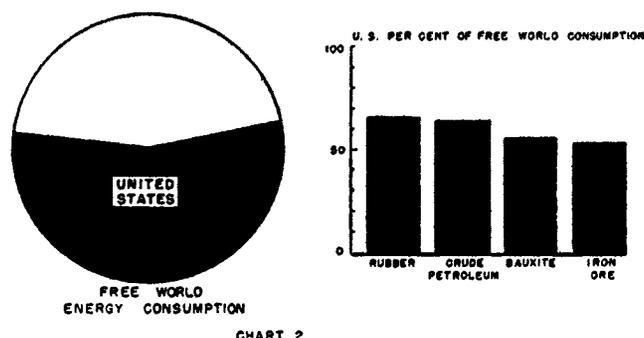


The statistics are impressive. Of the world's annual production of manufactured goods, two-thirds bear the stamp "Made in America." American steel production is almost four times that of the

Russian economy, motor vehicle production is ten times that of the British. The oil fields of Venezuela, Iran, and Russia, if combined, would produce less than half the amount that annually flows from American wells. Americans produce over 50 per cent of the total energy supplies in the world.

As a result of this vast productive capacity, the United States, with only 7 per cent of the world's population, consumes a preponderant share of the world's resources: over two-thirds of the world's natural rubber and petroleum production, half of the iron ore, manganese ore, zinc, copper, and lead, more than 55 per cent of the world's energy consumption.

...the United States consumes a preponderant share of the free world's resources.



OVER the past years this bank in cooperation with Washington University has applied a number of national accounting procedures to regional analysis. These have included income studies which seek to provide an over-all measuring stick for district development, interindustry studies to probe the industrial structure of the district and interdependence of district incomes, and studies of the sources and uses of district funds to provide a statement of financial flows among major transactor groups in the district and the rest of the nation.

As has been emphasized often in this *Review*, district development can best be appraised if the regional economy is viewed as an integral part of the larger national economy. To show the intimate and intricate relationships between the district and the nation was the purpose of the article on the district balance of trade published in June, 1952. The district balance of trade consists essentially of two parts, trade relations with the rest of the nation and trade relations with foreign countries. Thus, indirectly through the national

economy and directly through trade with foreign countries, the district has a stake in world trade.

The effort to understand better the impact of world trade on the wealth of nations stimulated the development of balance of payments accounting, the oldest of national accounting systems. The balance of payments lists the major categories of merchandise and service exports and imports and how these have been paid for. In contrast to an accounting system recording domestic trade transactions among regions using the same monetary unit subject to the same set of national policies, the balance of payments records transactions between areas with diverse monetary systems and policies. Its application to regional analysis, therefore, is limited to a more general discussion of those accounts in the national balance which appear of special interest to district residents.

The purpose of this article is to center attention on the "rest of the world" account in contrast to previous articles which have treated this account only indirectly.

—Editor

. . . and increasingly productive industries, . . .

These facts alone would make the United States a dominant factor in world trade. Added to these, however, is the even more significant evidence on productivity, the efficiency with which resources are consumed by American industry. Actually this is more striking since the general level of technological knowledge is about the same in all industrial nations. The Russian MIG, the British jet aircraft, the German machine tool industry, to name a few examples, should put us on guard against the easy assumption of pure technical superiority. But what is important is the efficiency with which this technical knowledge is combined with actual production. This determines the "real" costs of production, the amount of material and human resources required to produce the goods and services we want.

International comparisons of productivity are difficult and not precise at best. Nonetheless, in many cases differences are so large that they leave no room for doubt as to the very high level of American productivity in comparison to other nations. A study

ing, textiles, paper products, and iron and steel production.

Not only does the United States currently enjoy a relatively high industrial productivity, but on the historical record it is likely to continue to do so. Over the past forty years, manufacturing production per man hour has increased at an average annual rate of about 3 per cent compounded. It has tripled in the past forty years. For the entire economy, the increase is estimated at around the compound rate of 2 per cent per annum. This economy-wide rate of growth is the result of rapid growth in some sectors of mining, manufacturing, and mechanical industries and the increasing importance of those industries in the economy.

In the process of this economic development, of course, many industries and firms have dropped by the wayside. In a free, competitive, ever-changing economy there is a constant adjustment taking place and a price to be paid by those unable to absorb the change. For the most part, Americans accept this price as the cost of growth and continued efficiency.

Despite all the qualifications, definitional and technical, that have to be considered, the extreme differences between per capita income in the United States and the rest of the world give a striking representation of the differences in productivity. Whatever the reasons may be—more easily available resources, technical "know-how," accumulated capital equipment, the accumulated skill and knowledge of our labor force, or the system of economic organization—comparative income data provide inescapable evidence of a vast productivity differential between the American economy and the rest of the world.

These facts plus high productivity per worker . . .

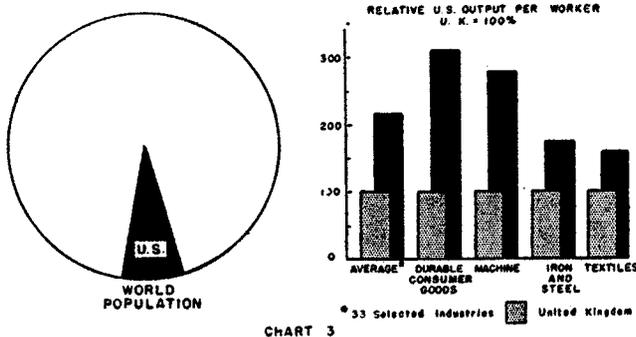


CHART 3

made in 1948 indicated that the average American worker in a sample of thirty-three industries could produce about double the amount turned out by his counterpart in the British industries in the same period of time. As could be expected, American productive advantage was greatest in the durable mass-produced consumption goods industries (automobiles, radios, etc.) as well as in machinery and container products. American industry showed to least advantage in such industries as food products, cloth-

. . . make Americans the wealthiest people in the world.

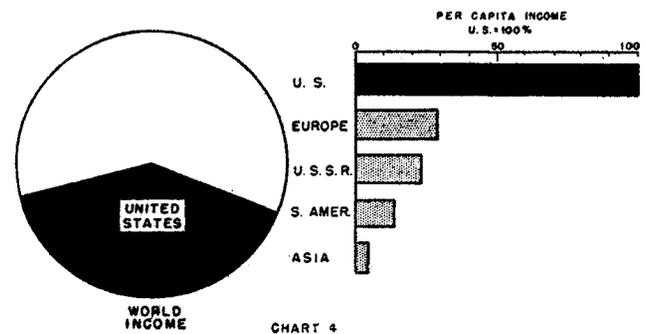


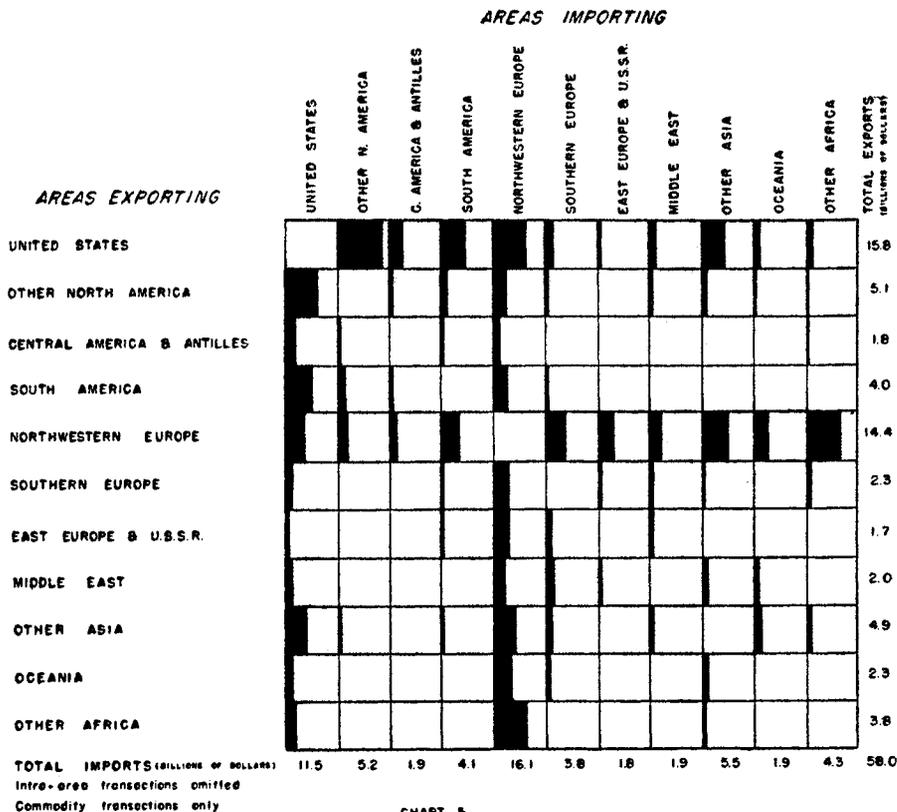
CHART 4

... is a key link in the network of world trade.

Now what do these facts add up to; what do they imply for American foreign policy? So far, simply this. As the wealthiest nation in the world, the United States is a key link in the network of world trade. American industries and households are an important market for goods and services produced around the world. No other nation buys as much. Without the American market, most areas of the free world, directly or indirectly, would find themselves in materially reduced circumstances. At the same time, American goods and services are in great demand the world over. The premium price paid for dollars in many of the world's money markets reflects the strong competitive position of the United States in the world markets. High productivity makes American industry a formidable competitor overseas, at the same time, permitting high standards of living at home.

There is another set of facts to be added to the data on United States production, consumption, and income to fill out the picture of American dominance in world trade. These are historical facts and they relate to long-run changes in the pattern of world trade accelerated by two World Wars. In brief, as the United States has undergone rapid industrial growth, the role of Western Europe, and particularly Britain, in world trade has declined. The 19th century pattern of trade, the exchange of manufactured goods from Britain and Western Europe for raw materials from the rest of the world, has evolved into something quite different. The United States has become the principal consumer of the world's raw materials, and the largest exporter of manufactured goods to the rest of the world outside of Europe. As the so-called "third-areas" of the world (those not linked by close political ties to the United States or Russia) have increased their industrialization—usually in textiles and other soft goods—these markets for similar European production have declined. As these areas have increased their demand for machinery and capital goods, the United States has become the principal supplier. In the race for

The United States is a key link in the network of world trade.



productivity, Western Europe, until recently, had lost out. Third-areas with dollar earnings were anxious to use them for American goods. The war accelerated this development. Western Europe's large markets in South America were lost (a substantial part of these markets has been regained in the past eight years), its investments in the rest of the world were largely liquidated, ending an important source of foreign income (including dollar earnings from the United States). The close of World War II rang down the Iron Curtain on East-West trade.

But there is still a third set of facts of very great concern to Americans. The war broke down old alliances, old power groups, and, in the ensuing vacuum, new forces of nationalism grew strong. The relative impoverishment of the rest of the world, particularly the so-called third-areas, has given rise to powerful forces for self-improvement. However distant or unattainable the goals may be, the political unrest observable around the world is symptomatic of the power of such objectives once articulated. The pressures among the poorer nations for income equalization with the wealthier nations of the world cannot safely be

ignored. Nor, for that matter, are these pressures restricted to the so-called "underdeveloped areas." In those areas the wish finds extreme expression in violent nationalism and expropriation of foreign capital. But in the more industrialized nations of Western Europe the same drive is observable in strong anti-American sentiment and in the great appeal the siren call of East-West trade has for many European businessmen, labor leaders, and politicians.

All of these facts have been recorded in the network of world trade and in the figures on United States exports. United States exports are large because: 1) American productivity puts many of our goods at a competitive advantage in the world markets, 2) our goods have replaced prewar sources of supply for many nations, and 3) the effort to build a community of Western nations has required that the United States share the costs of mutual defense as well as recognize the pressures for income equalization by transferring large quantities of American resources abroad without an explicit *quid pro quo* in the form of trade.

Exports are important . . .

In 1952 the United States exported almost \$21 billion worth of goods and services. Roughly a third of these went to European countries, 19 per cent to Canada, 23 per cent to Mexico and the Latin American nations, and 24 per cent to the rest of the world. Included in this total were all kinds of goods from air conditioners for an Arabian harem to wheat to help relieve the famine in Pakistan. Most important among the exports, however,

Americans shipped abroad about \$21 billion worth of goods and services in 1952.

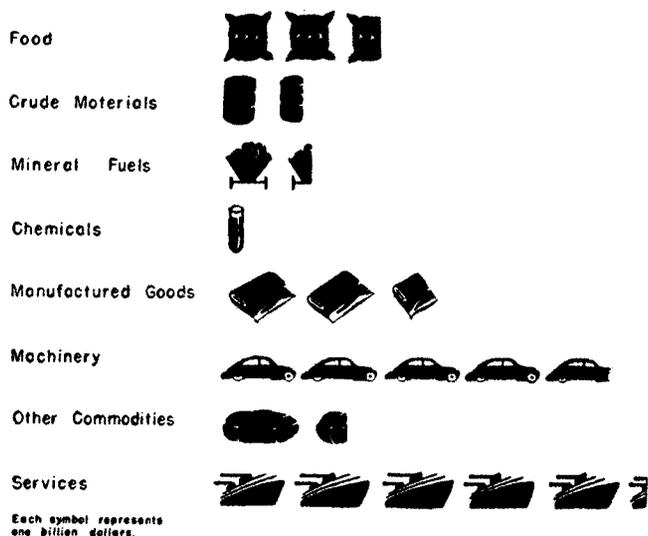


CHART 6

District Farmers Produce for King Cotton's World Market.

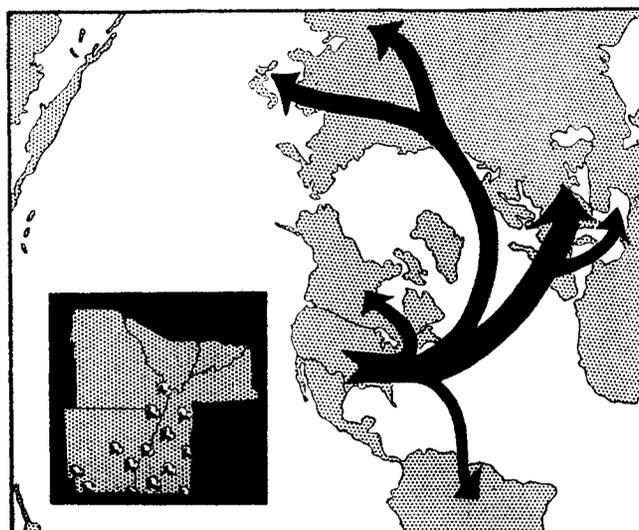


CHART 7

were machinery and vehicles—those items where American industry has the greatest relative productivity.

It is significant that 20 per cent of total merchandise exports in 1952 consisted of machinery and equipment. About 23 per cent of tractors, parts, and accessories sales were exports and almost 11 per cent of all capital goods sales were made abroad. Reflecting the industrialization and economic development taking place there, Latin America is the largest market for United States capital goods exports, 32 per cent. Canada, which purchased 28 per cent of such exports in 1952, is the most rapidly growing market for machinery and equipment. Prior to World War II Europe was the largest market, but, in contrast to 30 per cent in 1938, only 19 per cent of capital goods exports went to Europe in 1952, despite the fact that Europeans purchased more than twice as much machinery and equipment in 1952 as in 1938.

. . . in the demand for domestic production—district and national.

Within the boundaries of the Eighth Federal Reserve District practically all of the industries shipping in export trade are represented. Agriculture, for example, one of the principal sources of income for this area, is an important exporting industry. The data on agricultural exports show that district types of production are heavily represented. The single most important export commodity, agricultural or any other kind, is cotton. Cotton exports in 1952 were almost 10 per cent of the total volume of commodity exports. Other agricultural products important to the district are also

important export commodities. In 1952 the United States exported \$190 million worth of corn, \$326 million worth of tobacco, and \$887 million worth of wheat. Through the medium of these and other products district farmers earn income from the rest of the world. Table I indicates the world-wide distribution of these products and a few other leading export products produced in this region. Farmers and manufacturers in the area have a stake in world trade. Whether the goods they produce actually are shipped abroad or not is less important than the fact that export demand swells the total demand for their production.

In fact, not only do the producers of those kinds of goods shipped directly in foreign trade have a stake in exports, but so do all of us, bankers and bakers, foundry operators and retail salesmen, utilities employees and truck operators; in short, everyone who is engaged in a productive service. For behind every export lies a multitude of other products and services required in the production of that exported good. While export demand takes the form of demand for particular kinds of goods it is also, and necessarily so, demand for American resources in general. To put this another way, the efficiency of production which results in the relatively low cost of American exports abroad is an efficiency which is related only in part to the industry doing the exporting. The cost-level of the supplying industries, of the supplying industries once removed, and so on back through the whole productive process all play a part in the cost-level of the final product shipped in export trade.

From this point of view it is interesting to examine the indirect impact of foreign demand on American industries. There are many industries which ship very little in foreign trade, yet indirectly, a considerable amount of their production is required to support the total range of American exports. For example, steel mills and rolling mills ship only about 4 per cent of their

production abroad. Yet these steel products enter directly or indirectly into the production of every item shipped in foreign trade. It is estimated

Exports - from tin cans to trucks - create demand for steel.

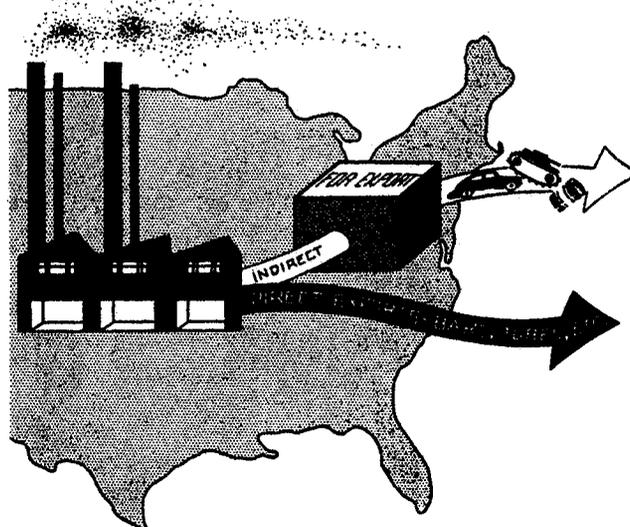


CHART 8

that another 4 per cent of such production was used to supply foreign demand for American products. Thus, directly and indirectly, approximately 8 per cent of the total demand for products of steel mills and rolling mills was generated by export trade. By tracing out interindustry relationships similar estimates can be made for other commodities. In every instance the picture is one of foreign demand permeating deep into the fabric of American industry.

We thus arrive at a further conclusion. The interest of Eighth District producers in foreign trade extends beyond the question of what goods are actually exported and whether or not they are produced in this region. District residents earn income through their productive contribution to the national and world economy. Whatever trade increases the demand for American production will

TABLE I—WORLD TRADE PATTERNS IN SELECTED COMMODITIES

(IN THOUSANDS OF DOLLARS)

Importing Areas	Cotton Exports			Tobacco Exports			Wheat Exports		
	United States	Turkey	Other	United States	Turkey	Other	United States	Canada	Other
United States			3,779			720			
Other North America.....	95,060		65	1,823	41,066		33,048	61,797	
Central America and Antilles.....	6,533		17	2,022	374		1,294	266	
South America	33,013			4,270		1,330	48,077	16,101	
North Western Europe.....	492,237	59,397	16,791	246,068	14,618	24,345	372,583	244,713	34,972
Southern Europe	173,520	1,503	3,463	5,639	1,324	63	106,707	24,843	3,716
East Europe and U. S. S. R.....	22,565	11,817	363	30	4,104		1,461	887	
Middle East	3,862			4,289	4,818		38,963	9,554	11,117
Other Asia	348,904	2,589	87	32,320		51	278,662	45,754	
Oceania	7,377		437	19,743		1,021			
Other Africa	6,485	1,216	343	9,246	159	33	6,347	15,123	
Miscellaneous	57	723	2,641	77	504	7,278	34	40	3,982
Total	1,189,613	77,245	27,986	325,527	66,967	34,913	887,176	419,078	53,787

necessarily, directly or indirectly, increase the demand for district resources. It remains true, however, that for large sections of the district, the stimulus to income comes most directly from factors affecting the demand for agricultural products. Analysis of the Eighth District balance of trade shows that agricultural and food products constitute the largest source of district dollar earnings from the rest of the nation.

In partial payment for this production Americans receive goods and services, . . .

Now let us examine the other side of the balance sheet. What do Americans receive in return for this \$20.7 billion worth of production and services they ship abroad? How do we get paid for all of this work? We get paid in dollars, of course, but how does the rest of the world get the dollars? Essentially, there are three ways: 1) they can earn dollars by selling us their production (we trade goods for goods), 2) they can borrow their dollars from us (we ship goods on credit, short- or long-term), or 3) we can give them the dollars with which to buy our goods (we give our production away). Up to the last war the first two methods were the only ones of importance. The rest of the world purchased American goods out of dollar earnings from current trade and from current return on past investments in the United States, or out of the proceeds of private and governmental loans.

Since the late 19th century American exports have exceeded imports. This means that for over half a century the rest of the world's earnings from current trade with the United States have been insufficient to pay for all of our exports. Up to the first World War this export surplus was financed by American dividend and interest payments to the rest of the world on previously borrowed capital, and by repayment of principal. Following the first World War the United States became a creditor nation for the first time. That

is, our export surplus was financed in large part by new loans to the rest of the world, by capital exports. American purchases of foreign government bonds in the 'twenties supplied the dollars to pay for a substantial part of our exports. With the advent of the financial crisis of 1929 and the ensuing world-wide depression most of these capital exports ceased and United States export balance all but disappeared.

The second World War and the postwar period saw the American export surplus again become larger. In the eight years since the defeat of Japan, our exports have been only partially paid for by goods and services received in exchange. In 1952 American imports amounted to about \$15.7 billion. As indicated in Chart 5 most of the commodity imports have come from the other Americas and Europe. The bulk of the service imports are credited to Western Europe, although American tourists spent about \$275 million traveling in Canada last year. Service imports include such things as American use of foreign-owned ships, American tourist travel abroad, interest and dividend earnings by foreign holders of American securities, and so forth. In 1952 these service imports amounted to \$4.2 billion.

Percentage-wise, the commodity imports are more heavily weighted with raw materials and semi-manufactured products than are our exports. Among these imports, of course, are many items not competitive with United States industry (coffee was the largest single import, \$1.4 billion in 1951).

Since the American tariff is essentially a protective tariff and not a revenue raising tax, most noncompetitive imports come in duty free. Of the total imports, however, about 60 per cent pay some duty, from 184 per cent ad valorem on knives with folding blades to 2.7 per cent on zinc oxide powder. Importers of boots and shoes pay a duty ranging from 5 to 35 per cent. Duty on cotton yarn averages about 28 per cent, on automobiles 10 per cent, bauxite about 8 per cent, gray iron castings 5 per

UNITED STATES AND OTHER LEADING EXPORTERS

(IN THOUSANDS OF DOLLARS)

Corn Exports		Organic Chemical Exports			Cotton Fabrics Exports						
United States	Other	United States	Germany	France	Other	United States	United Kingdom	Japan	France	Italy	Other
.....	1,676	.....	5,941	48,619	6,330	.....	6,736	5,138	.....	4,141	3,093
32,196	.....	59,729	1,240	.....	2,165	41,516	6,655	260	.....	190	1,983
1,056	.....	11,270	1,284	.....	834	43,180	5,119	.....	.....	.....	1,079
1,268	.....	21,981	6,006	2,584	3,562	27,677	6,444	.....	.....	.....	2,928
125,420	5,050	47,942	58,250	4,803	33,188	12,937	47,491	39,548	7,442	46,271	133,368
12,917	452	7,422	5,445	2,086	3,167	1,483	7,405	.....	.....	8,716	13,584
8,779	.....	693	1,391	.....	1,001	.....	48	.....	.....	.....	121
663	16	6,298	606	.....	3,443	.....	15,839	17,374	.....	.....	4,679
5,801	.....	10,569	3,291	951	6,713	115,026	52,406	.....	53,750	.....	22,199
.....	.....	2,973	2,948	744	2,923	5,172	97,040	.....	2,609	.....	19,345
2,030	136	3,762	861	1,145	2,681	37,798	124,527	.....	120,150	.....	61,367
73	1,714	93	64	6,697	18,783	80	49	266,544	16,014	65,068	447
190,203	9,044	172,732	87,327	67,629	84,790	300,708	371,294	311,490	199,965	124,386	264,193

cent, hides and skins 5 per cent, and so on, through an incredibly long and detailed list of products. About half of all dutiable imports are finished and semi-finished manufactures, over a third are agricultural products, and most of the remainder are mineral products. At present, customs receipts represent about 13 per cent of the value of dutiable imports. This compares with 39 per cent in 1938. Largely this reduction reflects a shift in the type of imports, to those with lower or with nominal duties, and in part a progressive lowering of duties under the Reciprocal Trade Agreements Act.

. . . many of which are essential to district industries.

Many of these imports are directly essential to district industries; from newsprint for the printing and publishing trade to wattle extract for the leather industries, from nickel, chromite, and manganese for the steel industry to ipecac and tragacanth gum for pharmaceutical preparation. There is hardly a product used by farmers, manufacturers or households that does not depend in some way on imported materials for its production.

More difficult to see, but in the longer run even more important for our own economic development, are the indirect effects of our imports. Just as United States exports of whatever kind indirectly draw on the service of a great many non-exporting industries, imports supply goods and services indirectly to non-importing industries. Suppose, for example, that in 1951 we had for one reason or another cut off all imports except non-competitive raw materials. Suppose, too, that we had attempted to substitute domestically produced items for each of those formerly imported. We would find that additional requirements would be imposed on many industries whose type of product is not generally imported in any substantial quantities.

For example, in 1951 the United States imported \$228 million worth of organic chemicals, or about 4 per cent of domestic production. This represented an addition to domestic supply which helped keep costs down to consuming industries. But the other \$15 billion worth of imports, somewhere in the productive process, also required organic chemicals. In fact if we had tried to produce these \$15 billion of imports ourselves, the effort would have required an estimated 5 per cent of domestic production of organic chemicals. Similar examples can be traced for many other industries.

In general, the kinds of goods imported are those that can be produced abroad at lower cost than domestically. Or in other words, to produce these same goods in the United States would require di-

version of resources from other domestic industries with greater relative productivity. In effect then, we use our own productive resources in our more efficient industries and import those kinds of goods where similar resources are combined less efficiently by American industry. The result is to enjoy a greater all-around production and consumption from the same level of resource use.

But to return to the examination of what we received for our \$20.7 billion export of goods and services in 1952: when the value of all imports is totted up we are still left with an export surplus of \$5 billion. How was this paid for?

Loans . . .

American foreign loans, capital exports, were mentioned earlier as one means of financing our export surplus. But since 1946, in fact since 1927, these have been relatively small, certainly nowhere near the size of the export surplus to be financed. A total of \$1.4 billion net of American capital (short- and long-term, government and private) went abroad in 1952. Because there was at the same time an inflow of foreign capital amounting to \$1.6 billion, the effect was to add \$0.2 billion to American dollar claims on foreigners in 1952. Since 1946 net American capital exports have amounted to \$18.4 billion compared with an export surplus over the same period of \$44.7 billion.

. . . and foreign aid finance the balance of the nation's exports.

So there is left a still-unexplained balance of \$5 billion worth of exports; dollar claims on the

The rest of the world paid for American exports

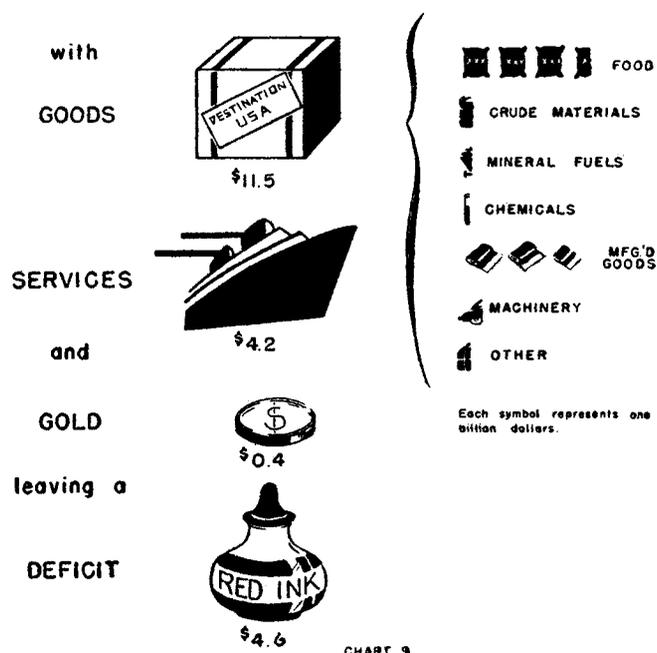


CHART 9

rest of the world for which there appear no visible means of support. This, of course, is the measure of the now familiar "dollar shortage." The term is an unfortunate one, implying as it does some shortage of dollars peculiar to the postwar world. All that it means is that we ship to the rest of the world more than they can pay for, but that we continue to debit their account for these goods. These dollar deficits are offset by grants of dollar aid to the rest of the world. In 1952 such grants amounted to \$5 billion, \$2.6 billion of which was characterized as "military aid," the remainder as "economic aid."

The American balance of payments summarizes this story.

A set of accounts is more than a compilation of figures. It tells a story. The preceding story is contained in the set of accounts describing the relationship of the United States to the rest of the world, the American balance of payments. Readers of this REVIEW are familiar with the various systems of accounts that have been used to describe the economy of the Eighth Federal Reserve District. In previous issues we have explored from different points of view the "rest of the world" account for this region. Because the Eighth District is a smaller, less diversified area than the nation

as a whole, the "rest of the world" is a much more important element in district income than for the nation. But reflected in this account for the district are all the factors affecting the American balance of payments. Balance of payments accounting summarizes the United States position in the world economy from our domestic point of view. Because the district is an integral part of the national economy, analysis of the American balance of payments becomes by extension a part of the analysis of the district economy. Table II reproduces the United States balance of payments for 1952.

The foreign aid section reflects the extent of American exports not exchanged for a return flow of goods and services.

The foreign aid account reflects the efforts of the United States to build a Western World secure from Communist aggression. It is also an account which is becoming an increasingly controversial item in our Federal budget. A \$5 billion expenditure per year cannot be lightly dismissed. Let us take a closer look at this account.

The line between political and economic decisions is at best vague and wavering. Nonetheless, it is not too much to say that prior to 1941 the principal limitation on the size of a country's imports was an economic *quid pro quo*, namely, the ability to earn or borrow funds to finance imports. Since 1941, military and political considerations have become important factors. Military strategy dictated the size of European imports and those of allied nations around the world during World War II. World-wide political strategy dictated the size of free world imports in the postwar period. The efforts to rebuild the European economies while maintaining political stability and resistance to Communism led to American dollar grants. Around the rest of the world these dollar grants have been used as part of a global political strategy to build a community of nations.

**TABLE II
THE AMERICAN BALANCE OF PAYMENT, 1952***
(IN BILLIONS OF DOLLARS)

	Exports	Imports	Balance
GOODS AND SERVICES:			+ —
Merchandise	15.8	—11.5	....
Services:			....
Transportation	1.4	— 1.1	....
Travel .....	.5	— .8	....
Income on Investment.....	1.9	— .4	....
Miscellaneous Services.....	1.1	— 1.9	....
Total	20.7	—15.7	....
Balance			5.0
FOREIGN AID:			
Private .....	.4	.....	....
Government:			....
Economic	—2.0	.....	....
Military	—2.6	.....	....
Total	—5.0	.....	....
Balance			—5.0
GOLD (Purchase):		.4	....
Balance			— .4
CAPITAL:			
United States (Net)			....
Private .....	.9	.....	....
Government .....	.5	.....	....
Total	—1.4	.....	....
Foreign (Net).....		1.6	....
Balance .....			.2
OTHER		.2	.2

* International transactions which give rise to financial claims by America on the rest of the world are recorded as plus entries. Transactions resulting in claims on American dollars by foreigners are shown as minus entries. The commodity imports and exports discussed above show up in the goods and services account as do transportation, tourist travel, interest and dividend earnings and other so-called service transactions. The export surplus referred to in the text is the \$5 billion entered as the balance on goods and services account. Note that further down the table in the capital accounts, a capital export is recorded as a minus entry. For example, claims arising from the sale of goods abroad may be temporarily offset by an extension of credit (a short-term loan, short-term capital export), or Americans may make a long-term investment abroad and in so doing establish dollar claims for foreigners (long-term capital export). Gold movements are shown separately in balance of payments accounting since most such movements are of financial origin. As straight commodity transactions, gold movements are relatively insignificant.

**TABLE III
UNITED STATES TRADE AND FOREIGN AID, 1952**
(IN BILLIONS OF DOLLARS)

	United States Exports	United States Imports	Other Transactions ¹	Dollar Deficit	United States Aid ²
Europe	7.1	— 4.2	0.7	3.6	3.6
Canada	3.9	— 3.0	— 0.9	—3	—3
Latin America.....	4.8	— 4.2	— 0.5	0.1	0.1
All Other Countries ⁴	4.9	— 4.3	0.3	0.9	0.9
TOTAL	20.7	—15.7	— 0.4	4.6	4.6
(Per Cent)					
Europe	34.3	26.8	.....	78.2	78.2
Canada	18.8	19.1	.....	.....	.....
Latin America	23.2	26.7	.....	2.2	2.2
All Other Countries.....	23.7	27.4	.....	19.6	19.6
TOTAL	100.0	100.0	.....	100.0	100.0

¹ Includes gold movements, capital flows, private unilateral transfers, and transfers of funds between areas. Entries in this column are net.
² Government aid only.
³ \$8 million.
⁴ Including dependencies of European nations.

Regardless of our present estimate of the success of this strategy, the significant fact is that the size of American exports has come to depend upon the objectives of American foreign policy as well as upon the ability of the rest of the world to pay for these exports. In this context it is hardly likely that foreign dollar earnings and American dollar debits to foreigners will be equal. The resulting deficit is necessarily settled by a transfer of income, Americans to the rest of the world. In other words, American taxpayers in 1952 transferred \$5 billion of their incomes to the rest of the world (about \$40 billion since 1945) so that the rest of the world could in turn buy an equivalent amount of American exports. These exports are referred to as "unrequited exports," meaning in this instance simply that they are not exchanged for payment in the form of a return flow of goods or services.

Whether to continue these unrequited exports, . . .

Can these unrequited exports be reduced or must they be continued? Or, perhaps better to ask, under what conditions could we expect a decline in unrequited exports and in our foreign aid bill?

In the view of many, foreign aid will necessarily continue for some time. The changing nature of our foreign aid provides a clue here. Up to 1951 most aid was "economic"; in the 1953-54 Congressional appropriations 78 per cent of the \$4.5 billion in foreign aid was earmarked for military purposes. Funds for such expenditures could, in fact, be transferred to the defense budget except that appropriation in the form of foreign aid permits some economies through off-shore purchases and is not only more palatable but may be the only feasible way of insuring an adequate military program for Europe. In other words, the American defense line is along the Iron Curtain and aid to Europe (or to Asia) is primarily conditioned by our estimates of Russian aggressive intentions. So long as these are appraised by Congress as a serious threat the argument for foreign aid will continue.

In essence this argument rules out the possibility that other free world nations can finance their own military expenditures—at least a rate of increase in their defense spending great enough to provide safely against Russian aggression—by reducing their other imports from us. Or, put another way, those holding this opinion feel there is little possibility of reducing our total exports. This point of view, that we cannot achieve a balance in our balance of payments accounts by forcing foreign nations to reduce their purchases from us (reducing our total exports), deserves examination.

. . . or to permit a decline in effective export demand, . . .

It might be argued that, after all, the goods we ship abroad simply substitute for what the rest of the world would have to produce for themselves or go without. We could, for example, simply eliminate all foreign aid, thus reducing effective world demand for our production by an approximately equivalent amount, \$5 billion. This would mean a \$5 billion drop in their incomes, in effect, and a consequent reduction in living standards. If this \$5 billion were spread throughout the world it might be of little significance. But the trouble is, it is not so distributed. More than three-quarters of all foreign aid goes to Europe. Europeans would have to absorb most of the impact. What the effect on their economies would be is hard to estimate. It is difficult to believe, however, that they would continue their military efforts even on their present scale. A reduced standard of living called forth by an increased amount of European resources devoted to defense would surely strain relationships with America and greatly strengthen the demands for increased East-West trade.

Faced with the cost of foreign aid, Americans are also faced with estimating the costs of reducing exports in terms of the objectives of foreign policy. Strategic considerations would appear to block this alternative to continuation of our unrequited exports.

It might be noted, too, that, from the point of view of domestic interests, there is a further problem. The reduction of unrequited exports through reduction of total export demand puts the cost of adjustment domestically on the shoulders of the exporting industries. That is, the removal of the burden on taxpayers as a whole is matched in this case by a reduction in demand for the output of the exporting industries.

. . . or to encourage an increase in paid exports— . . .

In this dilemma, still a third possibility is suggested. Why not increase the volume of exports for which we get paid? That is, instead of reducing total exports, why not simply reduce the amount of unrequited exports? This is the position held by advocates of "Trade not Aid," the idea being to replace dollar grants abroad with dollar earnings.

Adherents to this point of view argue for a reduction or suspension of American tariffs and quotas on imported goods. As a result, Americans could trade their production for goods and services from the rest of the world rather than give it away. Arguing by analogy to the United States, proponents of

freer trade point out that in our freely competitive economy the less efficient industries have had to compete effectively (both for resources and markets) or give ground to the more efficient. The result has been a higher standard of living all the way around. Why not carry this policy to its logical conclusion, the argument runs, by eliminating import barriers and in the process the rest of the world will earn sufficient dollars to replace American aid? Why not let the industries competitive with imports bear the burden of readjustment as their relative efficiency dictates, instead of forcing the cost onto the export industries? This argument, too, deserves examination.

As in any policy decision, we are faced here with a matching of benefits against costs. In this case the benefits claimed are the reduction or elimination of foreign aid and the general benefits of freer trade. The costs are the adjustments forced on the economy by such a policy. What is the possibility that trade can substitute for aid? What is the extent of injury to American industry that might result from an increase in imports? Obviously, the more enthusiastic the answer to the former question, the more cautious the answer to the latter.

Estimates of the effect of tariff barriers on the volume of potential imports are difficult. Comparative costs for American and foreign producers are hard to estimate. Quantitative response to a price reduction of imported goods is at best an informed guess. The United States market is so vast that in many cases foreign producers could not begin to supply more than a small part of the total demand. For many products the market is closed regardless of price differentials because foreign producers lack the distributive outlets and servicing facilities Americans demand as part of the product.

How high is the tariff wall?

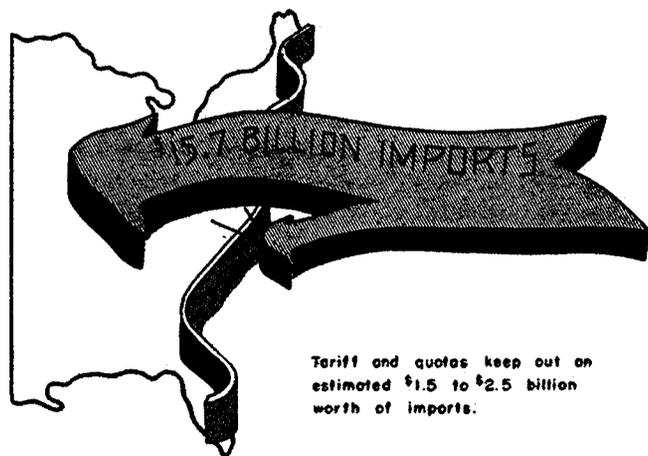


CHART 10

In addition, it is frequently not a price differential or quota that keeps a substantial volume of imports from entering the United States, but rather innumerable administrative "red tape" restrictions. There are at the present time over 160,000 undecided classification cases pending before the Customs Court.

With all these qualifications, estimates of the height of the tariff wall can be attempted. Under prevailing conditions the effect of a complete suspension of tariffs and quotas might result in an estimated increase in imports of from about \$1.5 billion at a minimum to about \$2.5 billion at a maximum. Woolen apparel, sugar (now protected by quota) and butter (protected by quota) would probably show the largest dollar increases, amounting to over \$1 billion of the over-all estimate. This means that from \$0.5 to \$1.5 billion remain to be spread over all of the other goods currently protected by tariffs and quotas. This is less than one-half of one per cent of Gross National Product. Any reduction of import barriers short of suspension of tariffs and quotas would, of course, result in an even smaller increase in imports.

What does this mean in terms of costs of displacement to the American economy? In the aggregate, there seems little basis for scare statements about a flood of cheap foreign goods ruining the American market. The substitution of foreign production for American production would be more than matched by the normal growth of the economy in one year. Obviously, however, there are costs to be borne in particular cases and the advocates of "Trade not Aid" should not close their eyes to these. The injury is most serious where protected industries are highly localized. In these cases there may be few alternative employment opportunities. Industries participating in the normal growth of the economy may not be located nearby. Such highly localized injury may then result in prolonged hardship for an entire community. An excellent case in point is the woolen worsted industry, highly concentrated in the towns and small cities of New England. Here the threat of serious injury from freer trade is very real. In their efforts to prevent such an eventuality, wage earners and employers may be quite willing to endorse across-the-board restrictions on imports. To determine the extent of such costs of freer trade, as well as some technique for compensation, would seem to be as much a part of the advocacy of "Trade not Aid" as the effort to reduce import restrictions.

But now, if the results of tariff reduction are so relatively innocuous in the aggregate, what of their impact in foreign aid? Here some doubt must be cast on the more enthusiastic claims for "Trade not Aid." Owing to the geographic pattern of our

imports the greatest increases in trade would not in general be with those nations currently receiving the bulk of our foreign aid. Countries receiving no aid would probably supply more than half of the estimated increase in American imports. Of the remaining countries, the increased trade would most likely not be in proportion to the volume of aid they receive from the United States. European nations, for example, receive the preponderant share of foreign aid, yet European dollar earnings could be expected to increase by less than half the value of the aid these nations currently receive. Furthermore, increased imports would take time to materialize. They could not be expected to take place immediately following a suspension of restrictions.

If there were relatively free trade among the rest of the nations of the world, the fact that all of the increased imports did not originate with aid recipients would not be too important. With worldwide multilateral free trade, nations having a trade deficit with the United States might earn dollars from areas having a trade surplus with this country. Under prewar conditions this is substantially what did occur. Such is not the case today. With exchange rate controls, exchange restrictions, blocked currencies, tariff barriers and other restrictions to trade the world over, multilateral trade is seriously constrained. Also, because of the high productivity of American industry and the ensuing competitive advantage over a wide range of products, there are very few areas that maintain a trade surplus with the United States. Under these circumstances the non-coincidence of sources of imports and destination of foreign aid is important.

These considerations suggest that a policy of freer trade could, at the maximum estimate, provide sufficient dollar earnings to the rest of the world in the short run to more than offset the amount currently appropriated for foreign economic aid as well as part of that labeled for military aid. But, because of the world-wide restrictions on trade, this is likely to be largely a fictitious statistic so far as it provides the basis for any real reduction in aid. That is, countries to which we currently provide large amounts of aid are not those that could increase dollar earnings sufficiently to eliminate aid under the "Trade not Aid" program.

However, there are two sets of facts that may soften this conclusion. First, recent increases in productivity in Europe plus successful anti-inflationary policies may improve Europe's competitive position in the world markets. This would mean an improved balance in international trade, a reduced need for dollars by Europeans to settle obligations in areas unwilling to accept European currencies,

and the possibility of increased dollar earnings in areas having a trade surplus with the United States. Second, there is some evidence of an increased ability for Western European producers to sell competitively in the American market despite tariff restrictions. Imports from Western Europe for the first six months of 1953 were running higher than imports for the same period in 1952. Abstracting from military aid, present indications are that the European dollar deficit will be smaller in 1952 than in 1953.

Taken together, these two sets of facts indicate that a relatively small tariff reduction by the United States may be sufficient to offset the European dollar deficit currently financed by American economic aid. It should be noted, however, that this reasoning rests on the distinction between military and economic aid and recognizes the necessity for continuation of military aid.

. . . these are pressing questions for American foreign policy.

But where does this lead? There is apparently no clear and simple answer to the problems brought into focus with examination of the foreign aid account of the balance of payments. To a great extent, of course, these problems are simply a manifestation of the more general problem of a divided world. One way or another, however, some tough political decisions will have to be made in the months to come. It is instructive to highlight the quandary facing our policy makers by making five points:

First—Any policy that looks to a reduction of foreign aid through a reduction in total exports runs headlong into two problems. 1) It involves an estimate of the costs in terms of a possible disruption to our long-run strategic objective. 2) It imposes the domestic costs of readjustment on our export industries by way of a reduced demand for their output.

Second—Any policy that looks to a reduction of foreign aid through increased dollar earnings abroad also runs into problems. 1) In the absence of any additional steps to encourage freer multilateral trade and economic integration in the rest of the world, the increased dollar earnings are not likely to accrue substantially and directly to the present aid recipients. 2) It imposes the domestic costs of adjustment on industries whose products compete with imports or potential imports.

Third—Any large-scale export of private capital (approaching the magnitude of the aid bill) from the United States is unlikely under present circumstances. Present rates of return on domestic investments coupled with the political uncertainties abroad and danger of loss of principal preclude large

scale enthusiasm for foreign investments. Most importantly, profitable large-scale foreign investment itself rests on the existence of multilateral free trade.

Fourth—Serious efforts toward freeing world trade from its present restrictions cannot be expected under United States leadership so long as the United States itself is identified with policies restricting imports.

Fifth—It seems apparent that the postwar Western alliance, strongly centered around the United States, is evolving into something new. Foreign aid as a foundation for a community of Western nations appears to be yielding diminishing returns. Nations the world over are pressing for increased trade and decreased dependence upon what they view as a temporary and uncertain subsidy. Any policy looking to the maintenance of unrequited exports is forced to recognize this attitude as well as the increasing reluctance of Congress to continue aid.

Many possible combinations of policies might be considered. The purpose here has been simply to emphasize that every policy decision involves both an estimate of benefits and a consideration of the costs involved in terms of the over-all objectives the policy is designed to serve. What is really implied, therefore, by this discussion is the need for careful appraisal of foreign policy objectives against which to measure costs and benefits. But it should be remembered that foreign policy itself must be viewed in the broader context of the aspirations of a society of free individuals. In the nature of things there can be no clear-cut answers because of the great variety of interests among American citizens.

District residents, as taxpayers, consumers, and producers, have divergent stakes in the answers to these questions.

Whatever decisions are made in the next few months, district residents have a stake in the results that follow. As taxpayers, of course, a reduction in foreign aid might mean a smaller tax bill or a less rapidly increasing one. *Might*—because the result would depend upon the international situation and whether or not a reduction in the aid budget would be absorbed by an increase in the defense budget to support the same expenditures. As consumers, a policy of freer trade would mean a slightly higher standard of living in the present and a somewhat more rapid growth for the nation as a whole in the longer run.

As producers, district residents supply household and industrial consumers within the region, in the rest of the nation, and the world outside of the United States. The interests of district producers

are identified primarily with those of the nation as a whole. By far the greatest proportion of district trade with the "rest of the world" consists of trade with households and industries in other parts of the nation. Therefore, in evaluating the stake of district residents in foreign trade one must keep in mind the two-fold nature of the impact of changes in world trade on the district: 1) the effect on the nation as a whole, indirectly affecting the district by way of the national demand for district resources, and 2) the direct effects of changes in foreign demand for products made in the district.

The interests of district producers in the direct effects of changes in foreign trade policy are likely to be diverse, at least in the short run. Broadly speaking, the differences are most apparent between those engaged in agriculture and those in manufacturing. The agricultural price support programs for nonperishable farm products require quota limitations on the import of these commodities. Cotton imports, for example, are restricted to about 90,000 bales of staple length 1 1/8 inches to 1 11/16 inches (extra long staple cotton is admitted quota free). Wheat imports are restricted to only 800,000 bushels per year, apportioned among the wheat exporting nations of the world. The continuation of present domestic farm policy would seem to require the maintenance of present foreign commercial policy with respect to agricultural products. By and large, tariff reductions without changes in import quotas on such commodities as cotton and cereal crops would have little effect on district agriculture. Changes in quota limitations on the import of products such as wool would, likewise, have little effect on district agriculture, although wool imports would increase substantially.

In a sense, the foreign aid programs are a partial substitute for the price support programs of some farm products. The elimination of foreign aid would most probably be reflected in a drop in export demand for American agricultural commodities, particularly food grains. This would mean increased domestic stocks and additional pressure on the price support programs.

For the district as a whole, the immediate and direct impact of freer trade through tariff reduction only would be slight. The types of imports which might increase substantially in dollar volume are not, in general, in competition with products manufactured in this district. Textile imports, for example, would increase substantially in dollar volume, but most of this increase would be in woolens and worsteds and apparel wool, branches of the textile industry not concentrated in this area. At most, such imports would amount to less than 10 per

cent of domestic production. In other cases the volume of potential imports represents such a small portion of domestic production as to be of no widespread significance. Shoe imports, for example, are about one-half of one per cent of domestic production. Even if such imports were to double, the effect on the shoe industry would be hard to distinguish from the many other factors affecting the volume of shoe production.

The structure of American exports would undergo some change with freer trade. The increased dollar earnings to the rest of the world would not be distributed in geographically the same directions as aid dollars are at present. About half of the increased dollar earnings would probably accrue to the other American nations, principally Canada and the Latin American republics. It is reasonable to assume that most of these dollar earnings would be spent directly for American goods. These areas are the places where the demand for American machinery and motor vehicles is the greatest and increasing the most rapidly. On the threshold of economic expansion, large-scale agriculture, large-scale resource development, and industrialization, these areas promise an important market for manufactured producers goods of all kinds as well as consumer durables. District manufacturers in these lines could expect to receive some of the direct benefits of these increased dollar earnings. Direct benefits, that is, of reduced American tariffs. This is not likely to be the experience for district agriculture, for these areas are just the ones that are also primary producers of agricultural products. Cotton may be an important exception to the general case.

For district income as a whole, however, the immediate and direct impact of freer trade and increased dollar earnings abroad should not be overstated for two reasons: 1) the importance of agriculture as a primary source of income in this area; and 2) the relatively small increase in foreign dollar earnings that could be expected in the short run, particularly if agricultural import quotas were retained. Indirectly, the result would also be slight, simply because of the relatively small impact of such a policy on the national economy.

But, if these effects are slight when measured against the aggregates of the national or district economy they may nonetheless loom large in the economies of the foreign nations concerned. The phrase "Trade not Aid" was first coined abroad. The development of freer world trade and economic integration under the aegis of trade may provide the key to a sound basis for a community of Western nations.

On balance, the opinions of district residents on these problems will be formed in part on an evaluation of their own personal stake as taxpayers, consumers, and producers. Here the indirect effects of national policies on the district are of most importance. For in the long run, district residents have a common interest in those policies which will aid in the continuing growth of the national economy in a world setting conducive to growth. And the rest of the world shares a common interest with the district and the United States. For, to a great extent, large dollar earnings abroad and a balanced world trade depend upon continued high and growing incomes in this nation.

GUY FREUTEL

Survey of Current Conditions

INDUSTRIAL production and trade in the Eighth District continued to thrive through mid-July, but an air of uncertainty toward the future clouded business thinking. And the construction and agricultural activity in some areas of the district economy had setbacks.

Adding to the record of continuing high-level business, preliminary reports through July 18 indicated that department store sales continued in fair volume a little ahead of year-earlier levels. Employment contributed its share by remaining on about an even keel. Manufacturing activity in the district was still heavy with only a few isolated cases of slackening (other than seasonal movements) ob-

servable. And the financial community gave evidence of the continued strength in the demand for funds by expanding loans to both business and consumers, following the easing in banks' reserve positions in July.

On the weak side, the construction setback in the district reflected a prolonged work stoppage in the St. Louis area and a lower level of awards. The farm outlook was dimmed as lack of rain damaged crops and pastures over wide areas of the district. However, prospects, improved by some rains in the latter half of July, were that the district crop out-turn would be larger than last year.

The district economic situation was very similar to that for the nation as a whole. The total output of goods and services in the nation, rising both in dollar and physical volume, reached an annual rate of about \$368 billion in the second quarter. Personal consumption, business investment in new plants, equipment and inventories, and Government purchases for defense all rose. Industrial production remained about the same in June. The farm economy was set back, although rains afforded some relief from the drouth. In construction, however, the national record was better than that of the district, as new gains were made in work put in place (seasonally adjusted).

Another indication of the strength in the current economic situation is to be found in the behavior of prices. Wholesale price averages moved up to 110.4 (1947-49=100) on July 14 and consumer prices at mid-June advanced 0.5 percentage points to 114.5.

Concern over the near-term future of business is thus in sharp contrast to the current general prosperity and rests primarily on: uncertainty as to the future rate of Government spending; expansion in finished goods inventories; dampening effect of higher interest rates on business investment; and the large share of consumer spending on durable goods—especially automobiles—being financed by consumer credit.

Employment

The major labor markets in the district showed little change from mid-May to mid-June and continued to reflect the high level of the demand for labor. Unemployment in the seven district states, as indicated by claims for unemployment insurance, decreased slightly during June and early July.

In four of the major markets of the district, supply and demand for labor were in approximate balance, where a year earlier all of the areas had moderate

surpluses. In St. Louis and Evansville, the condition of approximate balance has prevailed since the fall of 1952; in Louisville, expansion of employment brought about a balanced situation in May of this year. At Paducah, where a large Atomic Energy Commission plant, two supporting electrical generating plants and several chemical plants are being erected, construction employment has declined from the peak reached in August 1952. However, total employment there exceeded that of a year earlier, despite the reduced level of employment on construction, due mainly to the doubling of the permanent work force at the AEC plant and the staffing of nearby private chemical plants.

At Memphis, Tennessee, Little Rock, Arkansas, and Springfield, Missouri, the labor supply continued to exceed moderately the demands for labor, as it has over the past year. Employment opportunities increased, but not sufficiently to absorb the labor supply. In Memphis, nonfarm employment increased only one per cent in the past year. At Little Rock, the gain was 4 per cent. In Springfield, it was only 2 per cent. Two smaller areas, Herrin-Murphysboro-West Frankfort, Illinois, and Vincennes, Indiana, also continued to have an excess labor supply.

In St. Louis, work stoppages in construction and manufacturing produced some slack in the local labor situation during June and early July. Some construction workers were idled as a result of the work stoppage of truck drivers for material dealers. The number claiming unemployment rose about 3,000, and thousands more were unable to work at their regular construction jobs.

In Louisville, employment continued to expand as construction activity increased and production of explosives, farm machinery, automobiles, and appliances rose further.

Nationally, the civilian labor force increased seasonally with the influx of school-age youngsters into the labor markets. Civilian employment in farm and nonfarm work rose to 62.3 million in early June, 600,000 more than employed a year earlier. Nonfarm employment held steady from May to June but was about 800,000 above the level of June, 1952. Employment in agriculture rose more than usual from May to June, but continued below year-earlier levels.

Nationally, the volume of unemployment increased from May to June as it usually does at that season of the year with the influx of students into the labor market. Despite the increase, the June volume of unemployment continued below year-earlier levels. Only 2.4 per cent of the civilian labor force was unemployed in June, compared with 2.8 per cent in June, 1952.

CONSUMER PRICE INDEX

Bureau of Labor Statistics (1947-49=100)				June, 1953, compared with	
	June, '53	May, '53	June, '52	May, '53	June, '52
United States.....	114.5	113.6	113.4	+ 1%	+ 1%
St. Louis.....	115.8	114.7	115.5	+ 1	- 0 -

RETAIL FOOD

Bureau of Labor Statistics (1947-49=100)				June, 1953, compared with	
	June, '53	May, '53	June, '52	May, '53	June, '52
U. S. (51 cities).....	113.7	112.1	114.6	+ 1%	- 1%
St. Louis.....	115.0	112.9	118.3	+ 2	- 3

WHOLESALE PRICES IN THE UNITED STATES

Bureau of Labor Statistics (1947-49=100)				June, 1953, compared with	
	June, '53	May, '53	June, '52	May, '53	June, '52
All Commodities.....	109.4	109.8	111.2	- 0 -%	- 2%
Farm Products.....	95.3	97.8	107.2	- 3	- 11
Foods	103.3	104.3	108.5	- 1	- 5
Other	113.8	113.6	112.6	- 0 -	+ 1

Industry

The high industrial output of factories in the Eighth District continued throughout June and into July. In this latter month, however, vacations have been taking a more and more pronounced effect in recent years and some slowing down from June rates is to be expected. In June, lumber production was better than it had been in the previous month. But coal mining and whiskey production remained low.

Manufacturing—The hum of factory wheels continued unabated in June, according to figures on use of electric power at industrial plants in the district. In comparison with a year ago, for example, reports showed textile and fabricated metals plants using over 30 per cent more kilowatts; paper and allied products, electrical machinery and transportation equipment plants, well over 20 per cent more; and most other manufacturers with gains ranging from 4 to 19 per cent.

The steel ingot production rate in the St. Louis area also stayed up. Computed on a new basis to allow for the increased capacity of the new furnaces at Granite City, it was 94 per cent of capacity during the first three weeks of July. For the first six months of the year it has averaged about 90 per cent of capacity compared with an average of 80 per cent last year, prior to the work stoppage in June. A further increase in district capacity was realized on July 8, when the Green River Steel plant at Owensboro, Kentucky, was officially opened. The new plant, with two electric furnaces and a blooming mill, will use scrap steel as a raw material. It will have an annual ingot capacity of 240,000 tons of quality carbon steel—an upward revision of previously announced capacity.

Shoe production in the district corresponded to that in the nation, where an estimated 266 million pairs were turned out in the first half year, the second highest on record.

Lumber production improved in June from the low level in May and was about the same as a year earlier. Whiskey output also held close to year-ago levels with only 24 of the 60 distilleries in Kentucky in operation at the end of the month.

Coal and Oil Production—Little change was shown over the month of June in coal and crude oil production in the district. For the first half year, coal production ran about 10 per cent lower than last year, but crude oil output was somewhat higher as last year's production was cut by a strike in May, 1952.

Attention has again been attracted to new gas and oil discovery possibilities in the district. Re-

cently, oil-bearing cores were brought up in St. Louis County when test drills were being run to check possible use of the area for gas storage. And in northern Mississippi, continued discovery of gas wells has led to the belief that the area may soon prove to be an important oil and gas producer.

The St. Louis exploratory drilling has just begun, but that in Mississippi has undergone considerable development. Four gas or gas-distillate fields have been discovered there and a possible fifth field opener is being tested in Clay County. Since January, 1952, twenty-five wells have been drilled below 2,000 feet, and eleven tests, eight of them wildcats, are now being drilled, according to the OIL AND GAS JOURNAL.

Construction

In June and July, district construction activity continued to suffer from a serious tie-up of the building industry at St. Louis as truck drivers and concrete dealers failed to reach agreement in a strike going into its third month. An estimated 27,000 construction workers were affected and \$75 million construction projects cut back.

The volume of construction contract awards was also moving downward in the district. In June they

CONSUMPTION OF ELECTRICITY—DAILY AVERAGE*

(K.W.H. in thous.)	June, 1953	May, 1953	June, 1952	June, 1953, compared with	
	K.W.H.	K.W.H.	K.W.H.	May, '53	June, '52
Evansville.....	981	1,048	830	- 6%	+18%
Little Rock.....	144	129	140	+12	+ 3
Louisville.....	4,419	4,247	4,135	+ 4	+ 7
Memphis.....	1,621	1,684	1,458	- 4	+11
Pine Bluff.....	603	579	328	+ 4	+84
St. Louis.....	5,266	5,439	4,932	- 3	+ 7
Totals.....	13,034	13,126	11,823	- 1%	+10%

* Selected manufacturing firms.

LOADS INTERCHANGED FOR 25 RAILROADS AT ST. LOUIS

June, '53	May, '53	June, '52	First Nine Days		6 mos. '53	6 mos. '52
			July, '53	July, '52		
110,795	117,935	98,767	33,227	29,061	682,120	650,387

Source: Terminal Railroad Association of St. Louis.

CRUDE OIL PRODUCTION—DAILY AVERAGE

(In thousands of bbls.)	June 1953	May 1953	June 1952	June, 1953 compared with	
	1953	1953	1952	May, '53	June, '52
Arkansas.....	77.1	76.9	76.2	- 0 - %	+ 1%
Illinois.....	161.1	161.7	170.0	- 0 -	+ 5
Indiana.....	35.8	35.4	32.7	+ 1	+ 9
Kentucky.....	30.4	29.9	33.9	+ 2	-10
Total.....	304.4	303.9	312.9	- 0 - %	- 3%

COAL PRODUCTION INDEX

1935-39=100

Unadjusted			Adjusted		
June, '53	May, '53	June, '52	June, '53	May, '53	June, '52
117.8 P	118.1 P	118.5	125.3 P	114.7 P	126.0

P—Preliminary.

SHOE PRODUCTION INDEX

1935-39=100

Unadjusted			Adjusted		
May, '53	April, '53	May, '52	May, '53	April, '53	May, '52
139.9	154.1	145.4	144.2	151.1	150.0

BUILDING PERMITS

Month of June, 1953

(Cost in thousands)	New Construction				Repairs, etc.			
	Number	Cost	Number	Cost	Number	Cost	Number	Cost
	1953	1952	1953	1952	1953	1952	1953	1952
Evansville.....	217	59	\$ 563	\$ 77	107	113	\$ 94	\$ 222
Little Rock.....	63	46	1,454	409	205	222	368	350
Louisville.....	136	253	743	1,335	93	93	364	155
Memphis.....	1,687	1,424	3,174	3,066	227	221	155	332
St. Louis.....	294	265	2,905	1,558	332	268	443	857
June Totals.....	2,387	2,047	\$8,839	\$ 6,445	964	917	\$1,424	\$1,916
May Totals.....	2,056	3,143	\$8,078	\$13,070	996	1,011	\$1,535	\$1,225

amounted to \$79 million, 12 per cent less than in May and 32 per cent below those of last year, according to F. W. Dodge Corporation reports. The volume for the first half of the year now stands at 19 per cent below that of 1952.

In contrast with district experience, June expenditures for new construction for the nation as a whole continued to exceed those of a year ago, with the total for the first half year being 8 per cent above the first half of 1952. However, construction contract awards, which lead the volume of expenditures dropped roughly one-fourth (far more than the seasonal amount) from May to June, although for the first six months they too were higher than a year ago.

Trade

Preliminary reports through mid-July indicated that consumer buying continued in fair volume somewhat above last year's levels. At furniture and appliance stores promotions in seasonal lines showed good results. At department stores four-weeks' sales through July 25 were 3 per cent above a year ago. In addition, there were indications that the post-July 4th slump in automobile sales was not as severe as last year. On the other hand, inventories of new and used cars have been increasing as seasonal demand for new cars has not been sufficient to match receipts and used car sales have dropped below year-ago levels.

At district department stores, sales during June declined less than seasonally from May and were larger than a year ago. Many parts of the district experienced prolonged hot weather which stimulated sales in both durable and nondurable lines. The stores (and merchants generally) were apparently better prepared this year than in 1952 when consumer buying depleted stocks of some seasonal items. This year the only apparent shortages were in some brand-name air conditioning units. After adjustment, the index of daily sales averaged 113 per cent of the 1947-49 period. In comparison, they were 108 per cent in May and 111 per cent in June, 1952. For the first six months of 1953, district sales

DEPARTMENT STORES

	Net Sales			Stocks	Stock	
	June, 1953 compared with			on Hand	Turnover	
	May, '53	June, '52	6 mos. '53 to same period '52	June 30, '53	Jan. 1 to June 30, 1953	
8th F.R. District Total.....	3%	+ 7%	+ 5%	+12%	1.75	1.81
Ft. Smith Area, Ark. 1,2.....	+ 2	- 0	-	+ 6	1.68	1.68
Little Rock Area, Ark. 2.....	+ 7	+ 2	+ 2	+14	1.64	1.78
Quincy, Ill.....	+ 3	+13	+ 2	+ 4	1.69	1.81
Evansville Area, Ind. 2.....	7	+16	+15	.....	.....	.....
Louisville Area, Ky., Ind. 2.....	5	+ 3	+ 3	+11	1.84	1.92
St. Louis Area, Mo., Ill. 2+ 4	+10	+ 5	+ 5	+13	1.77	1.79
Springfield Area, Mo. 2.....	+10	+ 2	+ 2	+19	1.52	1.62
Memphis Area, Tenn. 2.....	+15	+ 2	+ 3	+10	1.82	1.89
All Other Cities 3.....	3	+ 1	+ 6	+16	1.42	1.64

¹ In order to permit publication of figures for this city (or area), a special sample has been constructed which is not confined exclusively to department stores. Figures for any such nondepartment stores, however, are not used in computing the district percentage changes or in computing department store indexes.

² The sample for these areas is unchanged from the sample previously reported for the principal cities in these areas.

³ Fayetteville, Pine Bluff, Arkansas; Harrisburg, Mt. Vernon, Illinois; Vincennes, Indiana; Danville, Hopkinsville, Mayfield, Kentucky; Chillicothe, Missouri; Greenville, Mississippi; and Jackson, Tennessee.

OUTSTANDING ORDERS of reporting stores at the end of June 30, 1953, were 8 per cent larger than on the corresponding date a year ago.

PERCENTAGE OF ACCOUNTS AND NOTES RECEIVABLE

Outstanding June 1, 1953, collected during June		Instalment Excl. Instal.	
Accounts	Accounts	Accounts	Accounts
Fort Smith.....	42%	Quincy.....	20%
Little Rock.....	16	St. Louis.....	20
Louisville.....	19	Other Cities.....	10
Memphis.....	18	8th F.R. Dist.....	19

INDEXES OF DEPARTMENT STORE SALES AND STOCKS

8th Federal Reserve District

	June, 1953	May, 1953	April, 1953	June, 1952
Sales (daily average), unadjusted ⁴	104	112	100	103
Sales (daily average), seasonally adjusted ⁴	113	108	99	111
Stocks, unadjusted ⁵	142	149	148	118
Stocks, seasonally adjusted ⁵	149	149	139	125

⁴ Daily average 1947-49=100.

⁵ End of Month Average 1947-49=100.

Trading days: June, 1953—26; May, 1953—25; June, 1952—25.

RETAIL FURNITURE STORES

	Net Sales		Inventories		Ratio of Collections	
	June, 1953 compared with		June, 1953 compared with		June, '53	
	May, '53	June, '52	May, '53	June, '52	June, '53	June, '52
8th Dist. Total ¹	+ 8%	+ 5%	- 5%	+ 7%	15%	16%
St. Louis.....	+ 8	+ 4	- 5	+18	16	16
Louisville Area ²	+ 2	+15	- 4	+ 4	15	15
Louisville.....	- 5	+15	- 4	+ 3	14	13
Memphis.....	+23	+ 4	*	*	12	13
Little Rock.....	+14	- 8	-23	- 5	15	19
Springfield.....	-18	- 9	+ 4	+12	15	15

* Not shown separately due to insufficient coverage, but included in Eighth District totals.

¹ In addition to following cities, includes stores in Blytheville, Fort Smith, Pine Bluff, Arkansas; Hopkinsville, Owensboro, Kentucky; Greenwood, Mississippi; and Evansville, Indiana.

² Includes Louisville, Kentucky; and New Albany, Indiana.

PERCENTAGE DISTRIBUTION OF FURNITURE SALES

	June, '53	May, '53	June, '52
Cash Sales.....	13%	16%	13%
Credit Sales.....	87	84	87
Total Sales.....	100%	100%	100%

WHOLESALE TRADE

Line of Commodities Data furnished by Bureau of Census, U.S. Dept. of Commerce*	Net Sales		Stocks
	June, 1953 compared with		June 30, 1953 compared with
	May, '53	June, '52	June 30, 1952
Automotive Supplies.....	+13%	+ 8%	- 1%
Drugs and Chemicals.....	+ 3	+ 8	.....
Dry Goods.....	- 0 -	+12	+21
Groceries.....	+ 3	+ 3	+ 1
Hardware.....	+ 5	+ 5	- 2
Tobacco and its Products.....	+ 8	+ 6	+ 4
Miscellaneous.....	+ 4	+ 9	+17

* Preliminary.

volume totaled 5 per cent above that in the comparable period of 1952.

During June, women's specialty store sales dropped 17 per cent from May but were 6 per cent larger than in June, 1952. Similarly, men's wear stores sales were somewhat less than those in May but larger than last year.

Furniture store sales were 8 per cent better than in May and were 5 per cent better than in June, 1952. Consumer buying was heavier in furniture lines than in appliance lines with hot weather items moving somewhat more than seasonally.

Inventories of reporting district retailers on June 30 were slightly larger than a year ago.

Banking and Finance

The money market, which had been tight over the first five months of the year, was eased during June and the first half of July. Early in June, Treasury operations added substantially to reserves of the banking system. Over the entire month-and-a-half, a sizable amount of reserves were supplied by Federal Reserve purchases of Treasury bills. Pressure on banks was also relieved by a reduction in reserve requirements in early July. Thus banks were able to purchase securities, reduce borrowings, and build up cash assets.

District Banking—From the end of May through mid-July earning assets of member banks in the Eighth District expanded. The growth centered in net purchases of Government securities. Purchases of the new Treasury tax-anticipation certificates constituted the bulk of the net addition, but Treasury bill portfolios were substantially enlarged also. Bank holdings of "other" securities rose moderately.

Total loans (other than interbank) increased in the seven-week period, with the demand coming primarily from businesses and consumers. Commercial loans at the larger city banks were up \$10 million in contrast with the moderate contraction usually developing at this time. The expansion centered at banks in St. Louis and went primarily to manufacturers, especially of textiles, apparel, and leather goods. Sales finance companies, however, substantially reduced their bank indebtedness in the period, partly by financing in the capital market.

Consumer borrowing continued to expand sharply. During June consumer instalment credit at district commercial banks jumped an estimated \$10 million to a level of \$435 million. In early July "other" (largely consumer) loans continued to climb at weekly reporting banks.

Reflecting the bank credit expansion and a net inflow of funds, deposits at district weekly reporting banks rose nearly \$250 million during June and early July. About half the gain was in deposits of the United States Government reflecting both June 15 tax collections and bank and customer purchases of tax-anticipation certificates with credit to the Treasury's tax and loan accounts. Deposits of businesses, individuals, and correspondent banks were also up substantially.

District Member Bank Earnings—Eighth District member bank earnings reached a new high in the

EIGHTH DISTRICT MEMBER BANK ASSETS AND LIABILITIES BY SELECTED GROUPS

(In Millions of Dollars)	All Member			Large City Banks ¹			Smaller Banks ²		
	Assets	Change from:		June, '53	Change from:		June, '53	Change from:	
		May, '53 to June, '53	June, '52 to June, '53		May, '53 to June, '53	June, '52 to June, '53		May, '53 to June, '53	June, '52 to June, '53
1. Loans and Investments.....	\$4,362	\$- 6	\$+167	\$2,497	\$- 4	\$+ 70	\$1,865	\$- 2	\$+ 97
a. Loans.....	2,018	- 26	+138	1,317	- 33	+102	1,054	+ 7	+ 36
b. U. S. Government Obligations.....	1,934	+ 15	+ 20	980	+ 25	- 30	954	- 10	+ 50
c. Other Securities.....	410	+ 5	+ 9	200	+ 4	- 2	210	+ 1	+ 11
2. Reserves and Other Cash Balances.....	1,385	- 0 -	+ 25	864	+ 5	+ 16	521	- 5	+ 9
a. Reserves with the F. R. Bank.....	713	- 0 -	+ 12	455	- 1	+ 3	258	+ 1	+ 9
b. Other Cash Balances ³	672	- 0 -	+ 13	409	+ 6	+ 13	263	- 6	- 0 -
3. Other Assets.....	53	- 1	+ 3	33	- 1	+ 1	20	- 0 -	+ 2
4. Total Assets.....	\$5,800	\$- 7	\$+195	\$3,394	\$- 0 -	\$+ 87	\$2,406	\$- 7	\$+108
Liabilities and Capital									
5. Gross Demand Deposits.....	\$4,248	\$+ 17	\$+ 90	\$2,586	\$+ 27	\$+ 38	\$1,662	\$- 10	\$+ 52
a. Deposits of Banks.....	638	- 9	+ 11	602	- 9	+ 10	36	- 0 -	+ 1
b. Other Demand Deposits.....	3,610	+ 26	+ 79	1,984	+ 36	+ 28	1,626	- 10	+ 51
6. Time Deposits.....	1,061	+ 2	+ 48	506	+ 1	+ 19	555	+ 1	+ 29
7. Borrowings and Other Liabilities.....	86	- 26	+ 23	73	- 28	+ 17	13	+ 2	+ 6
8. Total Capital Accounts.....	405	- 0 -	+ 34	229	- 0 -	+ 13	176	- 0 -	+ 21
9. Total Liabilities and Capital Accounts.....	\$5,800	\$- 7	\$+195	\$3,394	\$- 0 -	\$+ 87	\$2,406	\$- 7	\$+108

¹ Includes 12 St. Louis, 6 Louisville, 3 Memphis, 3 Evansville, 4 Little Rock, and 4 East St. Louis-National Stock Yards, Illinois, banks.

² Includes all other Eighth District member banks. Some of these banks are located in smaller urban centers, but the majority are rural area banks.

³ Includes vault cash, balances with other banks in the United States, and cash items reported in process of collection.

DEPOSIT ACTIVITY

	Debits ¹			Turnover	
	June, 1953 (In millions)	Percent Change from May, 1953	June, 1952 ²	June, 1953 (Annual Rate)	Year Ended June 30, 1953 ²
Six Largest Centers:					
East St. Louis-National Stock Yards, Ill.	\$ 129.8	+ 5%	+ 3%	26.9	27.4
Evansville, Ind.	176.6	+ 7	+28	18.5	17.0
Little Rock, Ark.	157.6	+ 5	+ 7	15.8	15.7
Louisville, Ky.	718.6	+ 2	+13	23.8	24.6
Memphis, Tenn.	613.0	+ 3	+16	23.6	25.1
St. Louis, Mo.	2,115.7	+10	+11	22.5	20.5
Total—Six Largest Centers	\$3,911.3	+ 7%	+12%	22.4	21.6
Other Reporting Centers:					
Alton, Ill.	\$ 43.0	+34%	+36%	15.2	12.1
Cape Girardeau, Mo.	14.1	+ 8	+17	12.4	11.4
El Dorado, Ark.	27.4	— 1	+19	11.6	10.8
Fort Smith, Ark.	50.4	+15	+16	14.3	13.5
Greenville, Miss.	22.6	+11	+15	12.9	14.6
Hannibal, Mo.	9.6	+ 7	— 5	9.1	9.0
Helena, Ark.	7.3	+ 3	+ 7	10.1	12.9
Jackson, Tenn.	20.8	+ 6	+11	11.0	11.4
Jefferson City, Mo.	52.1	— 4	+10	9.3	11.4
Owensboro, Ky.	41.6	+ 7	— 1	14.4	15.4
Paducah, Ky.	42.2	+ 2	— 1	14.4	14.0
Fine Bluff, Ark.	32.6	— 2	— 2	12.1	14.5
Quincy, Ill.	36.1	+ 5	+ 8	15.4	14.3
Sedalia, Mo.	12.0	— 1	+13	10.3	9.8
Springfield, Mo.	71.5	+ 8	+ 7	13.6	14.4
Texarkana, Ark.	22.7	+ 5	+31	15.0	12.8
Total—Other Centers	\$ 506.0	+ 7%	+10%	12.7	13.0
Total—22 Centers	\$4,417.3	+ 7%	+12%	20.6	20.0

¹ Debits to demand deposit accounts of individuals, partnerships and corporations and states and political subdivisions.

² Estimated.

first half of 1953. Net profits after taxes were nearly \$18 million, the highest half-year on record and one-sixth higher than the corresponding period a year ago. Both operating expenses and income taxes were higher than a year ago but the growth in earnings was sharper. The greater earnings reflected both larger holdings of earning assets and a higher average rate of return on these assets.

Agriculture

Rains were received in district states during the latter part of July giving temporary relief at least from the drouth. As a result of this moisture, the outlook of major district crops (corn, soybeans, cotton, and tobacco) improved considerably. However, lack of rain during the two-month period ending in mid-July damaged crops generally over wide areas of the district and was particularly harmful to pastures. The drouth reached serious proportions in Missouri and Arkansas, where 72 and 60 counties, respectively, were designated as drouth disaster areas as of July 27.

Crop Production—Despite serious drouth conditions in some sections, the outlook for crop production on July 1 in the Eighth District was still somewhat higher than in 1952. However, with the exception of wheat production (now estimated at

sixty-six million bushels and 31 per cent more than 1952 production), the final outturn of major district crops depends on weather during the remainder of the growing season. To a considerable extent the increased production indicated in the July 1 estimate came from states that suffered from the drouth in 1952. Thus, the 2 per cent increase in corn production for the district resulted from larger crop estimates in Kentucky, Tennessee, Mississippi, and, to a lesser extent, Indiana. Increased oats production was expected in Arkansas, Kentucky, Mississippi, and Tennessee. A larger hay crop was indicated for these same four states. The smaller tobacco crop reflects reductions in acreage quotas.

ESTIMATED PRODUCTION FOR MAJOR CROPS EIGHTH DISTRICT, JULY 1, 1953

(In thousands)	Estimated Production July 1, 1953	Per Cent Change From 1952	Per Cent Change From 1942-51 Average
Corn (bu.)	352,449	+ 2%	— 1%
Wheat (bu.)	66,357	+31	+74
Oats (bu.)	49,884	+15	—17
Rice (bags)	11,288	+ 8	+55
Hay (tons)	8,141	+ 5	—16
Tobacco, burley (lbs.)	189,093	—14	+ 5
Dark, air-cured (lbs.)	23,800	— 7	—20
Dark, fire-cured (lbs.)	20,511	— 0	—29

Adapted from CROP PRODUCTION, USDA, July, 1953.

Soybean and cotton acreage estimates (production estimates not available) for the 1953 crops in district states were higher than year-ago levels. Increased acreage of soybeans in Illinois, Indiana, and Missouri more than offset reductions in other district states. The increase in district states, however, was not as large as expected nationally.

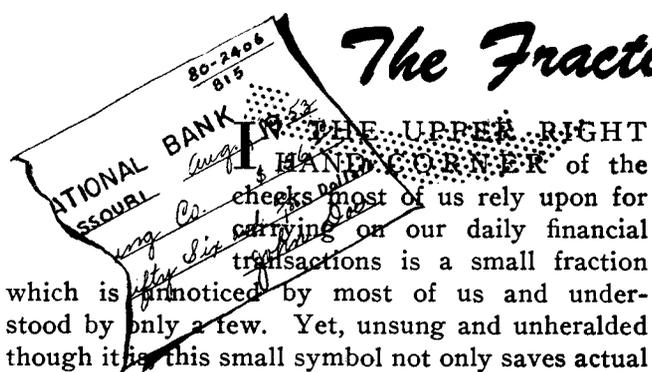
Cotton acreage in district states increased 2 per cent compared with a 9 per cent decline nationally. The bulk of the decrease nationally was expected in Texas and Oklahoma, although acreage declined one per cent in Arkansas. Growers included a considerable acreage in the July 1 figure which had been planted but did not come up, much of which will be abandoned before the next crop report. With average yields, the acreage would produce a crop of about 14 million bales.

ESTIMATED SOYBEAN AND COTTON ACREAGE EIGHTH DISTRICT STATES, JULY 1, 1953

(In thousands)	Soybeans		Cotton	
	1953 Acreage	Per Cent Change from 1952	1953 Acreage	Per Cent Change from 1952
Arkansas	733	—15%	1,885	— 1%
Illinois	3,626	+ 2	.....	.....
Indiana	1,723	+ 5	.....	.....
Kentucky	109	— 4	.....	.....
Mississippi	355	—22	2,430	+ 1
Missouri	1,864	+ 8	515	+ 4
Tennessee	179	— 1	905	+ 8
District States	8,589	+ 1%	5,735	+ 2%
United States	14,335	+ 2%	24,618	— 9%

Source: CROP PRODUCTION, COTTON PRODUCTION, USDA, July, 1953.

The Fraction That Gets Action



THE UPPER RIGHT HAND CORNER of the checks most of us rely upon for carrying on our daily financial transactions is a small fraction which is unnoticed by most of us and understood by only a few. Yet, unsung and unheralded though it is, this small symbol not only saves actual dollars in costs of handling checks, but helps prevent errors and generally speeds-up the collection process to the advantage of both depositors and banks.

The development of this fractional symbol is fairly recent. It was in 1911 that American Bankers Association adopted and authorized use of a uniform Numerical System for the identification of banks, which is now the numerator of the fraction. In this numerator, the number preceding the hyphen indicates the location of the bank. Numbers 1 through 49 are assigned to major cities and numbers 50 through 99 apply to states and U. S. territories. St. Louis, for example, is 4; Missouri (outside St. Louis, Kansas City, and St. Joseph which are given major city numbers) is 80. The number following the hyphen identifies the local bank.

But it was not until 1945 that the denominator of the fraction was adopted as a result of a joint study by the Association and the Federal Reserve System. And the denominator has been a particular aid to efficiency. Known as the "check routing symbol," it has become so useful that since June 1, 1948, the percentage of checks in the nation bearing the symbol has increased from 54 per cent to 91 per cent. In the Eighth District, the increase has been from 54 to 88 per cent (see table below).

Percentage of Checks Bearing the Check Routing Symbol in Eighth District by State June 1, 1953

Arkansas	82%
Illinois	90
Indiana	87
Kentucky	92
Mississippi	80
Missouri	92
Tennessee	84
Eighth District	88%

The check routing symbol greatly simplifies the clearing process. In the days before use of the symbol, clerks busy sorting checks for clearing often had to turn from the job of actually routing the checks and refer to manuals in order to determine where a check should be sent. Today, checks bearing the symbol can be dispatched with accuracy by quick reference to the routing symbol. Furthermore, the numbers in the symbol facilitate machine handling. Thus, time is saved at no sacrifice in accuracy and with a large gain in efficiency. The routing symbol may only be shown on checks collectible through the Federal Reserve System. It works like this.

The first part of the number denotes the Federal Reserve District within which the bank is located (numbered from 1 to 12). The following figure indicates whether checks should be mailed to the Federal Reserve head office (number 1) or a branch of that office. A denominator of 810, for example, indicates the Federal Reserve Bank of St. Louis, 820 the Little Rock Branch, 830 the Louisville Branch, and 840 the Memphis Branch.

The final figure in the denominator has a dual function. A zero, such as shown in the examples above, means that credit will be given to the collecting bank's reserve account as soon as the check is received by the appropriate Federal Reserve office. If there is a final number, rather than a zero, it indicates that credit will be deferred.

These same principles are applied to checks of all par clearing banks and to certain special-purpose checks as well. Thus, checks of the Treasurer of the United States, postal money orders, and checks of the Federal Reserve Banks carry a symbol denominator of 000—meaning that they are accepted for immediate credit at any Federal Reserve Bank or Branch.

The trend to more widespread use of the check routing symbol is encouraging in this day of increasingly heavy check volumes. In the Federal Reserve Bank of St. Louis about 450,000 checks a day are received for collection. With mounting check volumes, the value of the symbol becomes greater each day.