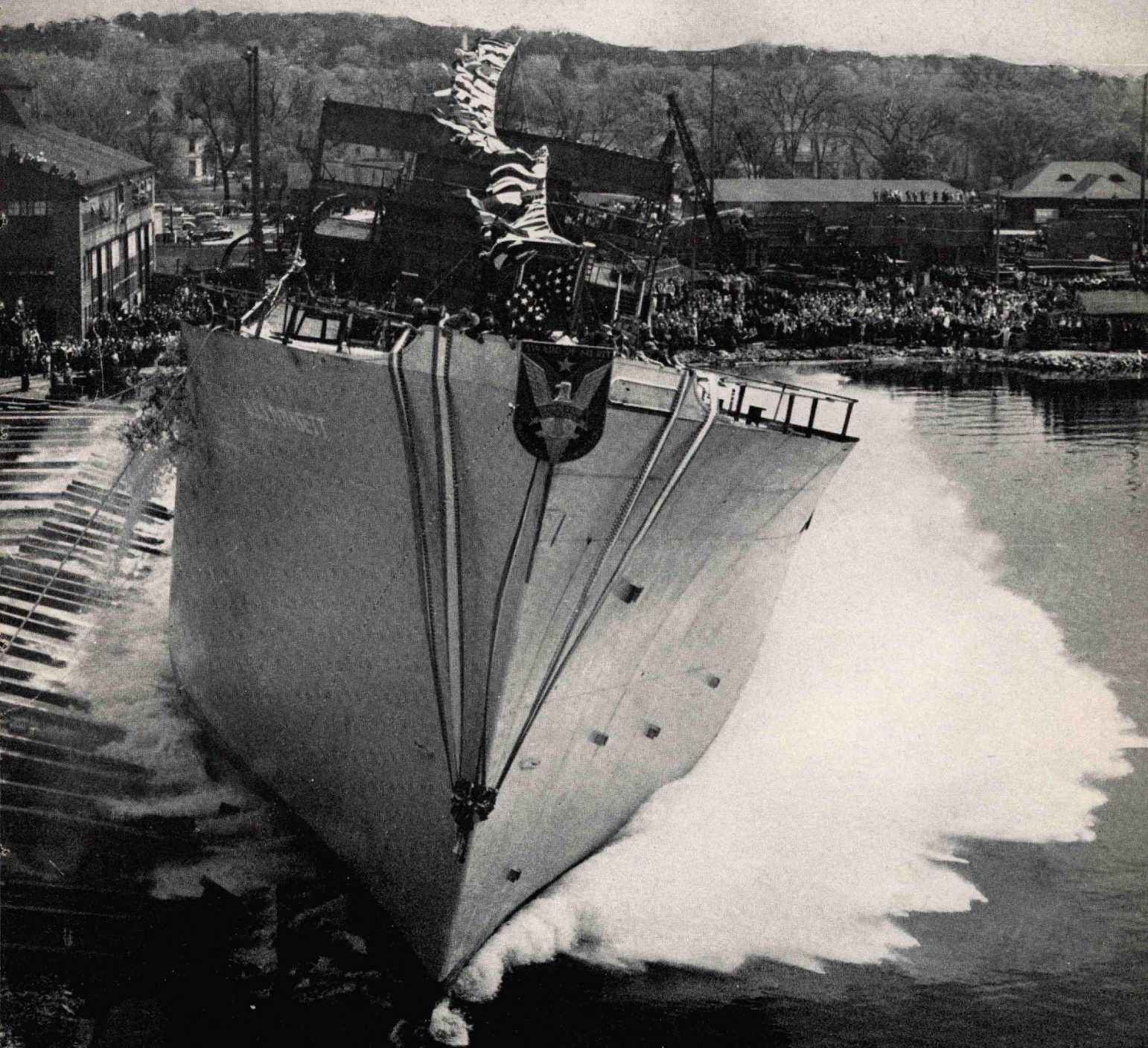


MARCH, 1945



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

State Budgets in the Seventh District

Substantial Surpluses Accumulate During War

The General Assemblies in Illinois, Indiana, Iowa, Michigan, and Wisconsin are currently formulating their financial plans for the period July 1, 1945 to June 30, 1947. Legislative attention is being given to executive budgets submitted by the Governors of these states. With the exception of four states in the nation (New York, New Jersey, South Carolina, and Michigan), state governments adopt two-year budgets even though far longer range planning is thereby required than is characteristic of the financial plans of local governments, the Federal Government, or business enterprise. This forecasting of expenditures and revenues for a period of over thirty months is subject to a wide range of error. The budgets presently being considered were prepared by the executive departments of the several states in the latter part of 1944. They incorporate detailed financial plans of expenditure and estimates of revenue for a period in which the war will probably come to an end and in which problems of reconversion and readjustment will drastically affect state fiscal policies. The estimates of revenue are subject to the same uncertainties in economic conditions. The widespread practice of preparing biennial budgets arises from the fact that legislative approval of expenditure programs is essential and the legislatures in only four states meet annually. Special sessions would be required to shorten the budgeting period.

The fact that budgets prepared for such long periods of time are at all practicable and acceptable arises largely from stability in state expenditure programs and their relative insensitivity to changing economic conditions. Indeed, the budgeting requirements themselves tend to accentuate the inflexibility in state fiscal policies and make them unresponsive to rapidly changing economic conditions. The level and timing of the state expenditures, the character of state tax systems, the level of tax rates, and state borrowing and debt repayment practices are now recognized as having significant effects upon local economic conditions. Inadequate attention has been given to the nature of these effects and the importance of properly shaping state fiscal policy to minimize economic fluctuations.

STATE TAX SYSTEMS

State revenues in the Seventh District are largely derived from payroll taxes for unemployment compensation; general sales taxes; excises on alcoholic beverages, tobacco products, and public utility services; general corporation taxes; insurance taxes; highway user levies on motor fuel and highway vehicles; personal income taxes; and death and gift taxes. Wisconsin and Iowa are the only District states with corporation and personal net income taxes, though the Indiana gross income tax law applies to salary and wage income. Wisconsin is the only state without a general sales tax. The

dependence upon excises and business taxes gives a greater stability to state revenues in depression than is had by resort to such levies as personal income taxes and reflects in some measure the necessity of adequate provision for the inflexibility in state expenditure programs.

STATE EXPENDITURES

State expenditures are primarily for highways, old age and blind pensions, unemployment insurance, and a variety of welfare functions including institutional care in prisons, hospitals, etc. In addition, states make substantial grants in aid to localities for the performance of purely local functions, principally education and street construction and maintenance.

During the past three years state revenues, because of the rising level of employment and prices, have increased more rapidly than state expenditures and grants to local government. As a result there have been substantial accumulations of cash which have been earmarked for postwar expenditure on public construction deferred during the war because of the lack of materials and manpower. The accumulation of these surpluses has necessitated tentative consideration of a program of postwar public investment, and certain of the states are presently developing these programs in specific terms, with priorities assigned to more urgently needed improvements, and specifications and blueprints designed to put them into prompt execution.

RELATIVE IMPORTANCE OF STATE FINANCE

The year 1941 is the latest period for which complete financial data are available for Federal, state, and local government operations.¹ In that year state expenditures, excluding aids to local units and debt repayment, were 15 per cent of total governmental expenditures of 23.3 billion dollars compared with 29 per cent for local governments and 56 per cent for the Federal Government. From the standpoint of tax revenues, the states collected 27 per cent of total tax receipts aggregating 16.9 billion dollars, the local units an equivalent percentage, and the Federal Government 46 per cent. The differences between expenditures and tax revenues are due to borrowings, non-tax revenues, and to grants from the states to local units and from the Federal Government to the states.

The use of governmental cost payments, to compare the relative importance of Federal, state, and local government, is probably more appropriate than comparisons based on tax revenues. Unfortunately the expenditure basis of compari-

¹Bureau of the Census, *Financing Federal, State and Local Governments: 1941*.

(Continued on inside back cover)

Wartime Great Lakes-Inland Shipbuilding

District Produces Large Volume of Ships, Engines, Equipment

Although most ships built during the war have been launched at shipyards on the Atlantic, Pacific, and Gulf Coasts, several hundred ships and barges of various types have been constructed in more than twenty-five shipyards on the Great Lakes and rivers in the Midwest. The largest contribution of Midwest industries to the national shipbuilding program, however, has been in the form of steel plates, marine engines, parts, and countless types of ship equipment, to a great extent on a subcontract basis. Whereas only about 5 per cent of the value of all completed ships has been launched on the Great Lakes and inland rivers, Midwest manufacturers probably have accounted indirectly for at least three times this amount in components for final ship assembly elsewhere.

HEAVY DEMAND FOR SHIPS

Since the outset of defense preparations in 1940, and until recent months, the demand for ships for numerous specialized war purposes has been at, or near, record levels. The initial demand was for cargo and combat vessels designed to meet defensive requirements. New and expanded shipyards on the coasts began to produce substantial numbers of Liberty ships, destroyers, carriers, and other naval vessels on a mass production basis in 1941. With shipping losses from enemy action extremely heavy immediately after Pearl Harbor, the need for more ship construction intensified greatly, especially for frigates or escort vessels, to meet the submarine menace. In addition, the Navy expanded its own submarine program and all of the services called for many specialized types of ships such as tankers, subchasers, tugs, barges, minesweepers, and retriever and salvage boats. Further complicating the problem of adequate shipping tonnage after Pearl Harbor, manpower stringencies became so acute in most coastal shipbuilding areas as to limit severely additional expansion of construction facilities. Greater attention was then directed to using existing shipyards and building new ways on the Great Lakes and certain of the larger rivers which lent themselves to the production of the above-mentioned types of ships.

DELIVERY PROBLEMS MET SUCCESSFULLY

One of the principal problems to be faced before shipbuilding could be greatly expanded on the Lakes was the method of delivering completed vessels to coastal ports. The St. Lawrence River locks limit passage to vessels under 259 feet in length. Moreover, ships launched at Great Lakes yards cannot be moved down the St. Lawrence River from December to May because of ice conditions. The possibility was explored of delivering ships through the Chicago Drainage Canal linking Lake Michigan with the Illinois River

which in turn flows into the Mississippi. Bridges over the drainage canal were found to be too low, and the normal nine foot river channel too shallow, to permit passage of large ocean-going ships.

Engineering ingenuity, however, overcame these obstacles. By removing masts from the ships and taking on sufficient ballast the bridges could be cleared. The shallow river channel problem was found to involve principally the sterns of the ships which are weighted down by heavy engines and other machinery. The solution agreed upon has been air-filled, steel drums serving as pontoons to lift the aft section of the ship. At Lockport, Illinois, after moving through the Chicago Drainage Canal, large vessels are equipped with four of these pontoons, each twenty feet long and nine feet in diameter. Once the pontoons are attached, pusher type river boats move the ships through the locks into the Des Plaines River, down the Illinois River, and ultimately via the Mississippi to New Orleans. Masts removed and stowed on decks at Chicago are put in place again at New Orleans. Pontoons are returned to Lockport for further use.

With some existing facilities and suitable locations for more shipyards, available manpower, and a satisfactory method of delivery, sizable ship construction contracts were awarded in the Great Lakes area, but for the most part several months after Pearl Harbor. The Maritime Commission, Navy, and Army are all participating in the shipbuilding program on the Great Lakes and inland rivers. Although some smaller vessels were launched earlier, the first frigate, 306 feet long and with 37½ foot beam, came down the ways in July 1943.

As the offensive phases of the war were planned, shipbuilding needs of the nation shifted more and more to attack cargo and combat vessels. The Great Lakes-inland shipyards began production of new diesel cargo ships, which are the largest ocean-going vessels to be built in the area. Although smaller than the new Victory cargo ships built on the coasts, they are said to be comparable in speed. In addition, the output of many types of landing craft has been heavy on the Lakes and rivers.

SHIPBUILDING EMPLOYMENT

Employment in the Great Lakes-inland shipyards, according to the United States Bureau of Labor Statistics, ex-

THIS MONTH'S COVER

One of the largest ocean-going cargo vessels ever built on the Great Lakes, being launched at Sturgeon Bay, Wisconsin.

(Courtesy United States Maritime Commission)

panded from about 6 thousand workers in June 1940 to 16 thousand at the time of Pearl Harbor, and then to a wartime peak of 129 thousand workers in June 1944, a gain of 2,100 per cent for the entire period. This employment has since declined to about 107 thousand workers, reflecting the overall reduction in the national shipbuilding program. Indicative of the magnitude of wartime ship construction elsewhere, employment in the nation's shipyards increased from 168 thousand in June 1940 to 556 thousand in December 1941, and reached a wartime record level of 1.7 million in December 1943, an increase of 925 per cent over June 1940. In December 1944, national shipbuilding employment numbered 1.5 million persons.

That the peak employment level in the Great Lakes-inland area was reached six months later than the peak for the nation indicates sharply the later timing of the shipbuilding program in this area. The proportion of national shipbuilding employment in the Great Lakes-inland area, moreover, remained roughly at 3.5 per cent from 1940 to Pearl Harbor, but has since increased to more than 7 per cent.

PRINCIPAL SHIPBUILDING CENTERS

Prime contracts for ships, including marine engines and propulsion equipment, awarded to Seventh District firms from June 1940 through December 1944 have exceeded 2.2 billion dollars, or 8.4 per cent of the United States total. Within the District the bulk of the contracts has been placed in the Detroit, Rockford, Chicago, La Salle, Saginaw-Bay City, Milwaukee, and Manitowoc-Sheboygan industrial areas. Ship assembly in the District occurs principally in Wisconsin: Milwaukee, Sturgeon Bay, and Manitowoc; Michigan: Algonac, Detroit, Ecorse, and Bay City; and Illinois: Chicago and Seneca. Most of the ship contracts in the Rockford area and a large portion of those in Chicago, Detroit, and Milwaukee are for marine engines for ships launched on the coasts as well as the Lakes and rivers. Outside the Seventh District, but in close proximity, are other Great Lakes-inland shipyards at Superior, Wisconsin; Duluth, Minnesota; Evansville and Charlestown, Indiana; and Lorain and Toledo, Ohio.

Since June 1940, about 20 million dollars have been spent for new shipbuilding facilities in the Seventh Federal Reserve District. More than one-half of these expenditures has been for equipment and the remainder for new structures. Government funds have been used to finance more than 75 per cent of these new and expanded facilities.

The building of large ships during the war emergency is not new to the Great Lakes area, such activity dating back well into the last century. Ore carriers, tankers, car ferries, and pleasure craft were important products of Great Lakes shipyards during peacetime. The extent of the wartime expansion in shipbuilding on the Lakes and rivers, however, has brought tremendous increases in population, employment, and incomes to many comparatively small communities in the Midwest.

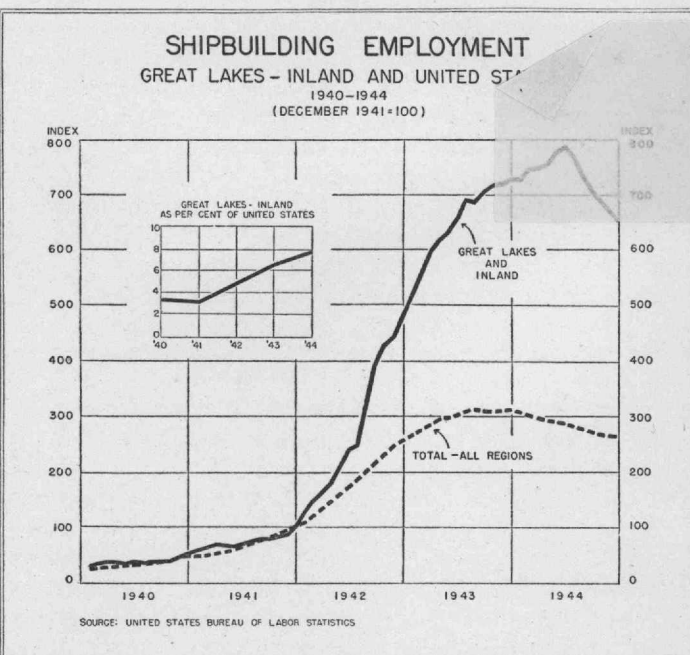
Sturgeon Bay and Manitowoc, Wisconsin; Bay City, Michigan; and Seneca, Illinois are excellent illustrations of

District communities which have been sharply affected by the wartime upsurge of shipbuilding activity.

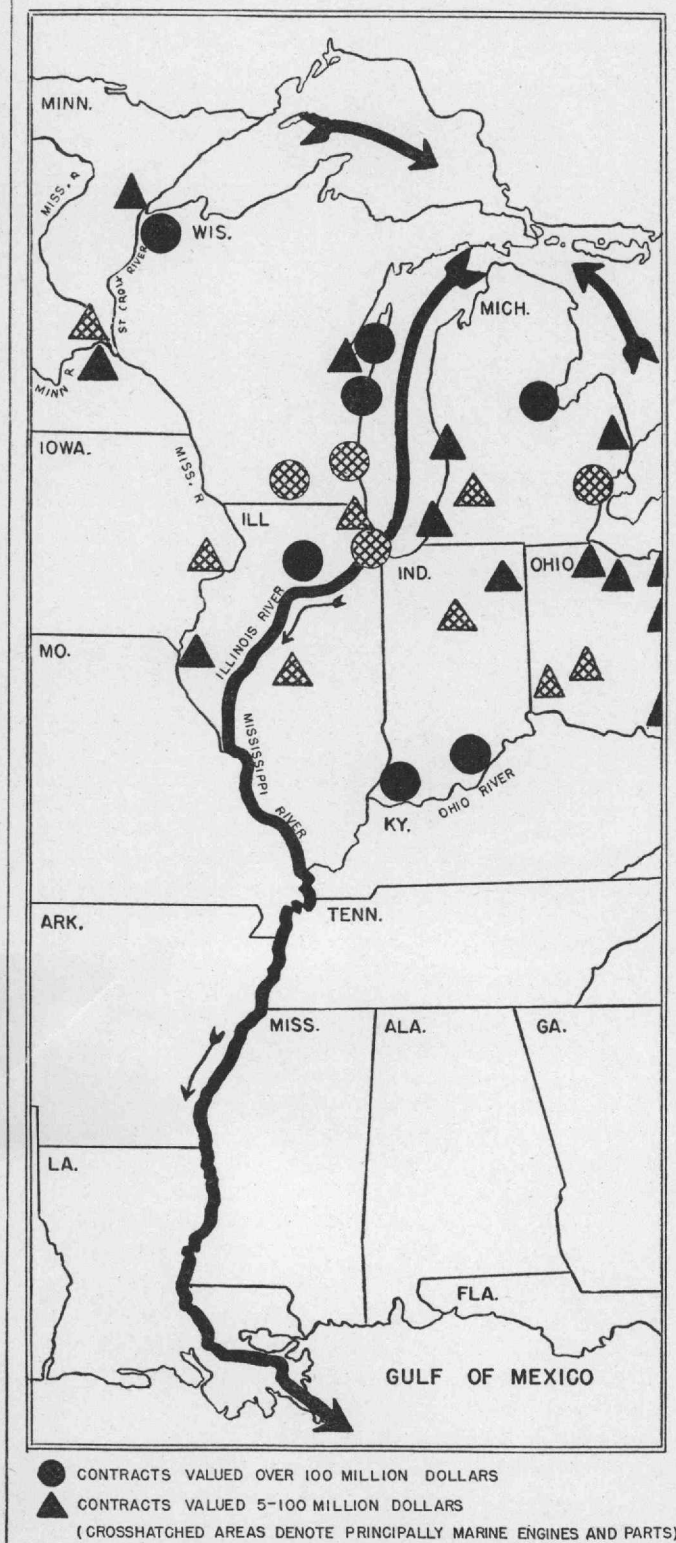
Sturgeon Bay, situated on Green Bay, 130 miles north of Milwaukee, has shifted from a peacetime center of food processing and small scale boat building to become one of the most important ship construction points on the Great Lakes. Door County, of which Sturgeon Bay is the principal city, had a peacetime population of 19,000, which expanded as a result of the in-migration of workers for the shipyards to more than 22,000 persons. Demand deposits of individuals, partnerships, and corporations in the county have shown one of the largest percentage gains since Pearl Harbor among all counties in the Seventh Federal Reserve District. Shipyards in Sturgeon Bay have contributed numerous escort vessels, cargo ships, tug boats, and a variety of other craft to the nation's shipping fleets during the past two years.

Manitowoc, located on Lake Michigan, 75 miles north of Milwaukee, has experienced an increase in manufacturing employment from 6,600 persons at the time of Pearl Harbor to 12,370 workers in July 1944, the peak month of production in the local shipyards. Employment has since declined to about 8,000 workers. Manufacturing payrolls in Manitowoc, also dominated during the war by shipbuilding, have increased from 224,000 dollars in December 1941 to 601,900 dollars in July 1944, and since have fallen to about 425,000 dollars per month. The Manitowoc shipways are best known for their submarine production, but numerous landing craft and other ships have also been built.

Bay city, at the southern end of Saginaw Bay on Lake Huron, is roughly 90 miles northwest of Detroit. Known in peacetime for automotive equipment, knitwear, chemicals, and heavy machinery, the area has produced a substantial number of subchasers, minesweepers, rescue vessels, and other ships under the emergency war shipbuilding pro-



MIDWEST SHIPBUILDING



Source: Adapted from War Production Board Supply and Facility Contract data, December 1944. Each location covers an entire county.

gram. The population of Bay county has shown a small gain of about three per cent from its 1940 level of 75,000 persons, indicating the influx of new industrial workers who have more than compensated for losses to the armed services. Bank debits and demand deposits in the community have increased 60 and 128 per cent, respectively, since 1941.

Seneca, located on the Illinois River, 60 miles southwest of Chicago, is one of the largest inland shipbuilding centers in the Midwest, with the entire facilities for ship construction built after Pearl Harbor. From virtually no manufacturing employment to more than 6,000 workers within six months is a record of the change which shipbuilding has caused in Seneca. LST's (landing ships for tanks) have come down the ways at a rate of more than one per week. Population in Seneca has increased from 1,235 in 1940 to more than 6,000 persons, and thousands of workers and their families live in nearby Ottawa.

PRODUCTION OF SHIP COMPONENTS

Shipbuilding serves well to illustrate the importance of subcontracts in Midwest industrial production. Data are not available to show the volume of these subcontracts, but Midwest manufacturing for at least two decades has been marked by thousands of medium and small-sized establishments furnishing parts and equipment to make possible mass production from large, final assembly plants within and outside the District.

Prior to the outbreak of war, the Seventh District produced nearly one-fourth of the value of the nation's total manufactures, but more than one-third of total production of metals and metal products from which the principal ship components come, including iron and steel, nonferrous metals, and electrical and nonelectrical machinery. At present the District's proportions of these national totals are estimated to be at least as large as in 1939. Total industrial production in the District, however, is estimated to have increased more than 190 per cent, and output of metals and metal products, 250 per cent from 1939 through 1944. This industrial production expansion reflects directly the tremendous growth which has occurred in iron and steel, ordnance, machinery, and transportation equipment.

Most, if not all, of the principal ship components are produced in the District, including cast and fabricated iron and steel shapes, engines, electrical equipment, and a wide variety of fittings and related machinery. In addition, District plants are recognized for their exceedingly large proportion of national ordnance output, which includes armament, guns, and fire control equipment, all important in wartime ship construction.

SHIPBUILDING OUTLOOK

While the outlook for shipbuilding on the Great Lakes and inland rivers during the next six months is obscured by uncertainty about the end of the war in Europe and the demand-supply situation for shipping to intensify the Pacific offensive, production levels probably can be expected

(Continued on Page 8)

Farm Prices Reach Wartime Peaks

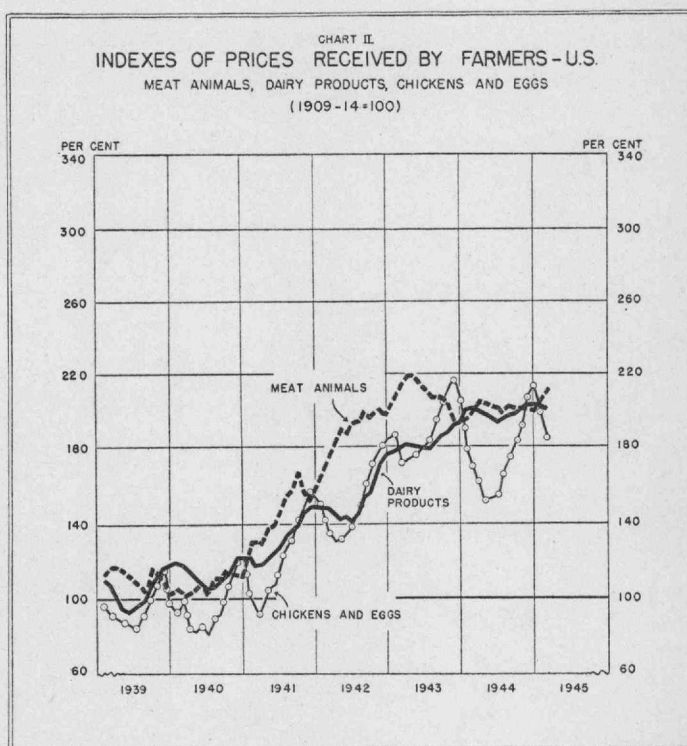
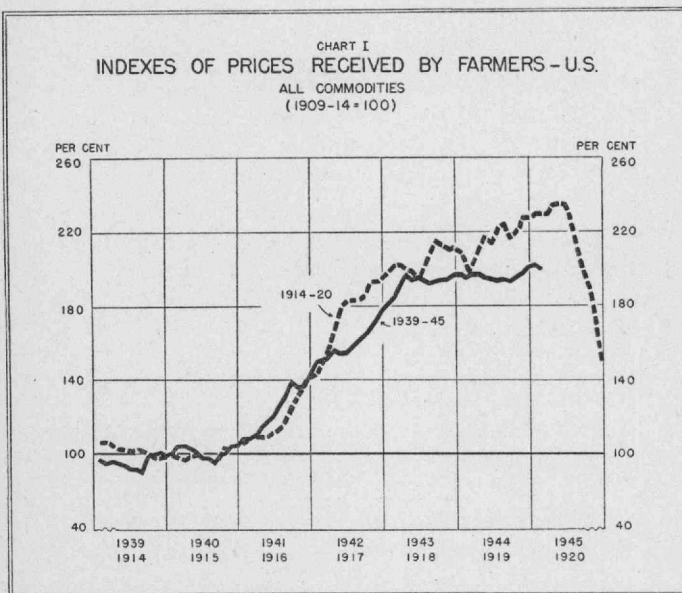
Price Relationships Changed in Five Years of War

Under the tremendous pressure of wartime expenditures affecting materially all aspects of the national economy, the rise in prices generally has been a much discussed problem and the object of strenuous efforts at control. However, developments in farm prices and in component parts of the agricultural price structure are not so well known and are of some particular interest to the general reader. This article will, therefore, present a statistical history of some of the major price series during the five years of war.

RISES SIMILAR TO WORLD WAR I

During 1940 and 1941, the first two years of the war, the general index of prices received by farmers for all commodities sold rose at rates and by amounts closely paralleling the rises during the first two years of World War I. The greatest rate of increase in both periods was during the second year of war. Here the parallelism between the two wars ends. In 1917, following United States entry into the war, farm prices rose at an accelerated rate for several months. During 1942, following American entry into World War II, there was not a corresponding acceleration in the rise of farm prices. This may be seen in Chart I by the gap between the lines for 1942 (or 1917) and early 1943 (or 1918). However, in early 1943 United States farm prices were very nearly double their prewar average, and were at about the same level as they had been in the corresponding stage of World War I, in 1918.

Farm prices in World War I continued to rise to the end of the war, and after the war until the break in the middle



of 1920. During the two years since the spring of 1943 the United States farm price index has been generally stabilized at 90 to 100 per cent above the prewar years, although a rise of 9 points was shown for the index between August of last year and February 1945.

PRICES IN DISTRICT REACH HIGH LEVELS

Rises in price indexes for each of the states of the District have closely paralleled the changes in the United States farm price index. There have been minor differences in the timing and rates at which the several indexes advanced, but by 1944 all farm price indexes for each of the five states were roughly 100 to 110 per cent above the prewar levels.

During the years while the rises were occurring, price indexes in some states were substantially above others, but this was chiefly due to the different rates at which commodity groups advanced in price, relative to the change in the price index for all commodities, and the differences in relative importance of commodities in the total marketings in each state. For example, the level of the price index for Michigan was several points above the other four states in 1940 due to the relatively high level reached by truck crop prices and dairy products prices, especially in the first half of the year.

A similar example occurred in 1943 when the indexes for Michigan and Wisconsin had advanced considerably less than in the other three states, principally because the prices received for meat animals advanced much less rapidly than did the prices for dairy products, which are relatively most important in Wisconsin and Michigan.

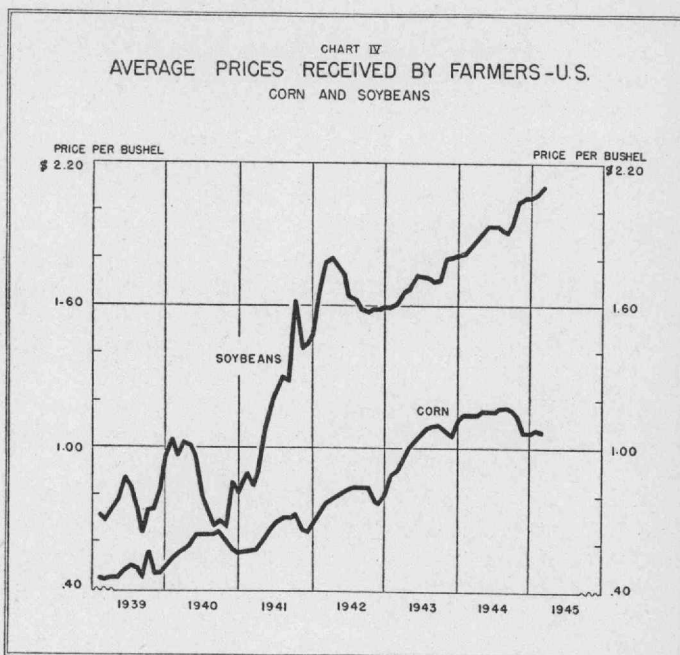
RISES VARY BETWEEN COMMODITY GROUPS

The most marked advances by major commodity groups were shown for grains, fruits, and truck crops. However, even for meat animals, dairy products, and poultry, the recent levels of prices have been nearly double those shown for 1939.

Prices of truck crops have risen most rapidly during the war and reached a peak in 1943 at a level that was, on the whole, nearly three times that of 1939 (Charts II and III). Since mid-1943 the prices for this group of commodities have tended to decline for several months, reaching a very low point last fall. Since that time they have again risen substantially. Prices of fruits showed a similar advance, but the great upsurge in these prices came in early 1943 and since that time they have remained fairly steady at a level better than two and one-half times that of 1939.

Grain crop prices, aside from a brief spurt in the first 8 to 10 months following the outbreak of war in 1939, have advanced fairly steadily during the period. There was a temporary leveling off during 1942, and throughout 1944 the price index for the group was reasonably stable at a level about 135 per cent above the 1939 figure.

Prices of chickens and eggs advanced generally, beginning in the summer of 1940 and reaching a seasonally high peak in the late fall of 1943. The level of prices for the



year 1943 was double that of 1939. The long decline in the spring of last year resulted in a level for 1944 about 90 per cent above the 1939 season's prices.

Prices of meat animals climbed steadily from the beginning of 1940 and reached a peak in March and April of 1943 considerably more than double that at the beginning of the rise. Meat animal prices adjusted downward from the spring of 1943 to early last year, but since that time the price index for the group has been stable at a level twice that of early 1940.

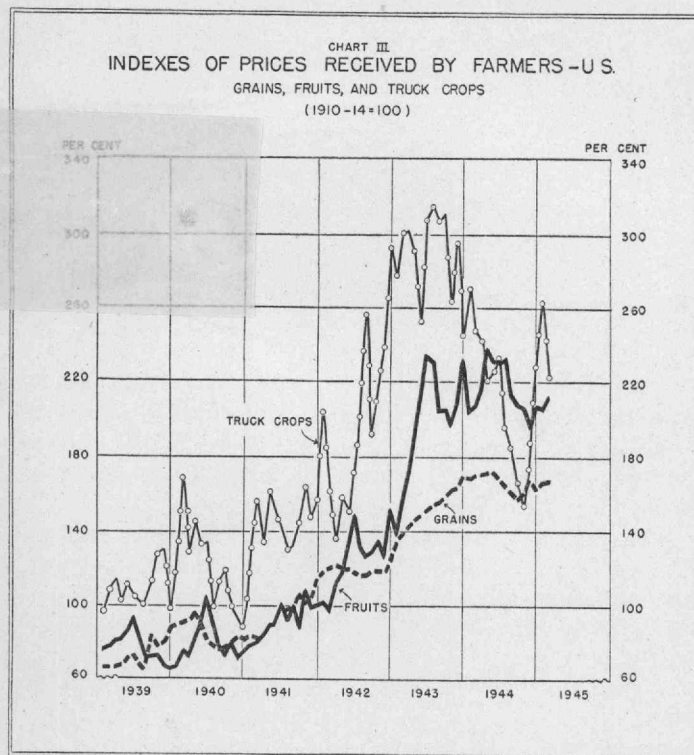
The index of prices for the dairy products group rose steadily from mid-1939 to the middle of last year, when it began to level off. The index for 1944 was 90 per cent above the level for 1939.

NEEDS SET PACE FOR INDIVIDUAL COMMODITIES

Variations in the timing and urgency of needs for individual commodities have largely set the pace for the advances in the prices received by farmers for each commodity. In the following charts and discussion only commodities of major importance in the District are covered. Prices are the averages received monthly by United States farmers.

Soybeans averaged less than 80 cents in 1939 but at the outbreak of war rose soon to around \$1.00, but receded in late summer of 1940. However, once the need for soybean oil and oil products for the defense program began to be felt, the price rose rapidly and at a fairly uniform rate to a temporary peak in the early part of 1942. A readjustment back to below \$1.60 occurred in that year, induced in part by the fact that the 1942 crop was practically double that of the previous year. Since the fall of 1942 the price has risen steadily, but at a less rapid rate than previously, to well above \$2.00 at the beginning of 1945.

Corn prices have shown a less pronounced rise. Beginning at 45 cents in 1939 the rise was gradual and uniform to



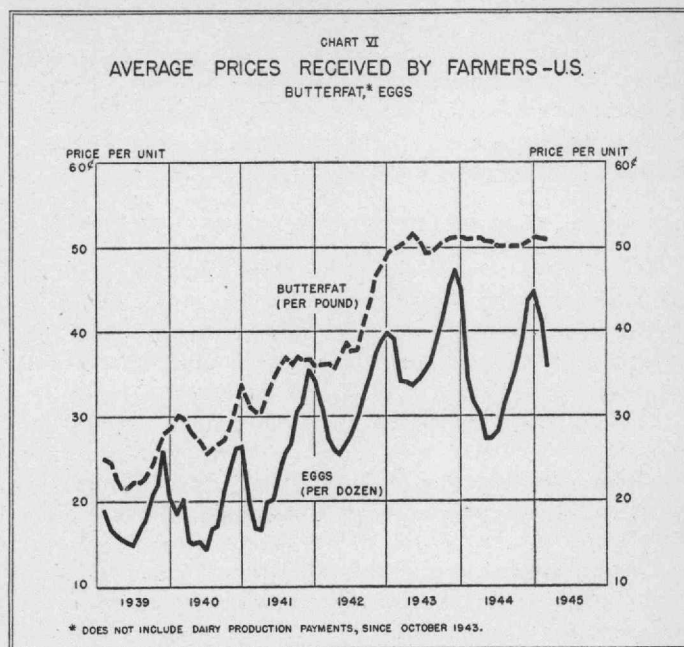
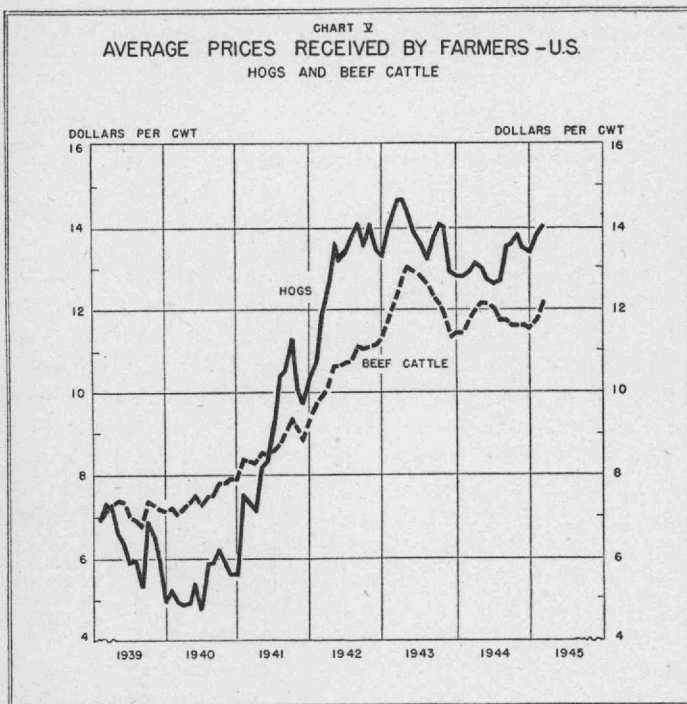
the end of 1942. The tight feed situation induced an acceleration of the rise which continued well into 1944. It appears at present that the price of corn has begun to level off, since the seasonally low price at the end of 1944 was substantially the same as it was a year earlier.

Hog prices tended downward from about \$6.00 during 1939 to a low of around \$5.00 in the first half of 1940. Thereafter they rose sharply to a level of \$14.00 in the summer of 1942 and had practically tripled in price by the spring of 1943. From then until last summer the trend was downward, reaching a level of \$12.60 in June. Under the present critical meat shortage prices have again risen and are at the ceiling.

Beef cattle prices rose during the period between 1939 and 1943 from \$7.00 to \$13.00, but they, like hogs, have declined materially, reaching \$11.50 last December, but have again turned upward since the end of the year.

Butterfat prices rose gradually from below 25 cents in 1939 to around 31 cents in midsummer of 1941. They then leveled off at the latter figure through March, but rose rapidly thereafter to 50 cents in the spring of 1943. Price ceilings and subsidies since have kept the price leveled off just above 50 cents.

Whole milk prices advanced from the seasonal low of \$1.40 in 1939 to the corresponding seasonal figure of \$3.10 in 1944. There is evidence in Chart VII that whole milk prices have begun to level off, since the seasonal high of \$3.40 in December of 1944 is identical with the seasonal high month for one year earlier. Demand for whole milk continues at unprecedented levels and were it not for the dairy subsidy and stabilization programs (which payments are not added to the prices in the Charts VI and VII) the prices of milk and butterfat would probably still show an upward tendency.



Egg prices really began their marked rise from the seasonal low of 15 cents in 1940 and reached their peak in 1943 with a seasonal low of 34 cents, and a seasonal high in November of 47 cents, compared with 26-27 cents in 1939 and 1940. The "collapse" in the egg market of a year ago has been much discussed and needs no repetition here. The seasonal low of 1944 was 27 cents (May) and the January 1945 seasonal high point was 44.5 cents, below the corresponding figure of 1944. However, prices for January and February were 4 to 6 cents above those of a year ago, and with present and impending shortages of eggs (accentuated by the meat situation) it is probable that a new peak will be reached for egg prices by the end of this year.

PRICES PAID BY FARMERS RISE AT LESSER RATES

Alongside of rises in prices received by farmers have been marked increases in prices paid by farmers (Chart VIII) for goods and services used in living and production. However, the increases have in general been less marked. Whereas the index of prices received considerably more than doubled from 1939 to 1944, the index of prices paid, including interest and taxes but not including farm labor costs and rates, was 36 per cent higher in 1944 than in 1939. The advance in prices paid did not really begin until 1941. It continued quite uniformly and gradually until the end of 1943. Since that time, due in part at least to the price stabilization program, the index has not changed significantly.

The index of prices paid is shown in two parts in Chart IX, one for prices paid for goods and services used in living and production, the other for prices of items used by the farm family for "family living." Two things are revealed by the separation of the index into two components. First, the increase in prices paid by farmers for items used in family living had increased by February of this year slightly more than the prices of production items. Costs of living in

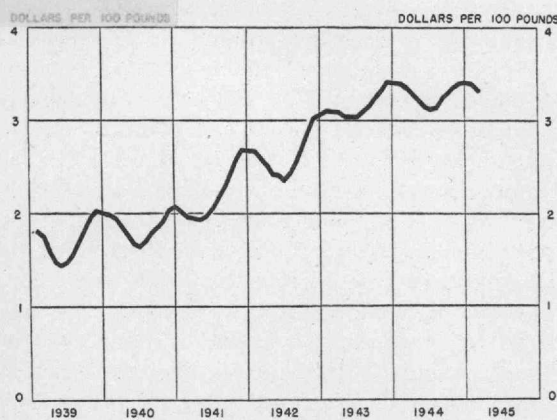
February were 53 per cent above the 1939 level, while cost of production goods and services (again, not including labor) had increased by only 43 per cent. The second point is that while the prices of production items were stabilized at an even keel through 1944, the prices of family items continued to rise, being 5 per cent higher at the beginning of 1945 than they were a year earlier.

FARM WAGE RATES RISE RAPIDLY

Indexes of prices paid do not at present include wage rates for hired or family labor. Bills have been introduced in Congress to include one or both in computing the index and in calculating parity. The index of farm wage rates for hired labor (Chart VIII) began to rise sharply in the second quarter of 1941, having remained fairly stable during 1939 and 1940. The rise continued to the middle of 1944, at which time farm wage rates were more than 2½ times the 1939 level. High wage rates are of course a matter of critical concern to farmers producing commercially for market, especially in dairy and meat animal production where labor requirements are particularly high. While wage rates appear to have become stabilized and to have leveled off during the past nine months the underlying labor situation and related factors do not warrant a conclusion that this stability will continue for long.

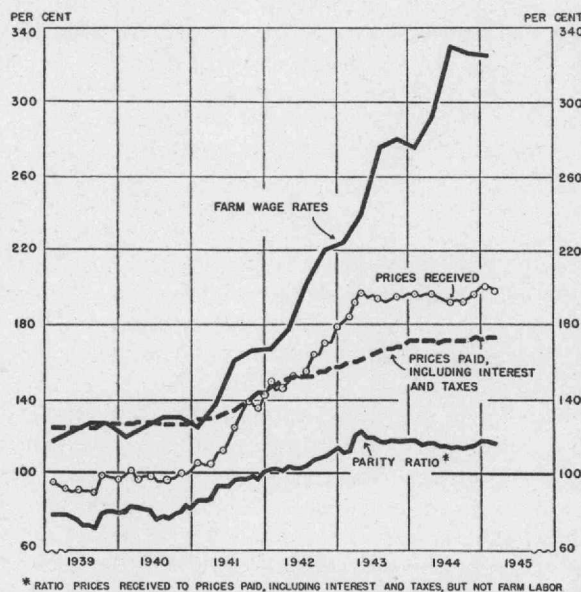
Wage rates in the five states of the District (shown in Chart X) had similarly advanced by 1944 to a level about 150 per cent above the rates for 1939-40. For Iowa a 1940 rate of \$40 per month, without board, had risen to \$107 in the last half of 1944, an increase of nearly 170 per cent. Rates in Illinois had advanced somewhat less, from about \$42 in 1939 to \$96 at the end of 1944, or up 130 per cent. Advances in rates for Michigan and Wisconsin fell between those for Iowa and Illinois. Wage rates are somewhat lower normally in Indiana. From the level of \$37.50 in 1939 they increased to an average of \$85 in the fall of 1944, an increase slightly over 125 per cent.

CHART VII
AVERAGE PRICE RECEIVED BY FARMERS—U.S.
WHOLE MILK *



* DOES NOT INCLUDE DAIRY PRODUCTION PAYMENTS, SINCE OCTOBER 1943

CHART VIII
INDEXES OF PRICES RECEIVED, PAID, AND PARITY
(1910-14=100)



* RATIO PRICES RECEIVED TO PRICES PAID, INCLUDING INTEREST AND TAXES, BUT NOT FARM LABOR

PARITY IS UP

"Parity" of prices received by farmers rises with farm prices received and declines in proportion to increases in prices paid by farmers. Both developments have been reviewed above, but the conflict between the two forces in effect on the "parity" ratio has resulted in a rise of the parity ratio. Prices received have advanced farther and faster than prices paid. The rise was largely confined to the period between mid-1940 and early 1943. In 1939 prices were on the whole at about 75 per cent of parity. The peak in the ratio was reached in April 1943 when it was 122, or 22 per cent above parity. By last fall the ratio had declined to 112, but it rose again slightly during the late fall and winter.

FARMER'S SHARE OF CONSUMER'S DOLLAR RISES

Because over a long period of time prices received by farmers fluctuate much more widely than do prices paid by consumers for farm products, the proportion, or "share" of the consumer's food dollar going to the farmer is subject to very wide fluctuations. In 1932, with low retail prices, but with even lower prices for farm products, the farmer's "share" was less than one-third. This estimate is derived by pricing the estimated annual purchase of 58 foods by a typical workingman's family at average monthly. United States retail prices as reported by the Bureau of Labor Statistics, and similarly pricing the farm products necessary to furnish such a diet at farm prices as reported by the Bureau of Agricultural Economics. By these computations the list of foods had a farm value of \$90 in 1932, and a retail value of \$276, leaving a farmer-to-consumer spread of \$184 to cover marketing, processing, wholesaling, and retailing costs and profits.

As prices advanced since 1932 the proportion estimated as going to the farmer increased and amounted to 45 per cent in 1937. Following the price recession of 1938 it dropped back to 40 per cent. For 1941 it had risen to 44 per cent, and for last year the corresponding figure was 53 per cent. At the beginning of this year the retail value of the list of 58 foods was estimated to be \$455, of which the farmer received \$251, or 55 per cent.

FUTURE OF FARM PRICES

Under the various price support programs established as war measures the Federal Government is committed to supporting farm prices generally at 90 per cent of parity, with some variations for individual commodities. A number of difficult problems appear at the present time to challenge the belief that the Government will be able to deliver on these commitments.

With the price level for farm products at present around 118 per cent of parity, a drop of nearly 25 per cent in the general level of farm prices could occur before the obligations under the price support programs would be due. At present the Federal Government is taking for war and related purposes upwards of one-fourth of the total farm output. Should substantial reductions in buying by this one big customer occur following the cessation of hostilities in Europe, it would then become a question whether the high incomes of consumers (assuming they continued high during such a period) would be sufficient to offset the drop in Government buying.

Estimates as to the financial cost of price support commitments range from two to eight billion dollars annually. It is doubted that the nation will be disposed to underwrite such expenditures once the European war is ended, particularly in view of other demands which will be made upon the Government for expenditures in other directions, and the political alignments which might be brought to bear against expenditures of such a magnitude for this purpose.

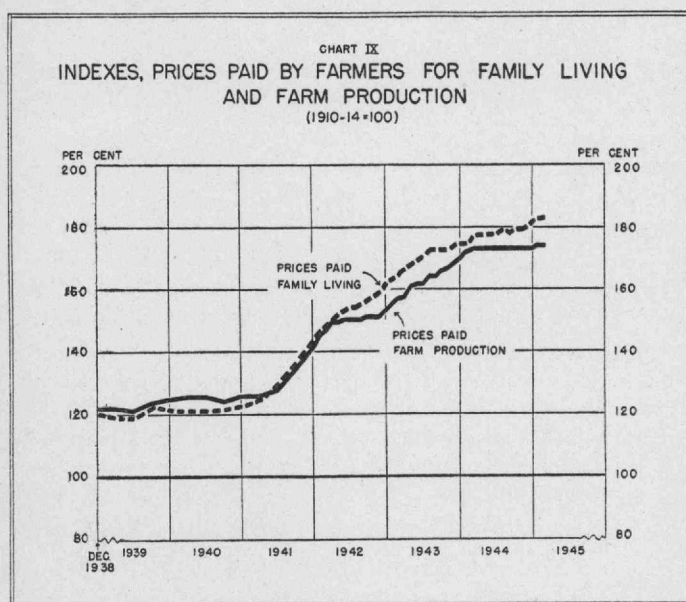
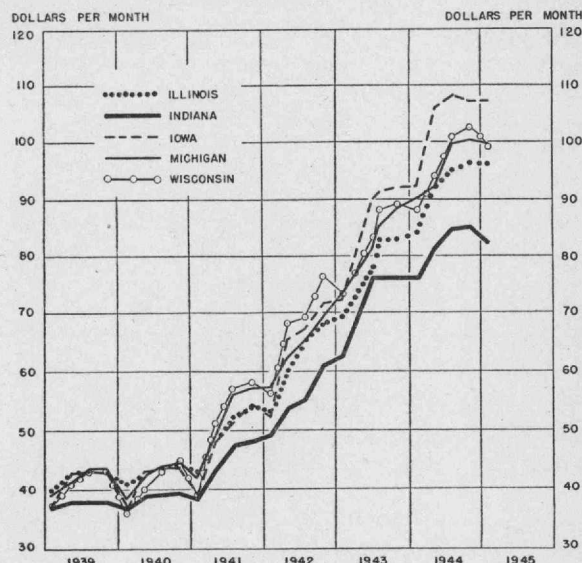


CHART X
MONTHLY WAGE RATES FOR FARM LABOR,
WITHOUT BOARD, BY STATES



Stocks accumulated by Government buying almost inevitably become a depressing factor in market prices, and tend to offset the supporting effect of the programs. In the case of non-perishables, such as hogs, poultry and eggs, and dairy products, the problem is not so much the accumulation of large stocks to depress market prices, but a somewhat more immediate and urgent one of finding suitable outlets for such commodities before they spoil.

SHIPBUILDING

(Continued from Page 3)

to continue their steady decline. Several shipyards in the area already have completed most or all of their latest contracts.

The prospects for new, large contracts in the area obviously depend on over-all ship requirements for the war program. Great Lakes-inland shipbuilders, however, are once again beginning to face competitive disadvantages with coastal firms because some of the new ship contracts are being awarded on a competitive bid basis with delivery required at East, West, and Gulf Coast ports.

On March 14, 1945, Vice Admiral Howard L. Vickery of the United States Maritime Commission stated that the "merchant shipbuilding program will be completed by the end of the year," and indicated that more than 500 thousand shipyard employees will be made available for other war work. Several thousand of these workers will leave Great Lakes shipyards. Assuming no change in the war conditions upon which Admiral Vickery based his prediction, it is reasonable to assume that construction of at least ocean-going cargo ships on the Lakes also will be largely concluded during 1945.

STATE BUDGETS

(Continued from inside front cover)

son is impractical for a single state or a selected group of states, as many fields of Federal activity such as national defense cannot be assigned to a particular locality. The alternative basis of tax receipts must be used though it also has shortcomings. Tax payments to the Federal Government are not reported according to the state of incidence but to the state where collected. For example—liquor, tobacco, and motor fuel excises are collected from distillers, manufacturers, and refiners, and for these particular commodities production is highly concentrated in a few states. It is generally acknowledged that the major incidence of such levies is on the consumers of the products; Federal tax payments on that account, therefore, give an erroneous impression of the distribution of such taxes among the several states. A recent study based upon data for the year 1940 estimated the actual incidence of Federal taxes by states.²

This distribution of Federal taxes according to incidence may be combined with state taxes in 1940 and local taxes in 1941 (the only year for which complete data are available) to obtain the desired comparison. These results are shown in Table I. The difference in years for local governments does not materially alter the comparison, as there was little variation in their revenues between 1940 and 1941.

This prewar pattern of Federal-state-local tax payments is useful only as a bench mark for considering the effects of war finance and the trend of postwar relationships. The effect of high wartime collections of Federal war excess profits taxes and personal income taxes is indicated in Table II. Adjustments in collections to reflect incidence of Federal taxes have been made in so far as corporate income taxes and excises are concerned. The corporation taxes have been distributed according to property income reported by the Department of Commerce by states for 1943, and excises have been distributed according to estimated retail sales for

TABLE I

ESTIMATED FEDERAL TAX RECEIPTS ACCORDING TO INCIDENCE AND STATE AND LOCAL TAX COLLECTIONS, SEVENTH DISTRICT STATES, 1940 AND 1941 FISCAL YEARS

(amounts in millions of dollars)

State	Federal (1940)		State (1940)		Local (1941)		Total	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Illinois.....	420	41	267	26	345	33	1,032	100
Indiana.....	109	35	101	32	104	33	314	100
Iowa.....	71	30	71	30	97	40	239	100
Michigan.....	245	39	197	32	181	29	623	100
Wisconsin.....	120	36	96	29	116	35	332	100
District States	965	38	732	29	843	33	2,540	100
United States	5,729	39	4,157	29	4,606	32	14,492	100

TABLE II

ESTIMATED FEDERAL TAX RECEIPTS ACCORDING TO INCIDENCE AND STATE AND LOCAL TAX COLLECTIONS, SEVENTH DISTRICT STATES, 1943 AND 1944 FISCAL YEARS

(amounts in millions of dollars)

State	Federal (1944)		State (1943)		Local (1943)		Total	
	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent	Amount	Per Cent
Illinois.....	3,228	83	309	8	360	9	3,897	100
Indiana.....	875	79	123	11	115	10	1,113	100
Iowa.....	490	73	74	11	110	16	674	100
Michigan.....	2,130	83	235	9	200	8	2,565	100
Wisconsin.....	836	77	139	12	120	11	1,095	100
District States	7,559	81	880	9	905	10	9,344	100
United States	42,126	81	5,094	10	4,950	9	52,170	100

the year 1943. These two adjustments provide for the major incidence revisions incorporated in Table I. The comparison of Federal payments for 1944 with state and local payments for 1943 (again the most recent year in which comparable data are available) gives full effect to wartime tax rates and economic conditions. Federal taxes will undoubtedly decline in relative importance from these levels—how far depends upon the role of the states and localities in the postwar period and the measures of reduction in Federal taxes.

In subsequent articles the probable role of state government in the immediate postwar period, so far as it is discernable from state budgets for the next two years, will be appraised in terms of anticipated tax revenues, expenditure programs, and long term financial operations. Are the states now planning an extension in their services, enlarged aids to local units, soldiers' bonuses, and huge capital investments? Do they foresee important changes in their revenue systems and larger grants from the Federal Government for dually administered public services? To these and related queries the current deliberations of the legislatures in the Seventh District should provide pertinent comment.

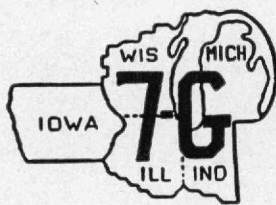
²Committee on Intergovernmental Fiscal Relations, *Federal, State, and Local Fiscal Relations*, 78th Congress, 1st Session, Senate Doc. 69, pp. 207-220.

The total collection of Federal taxes in the Seventh District in the fiscal year of 1940 was 983 million dollars and the estimated incidence 965 million dollars. For the District as a whole there was a disparity between collections and incidence of less than 2 per cent. For the individual states of the District, however, the differences were much greater; thus, in Iowa collections were only 35 per cent of the estimated incidence, and in Wisconsin 73 per cent. For Illinois, Indiana, and Michigan collections exceeded the estimated incidence by 6 per cent, 18 per cent, and 20 per cent respectively.

The incidence of taxes on personal net income, estates and gifts, admissions, telephone and telegraph communications, narcotics, and employees' payrolls, with minor exceptions was regarded as identical to the state of collection.

The incidence of taxes on corporation net income, capital stock, excess profits, stock and bond transfers, and one-half of employers' payrolls was estimated to be proportional to dividend and interest payments reported by the Department of Commerce. The incidence of taxes on liquor, tobacco, manufacturers, motor fuel, electrical energy, customs, and one-half of the employers' payrolls was estimated to be proportional to retail sales generally concerned.

SEVENTH FEDERAL



RESERVE DISTRICT

