MAY, 1945

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

The Crisis in the Food Situation

Problems of Distribution Mount

Food continues to be a major topic of conversation for the American people. The food situation has developed into something of a crisis, calling forth official investigation. The tremendous difficulties of administering the nation's food supplies equitably in the face of wartime stringencies make such discussion perhaps inevitable. There is no denying that there are very real and serious problems involved in the fair distribution of the nation's food supplies. But that the situation could have been drastically worse is often overlooked. That these problems are only relative is shown by a few statistical facts.

WARTIME CONSUMPTION HIGH

In 1944 the total food disappearance to all claimants was more than one-third above the average of the pre-war years 1935-39. After deducting the food utilized by the military forces and disappearance under lend-lease arrangements, the remaining civilian population taken as a whole has used 6 to 10 per cent more food in every year since 1939 than in the average for the 1935-39 period. In 1944 the use exceeded the prewar figure by more than 10 per cent.

Last year more than 20 per cent of the nation's augmented food supplies went to non-civilian uses. About two-thirds of the food so utilized went to the military forces and one-third to shipments abroad, principally lend-lease. This left civilians four-fifths of a larger supply of foods, a supply sufficiently large to permit increased total over-all consumption.

FOODS MORE EVENLY DISTRIBUTED

Civilians who have experienced difficulties in obtaining certain items of food will rise up in protest to this to point out that they cannot eat "statistical food." It is often overlooked that there has been a tremendous increase in the demand for food and in the buying of food among what were formerly low income classes, but who, during the war, have had employment at relatively high wages. For example, the prewar per capita consumption of beef was slightly above one pound per person per week for the nation as a whole. But there were thousands of families whose per capita consumption was a very small fraction of one pound per week. These were offset by other thousands of families whose consumption averaged two pounds per week or better. Wartime food controls have tended to level up the low consumption and level down the high. This same principle has applied rather generally across the whole catalog of important foods. It is quite probable that never in recent history has the nation been as well fed, considering the population as a whole.

SHORTAGES ARE RELATIVE

However, it is only natural that those groups of the population whose consumption has normally and habitually been relatively high should experience the illusion that there is a food shortage. It is in this sense that we say our food problems are only relative. If our agricultural output had been no greater in the last four years than it was in the immediate prewar years, and had the same claims been made upon American food supplies for military and lend-lease purposes, we should have experienced a situation which would have made our present problems seem trivial.

All this is not to say that for some foods definite reductions in per capita food consumption have not been realized. But these reductions have been more than offset by increases over prewar levels in the per capita civilian consumption of other items. The most drastic reductions have been in canned fruits and butter which in 1944 were consumed at only about two-thirds of the prewar rate. Consumption of cheese was materially (15 per cent) below prewar levels and a slight reduction (7 per cent) was also shown for condensed and evaporated milk. Such reductions were almost completely offset by an increase of one-fourth in the per capita consumption of fluid milk and cream, leaving a slight net reduction (less than 2 per cent) in total milk and milk product consumption (including butter). Present indications are, according to the U. S. Department of Agriculture, that 1945 will show a further reduction of 10 per cent in butter consumption, and about 2 per cent less milk consumption.

MEATS TIGHTER IN 1945

When we turn to meats we find that the level of civilian consumption in 1945 will be about 5 per cent above the prewar average, but below 1944 by about 10 per cent. The consumption of each of the major classes of meat will be below 1944, with perhaps 2 or 3 per cent less beef, lamb, and mutton; about 8 per cent less veal; and nearly one-fifth less pork. However, veal and pork will still exceed prewar averages, while beef, lamb and mutton will be 5 and 10 per cent less, respectively.

Less pork will be available in 1945 than in 1944. The spring pig crop last year was smaller by 25 per cent than the previous year, and the fall crop dropped 34 per cent below that of 1943. At present it appears that this year's spring crop of pigs will be equal to or at most about 5 per cent above last year's. Current indications point to a substantial increase in the fall pig crop.

On poultry products the 1945 consumption is expected to be entirely on the plus side as to per capita consumption,

(Continued on Inside Back Cover)

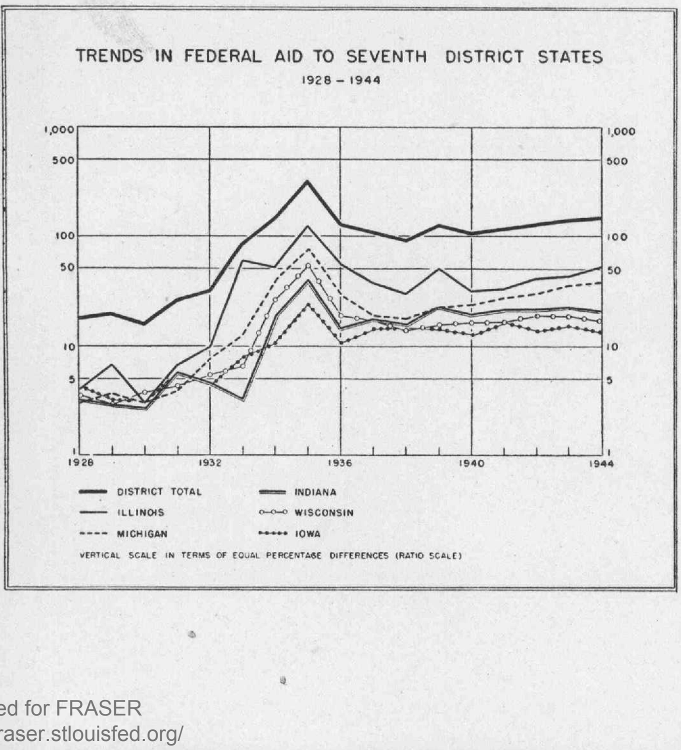
Federal Aid to States in the Seventh District

Major Grants for Social Security and Highways

It is generally recognized that among the three levels of government in the United States the tax resources of the Federal Government are the least restricted and the most productive. Few methods of taxation are denied it by constitutional restraint; tax administration at this level is unencumbered with troublesome situs problems encountered by the states in business, sales, and net income taxation. The possibility, therefore, that any appreciable number of taxpayers will be able to reduce their tax liabilities and thus the yield of a Federal tax by establishing domiciles or transacting their business outside the United States is virtually non-existent.

The states, on the other hand, are hampered in their efforts to raise tax revenue by constitutional provisions which prevent the imposition of certain types of taxes or require such modifications in others as would sharply reduce their yields. These restrictions are found in many state constitutions and in the interstate commerce clause of the Federal Constitution. The consideration of primary importance to the states, however, is their recognition that since they do not act in concert they must avoid disproportionate tax burdens on their citizens and business because of the effect such burdens would have on migrations to other jurisdictions.

The local governments suffer the same handicaps as the states and, in addition, are for all practical purposes restricted to a single source of revenue — the property tax. Under these conditions the rapid expansion of the scope and cost of governmental activity during the past two decades could have been accomplished only by the transference of functions from the localities to the states and the states to the Federal Government or by the use of some device which would permit the raising of funds by one level of government and their expenditure by another. Both of these tendencies can be discerned in the fiscal history of this period.



SHARED REVENUES

The practice of obtaining tax monies at one level of government and expending them at another is accomplished in a variety of ways. The devices used are generally classified as "shared revenues" or "grants-in-aid." Most states, for example, have laws which provide that stated portions of the entire receipts from specified taxes shall be shared with local government either according to the source of revenue or in the proportions established by a formula in which population or some other index of size plays a predominant part. This device is known as a "shared revenue." It is a common feature of state-local fiscal relations but is not used in Federal-state or Federal-local relations.

The closest approach to a shared tax revenue in Federal-state relations is the tax crediting arrangement found in the Federal estate tax and the unemployment compensation payroll tax. In these instances both the Federal Government and the states impose such taxes but the former permits the taxpayer to credit payments under state laws up to a specified proportion of the Federal tax. If there is no state law the full amount is payable to the Federal Government. In practice, crediting has led to the adoption of state laws which at least take full advantage of the Federal credit.

GRANTS

Grants-in-aid are frequently used in intergovernmental transactions that involve taxation at one level and expenditures at another. Grants may be outright and without restriction as to the character of expenditure; however, they are usually for a specified purpose and often have conditions attendant to their use which reflect policies of the grantor government and incorporate accounting and supervisory controls over the administration of the actual expenditure by the grantee government. In addition to these qualifications, the recipient government may be required to provide matching funds from its own revenue sources in some stated proportion. Commonly, Federal grants require 100 per cent matching by the states. The size of the grant for a particular

THIS MONTH'S COVER
Illinois Farm Scene

LAST MONTH'S COVER
Wisconsin State Capitol in Madison

TABLE I
FEDERAL AID IN SEVENTH DISTRICT STATES, 1932-1944

Fiscal Years Ending June 30[1]
(In millions of dollars)

ITEM	AREA	1944	1943	1942	1941	1940	1939	1938	1937	1936	1935	1934	1933	1932
TOTAL	District States	142.6	139.8	128.1	118.9	106.0	126.0	91.8	104.4	129.5	315.3	148.2	87.9	32.0
	Illinois	52.1	47.9	43.5	37.8	34.1	50.4	30.6	37.1	56.2	124.2	52.4	58.0	10.1
	Indiana	21.4[2]	22.4	21.3	21.2	19.5	23.0	15.6	17.4	14.6	41.9	18.8	3.3	4.6
	Iowa	13.8	15.0	13.8	16.0	12.9	14.1	14.3	14.2	10.7	23.9	10.9	7.8	4.4
	Michigan	38.6	36.3	30.7	27.9	23.4	23.1	17.6	18.9	29.6	73.4	39.3	12.3	7.5
	Wisconsin	16.7	18.2	18.8	16.0	16.1	15.4	13.7	16.8	18.4	51.9	26.8	6.5	5.4
HIGHWAYS	District States	22.9	25.7	20.5	25.7	25.4	28.7	33.4	63.7	39.8	44.9	32.6	24.1	28.1
	Illinois	7.0	4.7	4.9	7.1	9.1	9.1	11.6	21.4	9.8	13.2	7.4	6.3	8.9
	Indiana	3.5[2]	3.5	3.6	4.2	3.7	5.2	5.1	10.9	7.0	6.9	6.6	1.2	4.0
	Iowa	1.0[2]	3.3	3.1	5.8	3.4	4.6	7.1	9.9	6.0	7.2	4.7	4.9	3.8
	Michigan	10.3	11.0	5.7	6.7	5.0	4.8	4.4	12.3	11.0	10.5	8.1	7.1	6.6
	Wisconsin	1.1	3.2	3.2	1.9	4.2	5.0	5.2	9.2	6.0	7.1	5.8	4.6	4.8
PUBLIC WELFARE	District States	85.1	77.3	70.6	60.1	53.7	45.6	40.5	24.9	82.3	264.8	111.9	60.3	...
(Unemployment relief, old age	Illinois	34.1	31.3	26.7	19.7	17.4	13.7	14.2	8.6	44.5	109.4	43.9	50.6	...
assistance, aid to dependent	Indiana	12.0[2]	12.0	11.4	10.9	9.4	8.2	6.3	3.8	6.0	33.6	11.6	1.7	...
children, aid to blind, and	Iowa	9.6	7.8	7.7	7.5	7.0	6.5	5.1	3.0	3.6	16.1	5.7	2.3	...
child welfare.)	Michigan	19.7	16.5	14.8	12.4	11.0	9.8	9.2	4.0	17.3	62.0	30.4	4.4	...
	Wisconsin	9.7	9.7	10.0	9.6	8.9	7.4	5.7	5.5	10.9	43.7	20.3	1.3	...
EMPLOYMENT SECURITY	District States	6.1	6.7	9.3	11.4	10.2	29.8	5.5	1.9	.8	.5	.1	...	...
(Unemployment compensation	Illinois	2.7	2.9	3.7	4.9	3.4	22.4[3]	.6	.2	.2	...	.1	...	...
administration and aid to	Indiana	1.0[2]	1.1	1.4	1.7	1.9	1.9	1.7	.4	.1	.1	*	...	...
employment offices.)	Iowa	.2	.3	.5	.6	.7	.7	.4	.2	.1	*	*	...	...
	Michigan	1.7	1.8	2.8	3.1	3.1	3.6	1.5	.3	...	...	*	...	...
	Wisconsin	.5	.6	.9	1.1	1.1	1.2	1.3	.8	.4	.4	*	...	...
HEALTH	District States	8.9	3.8	3.6	3.3	2.9	2.3	2.0	1.7	.5	...	...	...	...
	Illinois	3.0	1.4	1.2	1.0	1.0	.8	.6	.5	.1	...	...	...	...
	Indiana	1.7[2]	.5	.6	.6	.5	.4	.3	.2	*	...	...	...	...
	Iowa	1.0	.5	.5	.5	.4	.3	.3	.2	.1	...	...	...	...
	Michigan	2.0	.9	.8	.8	.6	.5	.5	.5	.2	...	...	...	...
	Wisconsin	1.2	.5	.5	.4	.4	.3	.3	.3	.1	...	...	...	...
EDUCATION	District States	18.1	24.5	23.1	15.6	7.3	7.5	6.5	5.0	4.9	3.8	3.3	3.2	3.5
(Vocational education and	Illinois	4.9	7.0	6.7	4.4	1.9	2.0	1.8	1.3	1.2	1.0	.9	.9	1.0
rehabilitation; agricultural	Indiana	3.1[2]	5.2	4.2	2.5	1.5	1.5	1.2	1.0	1.0	.8	.6	.4	.6
extension, education, and research;	Iowa	1.8	2.7	1.9	1.6	1.1	1.2	1.0	.7	.8	.6	.5	.6	.6
defense and war service training.)	Michigan	4.3	5.6	6.2	4.3	1.5	1.5	1.5	1.1	1.0	.8	.7	.7	.7
	Wisconsin	4.0	4.0	4.1	2.8	1.3	1.3	1.0	.9	.9	.6	.6	.6	.6
OTHER	District States	1.5	1.8	1.0	2.8	6.5	12.1	3.9	7.2	1.2	1.3	.3	.3	.4
(Forestry, wild life restoration,	Illinois	.4	.6	.3	.7	1.3	2.4	1.8	5.1	.4	.6	.1	.2	.2
soldiers' and sailors' homes,	Indiana	.1[2]	.1	.1	1.3	2.5	5.8	1.0	1.1	.5	.5	*	*	*
and construction grants for	Iowa	.2	.4	.1	*	.3	.8	.4	.2	.1	*	*	*	*
purposes other than highways.)	Michigan	.6	.5	.4	.6	2.2	2.9	.5	.7	.1	.1	.1	.1	.2
	Wisconsin	.2	.2	.1	.2	.2	.2	.2	.1	.1	.1	.1	*	*

*Less than $50,000.

[1]Prior to 1933 the fiscal year in Indiana ended September 30.

[2]Estimated.

[3]Includes 20.8 of payroll taxes collected by the Federal Government before a state unemployment law was enacted in Illinois.

purpose is usually determined by the grantor government in absolute amount but the social security grants of the Federal Government to the states are for all or a portion of administrative costs and a percentage of benefit and pension payments at levels of expenditure fixed by the states within Federal maximums.

Both shared revenues and grants have been used to avoid the stresses on the political structure of government in the United States which are implicit in attempting to transfer the performance of certain functions from one level of government to another. The latter device has also been useful in breaking down administrative problems of governmental expenditure and providing for greater flexibility and adaptation to local conditions than is practicable with a uniform nationwide or statewide administration.

The grant-in-aid system has occasioned considerable friction between grantors and grantees. The former have sought to insure a program consonant with their objectives and to provide accounting and administrative controls over the expenditure of funds comparable with the supervision of their own administrative departments. The latter have sought greater freedom in the expenditure of grants and in the relaxation of qualifying conditions. Despite these differences, grants-in-aid have served to link more closely the various levels of government and to establish a community of interest in performing certain governmental functions of joint concern. They have undoubtedly gone far to eliminate the duplication of uncoordinated programs independently formulated and carried out by two or more levels of government. Experience with grants-in-aid has tended to accent the policy and advisory contribution of the grantor government and the administrative and executive responsibilities of the recipient governments. So long as the grant does not become the exclusive method of financing a given activity and some significant financial contribution is required by the government which expends the funds, it appears likely that this device can be used to a large extent to avoid the competition among the various levels of government for revenue sources and thus eliminate much of the duplication which presently exists in Federal and state taxation.

TABLE II

FEDERAL AID AND STATE TAX REVENUES

Fiscal Years ending June 30	Per cent of Federal Aid to State Tax Revenues					
	District States	Illinois	Indiana	Iowa	Michigan	Wisconsin
1944	16.0	19.0	16.6	18.3	15.7	10.2
1943	16.1	16.0	18.2	21.2	15.5	13.1
1942	14.3	13.6	17.0	17.3	12.3	15.4
1941	14.8	13.4	19.2	21.7	12.1	15.2
1940	14.5	12.8	19.2	18.0	11.9	16.7
1939	18.6	20.1	24.8	20.3	13.3	16.9
1938	13.1	12.3	17.6	20.8	9.1	14.1
1937	18.6	22.0	20.2	21.5	12.6	18.4
1936	27.5	38.1	22.6	19.9	23.9	22.6
1935	79.0	99.6	75.1	51.8	66.1	84.8

FUNCTIONS FOR WHICH FEDERAL AID IS GIVEN

Cash grants to the states have been used by the Federal Government for over a half century to stimulate state expenditures in selected fields. The first regular continuing subsidies were inaugurated in 1887 for the establishment of agricultural experiment stations and research in agriculture. These were shortly followed by grants for educational purposes in land grant colleges; in 1914, by aids for agricultural extension activities; in 1917 and 1920, by provision for vocational training and vocational rehabilitation. The amounts granted for these functions allied to education and research have been steadily expanded, the latest additions being during the war and defense period for the training of personnel for war work. The total aid for these functions was of minor fiscal importance to either the states or Federal Government compared with the grants for highway purposes which were inaugurated in 1916 and constituted between 80 and 90 per cent of total Federal aid during the 1920's.

During the decade of the 1930's there was an unprecedented expansion of Federal grants largely for unemployment relief and social security. Although the educational and other programs continued to expand, and appropriations for Federal-state highways were supplemented by aids for grade-crossing elimination, farm to market roads, and feeder roads, the grants for relief, public welfare, and employment security became of major fiscal importance. Grants for public health activities which had been initiated in 1917 but were discontinued in part after 1929 were also increased as a part of the social security program. The character of Federal aid at the present time is indicated in the description of function categories in Table I. The growth in Federal aid is indicated by the increase in payments to the states since 1910. In that year the total was a little over 3 million dollars; in 1920, 76 million dollars; in 1930, 100 million dollars; and in 1941, approximately 840 million dollars.

The trend of total Federal aids since 1928 to the Seventh District states is set forth in the chart on page 1. The distribution of these aids by major functions is compared in four selected periods in the chart on page 4.

FEDERAL GRANTS AND STATE TAX REVENUES

For the past twelve years grants by the Federal Government to the states have been an important source of state revenue, comparable to any one of the major tax forms used by the states. The relationship of Federal grants to state tax revenues is indicated in Table II. It will be noted that in 1935 as unemployment relief grants were coming to an end and before state tax systems had shown the effect of a rising level of national income or had been fully redeveloped, Federal grants were nearly equivalent to total state tax revenues. The relationship has tended to stabilize in the last four or five years at a level where Federal aid adds from

15 to 20 per cent to the total of state taxes. The somewhat lower proportions in Michigan and Wisconsin are due to a fact noted earlier in this series, that both of these state tax systems include locally shared revenues treated in other District states as local taxes.

PER CAPITA GRANTS

The growth and effect of Federal grants-in-aid upon state finance in the Seventh District is illustrated by the table of average per capita grants for four recent periods (Table III). In the years 1928-31 when the major elements of Federal aid went to highway construction, education, and agricultural experimentation, Indiana, Iowa, and Wisconsin drew nearly twice as much assistance per capita as Illinois and Michigan. However, the amounts in these years, which are characteristic of the aid pattern in the 1920's, were only about one-sixth of the average annual payments after 1931.

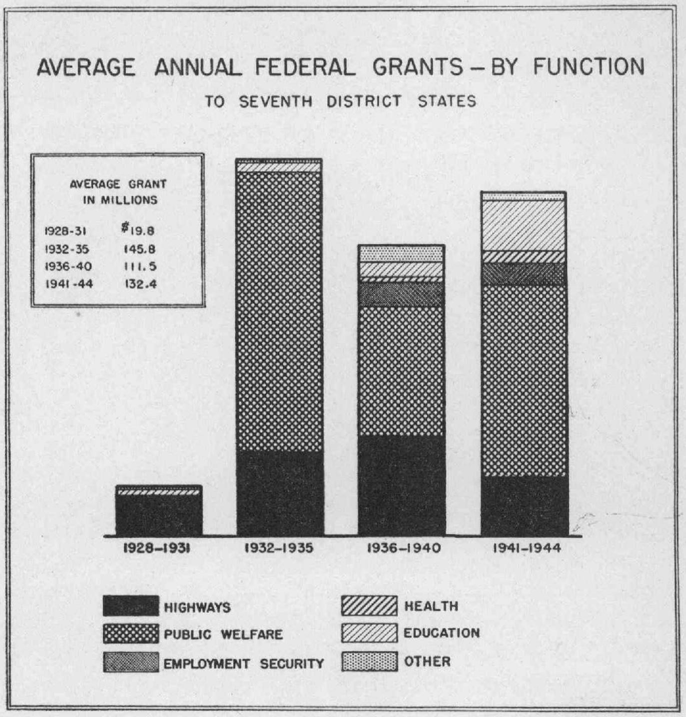
Grants in the period 1932-35 reflect the magnitude of a new field for Federal assistance—unemployment relief. The earlier categories of aid remained roughly at the level of previous years but the aggregate increased nearly six-fold, the entire increase being attributable to relief grants. It will be noted, also, that the per capita grants during this period to Illinois, Michigan, and Wisconsin were substantially higher than those to Iowa and Indiana. Federal expenditures to combat unemployment were not restricted to the grant-in-aid program but included such Federally operated programs as the CCC, WPA, etc. Federal expenditures for relief treated as Federal aid in the table are restricted to Federal Emergency Relief Administration grants to state emergency relief commissions and PWA construction grants to state governments. Unemployment relief grants largely disappeared in the fiscal year 1936 and were supplanted by Federal aid for specific social security programs.

The period 1936-40 encompasses the years during which the states enacted legislation qualifying them to receive Federal aid for the administration of unemployment compensation laws, aids for administration, and benefits to the aged, dependent children, and the blind. It will be noted that in this period there is greater uniformity in per capita grants among the five District states than in either of the

TABLE III
AVERAGE ANNUAL PER CAPITA FEDERAL GRANTS

Fiscal years ending June 30[1] (inclusive)	All District States	Illinois	Indiana	Iowa	Michigan	Wisconsin
1941-1944	$5.85	$5.65	$6.20	$6.05	$6.05	$5.60
1936-1940	5.10	5.30	5.30	5.30	4.45	5.20
1932-1935	6.80	7.90	5.20	4.75	6.90	7.40
1928-1931	.95	.70	1.15	1.65	.70	1.25

[1]Prior to 1933 the fiscal year in Indiana ended September 30.



previous periods. The level of the average grant during this period is affected by the alacrity with which the states qualified for Federal assistance and, in the case of Illinois, by a 20 million dollar grant for payroll taxes collected by the Federal Government from the Illinois employers on account of unemployment compensation prior to the time the Illinois tax law became effective. Throughout this period the level of Federal assistance expanded gradually as the states entered into the social security program and expanded the scale of their benefit payments.[1]

The period 1941-44 reflects the continued expansion of the social security system and substantial payments for such war activities as vocational training and special highway facilities in connection with war plants.

In the last two periods, so far as the Seventh District states are concerned, the aggregate of Federal grants for all types of programs average to a reasonably uniform per capita basis. Minor disparities are neither directly nor inversely correlated with income payments or differences in need. Rather, they arise from fortuitous and non-recurrent circumstances that have little or no bearing on policy questions involved in distribution of Federal aid. In the Seventh District there is relative uniformity in wealth and income, governmental institutions, population, and topography; these factors tend toward uniformity in Federal grants on a per capita basis. A comparison of District states with less mature economies in the South and more sparsely settled regions of the West reveals much greater differences in per capita Federal grants.

[1]The states first received Federal assistance for the indicated programs in the following fiscal years:

	Ill.	*Ind.*	*Iowa*	*Mich.*	*Wis.*
Unemployment compensation	1938	1936	1937	1937	1935
Old age assistance	1937	1936	1936	1936	1937
Aid to dependent children	1942	1936	1944	1937	1937
Aid to blind	1944	1936	1938	1938	1937

Decline in Retail Credit Stemmed

Survey Shows Firms in More Liquid Position

Cash and Government securities represent a growing proportion of the current assets of retail establishments in the Seventh Federal Reserve District. As a result of a larger volume of cash sales and prompt collection of receivables during 1944, these stores, particularly those which were unable to replenish their inventories, continued to reduce their indebtedness and to accumulate liquid assets. Through these operations retailers made preparations for the expansion they anticipate when it is again possible to add to their facilities and to obtain normal supplies of standard merchandise.

Evidence of these tendencies is furnished by the 1944 Retail Credit Survey, conducted for the Seventh District by the Federal Reserve Bank of Chicago. The 1944 survey covered over 1,000 credit-granting stores representing nine lines of trade and reporting a composite sales volume of almost 900 million dollars. Figures on sales, receivables, inventories, and balance sheet items were submitted for both 1943 and 1944.

Results of the survey reflect continued growth, though at a slackening pace, of consumer incomes, shortages in supplies of many kinds of consumer goods, and the impact of controls such as rationing and Regulation W. Again consumers placed emphasis on high quality merchandise—tending to increase the dollar volume of sales, particularly in wearing apparel lines.

CONSUMER BUYING STRENGTHENED

The dollar amount of sales for the stores covered by the survey rose 8.5 per cent from 1943 to 1944 while cash sales represented an increased proportion of the total. Credit sales, still of substantial volume in view of wartime restrictions and the large amount of purchasing power in the hands of the public, were up about 3 per cent but declined slightly as a percentage of all types of transactions. The increase in the dollar volume of credit sales was attributable to charge account transactions with instalment sales showing a 7 per cent decline.

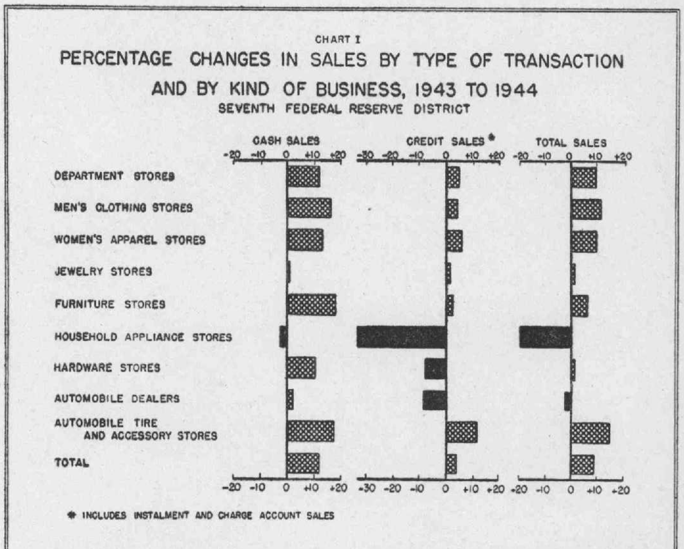
Despite shortages and restrictions, only two of the nine lines of trade included in the survey reported decreases in total sales for 1944. Both of these businesses deal primarily in consumers' durable goods. Household appliance store sales were down 21 per cent and those of automobile dealers declined about 3 per cent. The 14 per cent sales gain reported for automobile tire and accessory stores was the largest increase for any class of business covered—reflecting the acquisition by these stores of additional items of a non-automotive nature as well as the increasing demand for repairs and services. Department, men's clothing, and women's apparel stores all showed sales increases in the neighborhood of 10 per cent.

For most of the lines of trade which showed sales gains, however, the rate of increase has fallen off. The composite increase during 1944 was 8.5 per cent compared with 11.6 per cent for 1943, as reported in last year's survey.

The general increase in sales, in face of stable or decreasing supplies of consumer goods, may be explained largely by the liquidation of inventories and by continued shifts in the composition of goods sold, partly into substitute products and partly into higher priced merchandise. The shift into higher priced goods was particularly important in the wearing apparel lines while appliance and accessory dealers supplemented their depleted stocks with substitutes and unrelated items to support their sales volume.

High incomes and credit controls were again reflected in the greater relative expansion in cash transactions. As indicated in Table I, cash sales of reporting stores rose 11.5 per cent for 1944 and constituted 65.5 per cent of total sales —a higher proportion than that shown by any of the previous surveys. Cash sales were up for all lines of trade except household appliance stores, which seem to have suffered most from the shortage of durable goods.

The change from 1943 to 1944 in the percentage distribution of sales by type of transaction was minor, but comparison of 1944 with 1941 reveals the importance of the shift from open credit and instalment to cash transactions over the war period as a whole. Over the three-year period the percentage of cash sales to total rose from 43 per cent to 65 per cent; open credit sales dropped in importance from 44 per cent to 27 per cent and instalment sales from 13 per cent to 7 per cent. Because the stores included in the surveys for 1941 and 1944 were not identical, this reported change in the distribution of sales is not precise, but it illustrates



something of the magnitude of the shift which has occurred.

Though slightly lower as a proportion of total sales and as compared with the increase in cash sales, charge account sales for the nine lines of trade combined were up 6 per cent over 1943. This type of credit is to a large extent a convenience to customers and would normally be expected to remain high during periods of high incomes and expenditures. Its relative decline during the past few years is mainly a reflection of the fact that a large part of the increase in sales volume represented purchases by lower income groups whose resources were expanded by the war effort and who were accustomed to trade on a cash basis.

Instalment sales have been curtailed both because of credit control and because of shortage of goods such as major household appliances which are typically sold on an instalment basis. Instalment sales of appliance stores dropped over 50 per cent from the level of 1943. The accompanying chart shows the change in total credit sales and in cash sales for each line of trade from 1943 to 1944.

Furniture dealers, whose business is principally instalment and whose cash sales are the smallest component of total for any of the lines of trade included in the survey, reported an 18 per cent expansion in cash sales and minor increases in credit sales for the year. Instalment sales of household appliance stores dropped from 33 per cent to 21 per cent of total sales as instalment transactions for 1944 were off 50 per cent. Shifts from instalment to cash or charge account sales were also reported for jewelry, hardware, and automobile dealers. Both cash and charge account sales of automobile accessory stores were up substantially, probably due to the increased demand for parts and services and to the expansion in non-automotive inventories.

COMPOSITION OF RECEIVABLES ALTERED

Stemming from the shift from credit to cash transactions and the prompt payment of both open book and instalment accounts, a steady decline in receivables both in dollar amount and in relation to total sales has characterized the war period. Even in those lines of business which reported expansion in credit sales during 1942 and 1943 there was little or no increase in year-end receivables, and lines showing reduction in credit sales reported even greater declines in outstanding receivables.

The force of Regulation W in curtailing the volume of charge account receivables, however, was practically spent by the close of 1943. Restrictions on charge accounts operate not so much to stem the use of open credit, which is largely for customer convenience, but to shorten the collection period. After the initial adjustment of accounts effected by the Regulation, therefore, it was to be expected that a fairly high volume of receivables would be maintained—keeping pace with current volume of open credit extended. This stage was reached with the slackening in the rate of decline in charge account receivables during the latter part of 1943.

In contrast to the tendency during the past few years for open credit receivables to decline, year-end figures for 1944 revealed not only an increase over the end of December 1943 but an increase which was almost twice as great as the expansion in charge account sales. This development was particularly marked for men's clothing and department stores, as is apparent from Chart II. Jewelry stores alone reported an increase in open credit sales accompanied by a decline in open credit receivables outstanding. The collection ratios of these stores have been unusually high during the past few months.

Where the rise in receivables has been more than proportionate to the expansion in open credit sales a poorer collection record is not necessarily indicated. The explanation lies rather in the fact that the reported figure for outstanding receivables is as of the end of December 1944,

TABLE I

SALES BY TYPE OF TRANSACTION AND BY KIND OF BUSINESS
SEVENTH FEDERAL RESERVE DISTRICT

Kind of Business	Number of Stores	Percentage Change, 1943-1944				Per Cent of Total Sales					
		Total	Cash	Charge Account	Instalment	Cash		Charge Account		Instalment	
						1944	1943	1944	1943	1944	1943
Department stores	101	+9.4	+11.6	+6.8	—9.5	69.5	68.1	26.8	27.5	3.7	4.4
Men's clothing stores	62	+10.8	+16.1	+3.1	+4.6	60.7	57.9	29.9	32.1	9.4	10.0
Women's apparel stores	53	+9.8	+12.7	+5.8	—1.2	61.8	60.2	36.5	37.8	1.7	2.0
Jewelry stores	77	+0.8	+0.7	+8.0	—2.5	54.3	54.4	16.3	15.2	29.4	30.4
Furniture stores	218	+6.0	+17.8	+0.9	+2.2	28.3	25.5	16.5	17.3	55.2	57.2
Household appliance stores	71	—20.6	—2.7	—11.5	—50.3	52.6	42.9	26.7	24.0	20.7	33.1
Hardware stores	107	+0.7	+10.2	—8.1	—13.1	53.0	48.4	46.2	50.6	0.8	1.0
Automobile dealers	93	—2.6	+2.3	+7.8	—40.8	57.0	54.2	33.7	30.4	9.3	15.4
Automobile tire and accessory stores	130	+13.9	+16.9	+18.1	—18.2	44.6	43.5	48.2	46.5	7.2	10.0
Total	912	+8.5	+11.5	+6.3	—6.8	65.5	63.7	27.2	27.8	7.3	8.5

TABLE II INVENTORIES BY KIND OF BUSINESS SEVENTH FEDERAL RESERVE DISTRICT				
Kind of Business	Number of Stores	Percentage Change 1943 to 1944	Inventory Turnover[1]	
			1944	1943
Department stores	161	—7.4	6.0	5.1
Men's clothing stores	72	—4.3	3.4	2.9
Women's apparel stores	53	—2.0	6.2	5.5
Jewelry stores	78	+0.2	2.6	2.6
Furniture stores	241	—6.2	3.4	3.0
Household appliance stores	93	—19.9	2.3	2.2
Hardware stores	133	+4.3	4.0	4.1
Automobile dealers	117	—34.0	5.8	4.0
Automobile tire and accessory stores	137	—2.9	5.9	5.0
Total	1,085	—7.7	5.5	4.7

[1]Number of times a year, based on inventories, at retail, at end of year and sales during the year.

while credit sales represent the increase over the entire year. Because of the unusually large volume of sales during December 1944, year-end receivables were distorted in an upward direction from the average level maintained during the year. For department stores not only was the total volume of sales for December substantially greater than that for the comparable month of 1943, but also a slightly higher proportion of sales was made on open book account. The accounts created during the month of December were still outstanding at the end of the year, and were responsible for practically all of the expansion in outstanding receivables. The influence of this factor would have been even greater but for the offsetting effects of improved collections during October and November.

Instalment receivables dropped more than open credit accounts because of specifications as to down payments and as to the period over which instalment credit may be extended and because of the virtual disappearance of consumers' durable goods from dealers' stocks. The decline was noticeably smaller both for the total sample and for the separate lines of trade, however, than that reported for 1943. Instalment receivables of household appliance stores and auto dealers were down 60 per cent and 33 per cent respectively, although the dollar volume of instalment sales in these two lines was small.

DECLINE IN INVENTORIES CONTINUES

Part of the increase in cash and receivables during 1944 was at the expense of declining inventories. Inventory turnover reached an all-time high in that year as a result of expanded sales and depleted stocks. Year-end inventories for 1,085 reporting stores were about 8 per cent below the level of 1943. With the exception of hardware and jewelry stores all of the lines of trade covered by the survey showed reductions in inventories. On the whole, the change was smaller than for 1943 despite the high December sales volume. It is probable that the composition of these inventories has changed considerably, but the striking fact is that merchants in most lines were able to muster some sort of merchandise with which to replenish their stocks.

Again the greatest percentage declines were reported by household appliance stores and automobile dealers—reflecting the inability of these establishments to replace their inventories. For appliance stores, inventories were off 20 per cent despite a similar percentage drop in their sales. Automobile dealers maintained sales close to the level of 1943—partly attributable to the higher prices prevailing for used cars, which are now the principal component of their business, while their inventories dropped 34 per cent. The combination of these factors resulted in an increase in stock turnover for automobile dealers from 4 in 1943 to nearly 6 in 1944.

Some acceleration in inventory turnover was reported by nearly every line of trade for 1944. On the whole, however, the decline in stocks was surprisingly low considering the growing scarcity of many types of goods. Moreover, to the extent that year-end inventories are below average, the turnover ratios, as shown in the table, are overstated.

CURRENT POSITION OF STORES LIQUID

Expanded cash sales and accelerated collections during the past few years have enabled retailers to reduce their

CHART II

PERCENTAGE CHANGES IN OPEN CREDIT SALES AND OPEN CREDIT RECEIVABLES, 1943 TO 1944

SEVENTH FEDERAL RESERVE DISTRICT

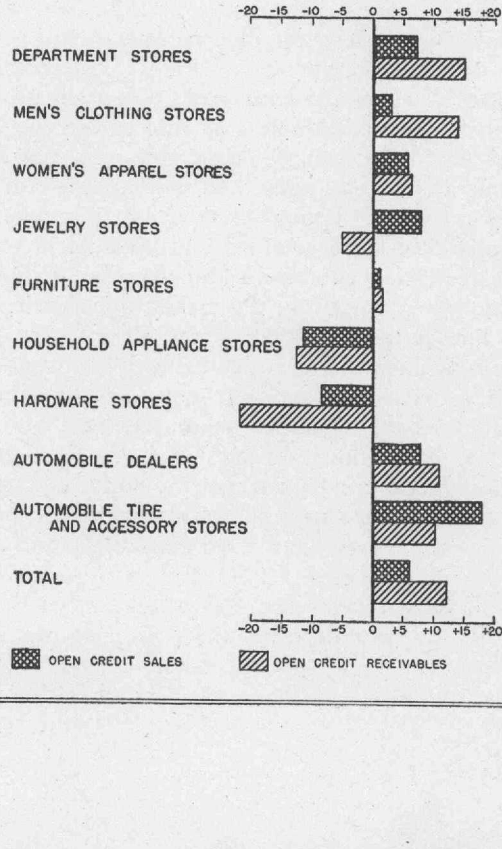


TABLE III

SELECTED CURRENT ASSETS AND CURRENT LIABILITIES BY KIND OF BUSINESS

SEVENTH FEDERAL RESERVE DISTRICT

Kind of Business	Number of Stores	Percentage of Current Assets December 30, 1944		Percentage Change, 1943 to 1944				Current Ratios	
		Cash and Bank Deposits	Government Securities	Cash and Bank Deposits	Government Securities	Current Assets	Current Liabilities	1943	1944
Department stores	81	27.5	16.3	+5.2	+46.5	+6.8	+2.0	2.6	2.8
Men's clothing stores	63	24.9	8.4	+31.5	+87.5	+12.0	—4.4	3.8	4.4
Women's apparel stores	45	30.9	18.7	+5.5	+84.2	+12.6	+19.2	2.9	2.8
Jewelry stores	73	27.4	18.9	—17.3	+38.7	—2.1	+3.8	7.4	7.0
Furniture stores	161	22.7	21.7	+29.1	+85.0	+14.6	+5.6	6.2	6.7
Household appliance stores	65	29.2	36.4	—48.0	[1]	—10.7	—39.7	5.0	7.5
Hardware stores	122	32.3	10.9	+8.5	+73.4	+6.2	—7.1	3.7	4.2
Automobile dealers	110	32.5	22.8	+26.0	+180.4	+2.8	+6.6	4.0	3.8
Automobile tire and accessories stores	60	29.8	17.5	+56.9	+48.9	+20.3	+18.7	3.4	3.4

[1]Figure withheld due to heavy influence of one establishment.

indebtedness and to build up substantial liquid reserves in the form of cash and Government securities. Data reported by 780 stores on year-end balance sheet items revealed additional conversion during 1944 of inventories and receivables into cash and Governments. This process has both improved their current financial positions and laid the foundation for the replacement of inventories and the expansion of fixed assets when materials are again available.

There are, however, important variations in balance sheet changes for different lines of trade. To the extent that merchants have been able to use cash receipts to build up their stocks of merchandise, they have done so. Thus department and apparel stores, which have been more successful in replacing their inventories, hold a smaller percentage of their current assets in the form of marketable securities than do establishments such as household appliance stores whose inventory problems are more difficult. It is apparent that earnings are now being retained and invested in securities for want of another alternative and that they will be converted into physical assets at the earliest opportunity.

Every line of trade covered by the 1944 survey showed increases in holdings of Governments, both in dollar amounts and as a percentage of total current assets. Furthermore, total current assets expanded more rapidly than current liabilities in six of the nine lines of business covered—resulting in higher current ratios. For the household appliance stores covered by the survey, Governments as a component of current assets moved from 6 per cent at the end of 1943 to 36 per cent at the end of 1944. Part of this expansion in holdings of Government securities was balanced by reduction in cash and bank deposits, which dropped concurrently from 50 per cent to 29 per cent of total current assets. Furniture and automobile dealers also reported fairly large increases in the relative importance of Governments in their balance sheets. Most lines of trade increased their notes and trade payables. For appliance stores these items rose in relation to all current liabilities but were more than offset in dollar amount by declines in "other" liabilities.

In considering the increased importance of Governments for all lines of trade in 1944 as compared with 1943 it should be remembered that December 1944 followed the close of the Sixth War Loan Drive and holdings of Governments at that point were probably higher than for a more normal period. Moreover, part of the expansion in securities represented acquisition of United States Savings notes which were earmarked for the payment of increased tax liabilities. The expansion in "other" liabilities, which include accrued taxes, was particularly marked for department and women's apparel stores.

Department and hardware stores were the only two lines of trade to report decreases in notes payable to banks, which were reduced in both cases to a very small proportion of current liabilities. Women's apparel, furniture, automobile tire and accessories stores, and automobile dealers increased their bank indebtedness substantially, but it constituted a relatively small percentage of outstanding liabilities.

This study was undertaken as a part of the 1944 retail credit survey conducted by the Federal Reserve System. National results of the survey appear in the pamphlet *Retail Credit Survey — 1944* published by the Board of Governors of the Federal Reserve System. This pamphlet, together with additional Seventh District data including breakdowns for the District's principal cities, will be furnished on request to the Research Department, Federal Reserve Bank of Chicago, Chicago 90, Illinois.

FOOD SITUATION

(*Continued from Inside Front Cover*)

compared with 1935-39. The 1945 indications are for 25 per cent more eggs, one-sixth more chickens, and more than one-fifth more turkeys. Consumption of eggs and turkeys will exceed 1944, while that of chickens will be about 10 per cent less.

Prospective consumption of fats and oils for 1945 is indicated at a level about one-eighth below that of the prewar years and 7 per cent below the 1944 figure. Butter and lard are the principal constituents of this group. Butter consumption will be about 35 per cent below prewar years and 10 per cent below 1944. There will be consumed probably one-seventh more lard than in the 1935-39 period although 10 per cent less than last year. Margarine consumption will be more than one-half larger than the prewar figure and about 10 per cent above 1944.

One of the highest increases in food consumption during the war years has been that of citrus fruit. It is expected that 30 per cent more will be consumed this year than in the prewar years, although here again consumption will be slightly below the 1944 figure. Estimates on canned vegetables are not available as yet for 1945, but indications are that the 1945 consumption of fresh vegetables will be slightly above prewar levels and about 5 per cent below last year.

Consumption of sugar during the current year will apparently be about 20 per cent below the level of 1935-39 and more than 10 per cent below 1944 per capita consumption. The stringency in sugar is due in part to the importance of its use as a chemical raw material for the manufacture of explosives and other war munitions. Representatives of the sugar industry have recently been emphasizing that sugar production has been poorly managed from the standpoint of governmental regulations. Little relief is in sight on the sugar situation. Stocks are very low, and any increase in imports will not go to civilian uses.

That meat is the "staff of life" in this country has been amply demonstrated by the discussions aroused by relative meat shortages in the past few months. Beneath the welter of charges and counter-charges as to food management that have accompanied these discussions are a few basic considerations that cannot be escaped or overlooked. First let it be emphasized again that purchasing power in the hands of civilian consumers has enabled them, were the meat available, to purchase meat at existing prices considerably in excess of available supply. This is a much more important factor in the meat crisis than the military requirements or the lend-lease shipments.

A second consideration is that the task of equitable distribution of limited supplies in the face of tremendous demand is a monumental one. Any effective program to achieve a fair sharing of limited supplies cuts across so many habits of normal behavior and so many complex patterns of economic conduct that it would be expecting near miracles to ask that it be worked out without tremendous frictions and bottlenecks.

HOW MUCH BLACK MARKET MEAT?

Many guesses have been made of the proportions of meat moving in black markets, in circumvention of either point rationing or price ceilings, or both. In spite of the multitudinous ways of looking at the meat situation statistically, the marketing of meats in this country is so complex that it is impossible from existing data to approximate with certainty the proportion of meat making up the traffic of the black markets.

Perhaps the best approximation that can be made is to indicate the size of the area in which there is some scope for black markets to operate in beef.

Of the total cattle bought from public markets, about 70 per cent was purchased before the war by plants operating under Federal inspection. The balance was bought by non-inspected plants and other local slaughterers. The overwhelming bulk of the meat slaughtered by Federally inspected plants was bought by no more than 35 to 40 top-flight companies.

It is the concensus of students of the meat packing industry that observance of the wartime meat regulations as to price and rationing by such companies has, on the whole, been thorough-going, with only minor digressions, most of these being probably inadvertencies. From the standpoint of their positions of leadership in the industry, such companies could not afford to be involved in transactions outside the regulations even if they were otherwise inclined to do so, and on the whole they are credited with being sincere adherents to whatever regulations are in force.

It is believed that such black markets as exist thrive largely on the meat which is bought from public markets by non-inspected plants and on the meat which does not reach public markets at all. If this is true, the scope in which they have room to operate has expanded materially in the last year or two. At the present time the regular Federally inspected plants are receiving only one-half of the cattle reaching public markets. The balance is going to non-inspected establishments, although this does include about 200 establishments operating under a temporary Federal inspection for the duration of the war.

It is here emphasized that this is not to imply that all such establishments that are not regular Federally inspected plants are guilty of black market dealings. All that is implied is that these changes in proportions indicate a large increase in the field in which black markets are most likely to be operative. This applies particularly to sales in circumvention of ration point requirements. Black market operations within the point requirements are also carried on through sales above ceiling prices. Such practices are, of course, likely to be found at various stages in the marketing of livestock and meat, regardless of what type of establishment does the slaughtering.

A factor of major importance in the black market is the large amount of cattle, calves, and hogs which are now slaughtered on farms and in towns close to the sources of supply. This livestock never reaches regular markets and is therefore least subject to the controls designed to afford fair distribution.

SEVENTH FEDERAL

RESERVE DISTRICT