



JANUARY, 1946

BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Results of the Victory Loan

Final Drive Yields Treasury 21 Billion Dollars

Sales of Treasury securities during the eighth and final great public drive to obtain funds for financing war and aftermath of war costs totaled 21.1 billion dollars. Although the proceeds were about 5 billion dollars smaller than those for the Seventh Drive, they were nearly double the 11 billion dollar goal. Total sales to individuals, including unincorporated businesses and personal trust accounts, were 6.8 billion dollars—69 per cent greater than the goal—while corporations and associations purchased more than twice the 7 billion dollar quota set for that group. Sales of Series E bonds were smaller than in any drive since the Second War Loan, but exceeded by a small margin the 2 billion dollar quota.

In addition to the proceeds of sales to nonbank investors, the Treasury received subscriptions of 1.4 billion dollars from commercial banks, based on their savings deposits, and 1.5 billion from Treasury investment accounts. These purchases were outside the drive totals.

Total sales for the five Seventh District states were 2 billion 938 million dollars, exceeding the combined quotas by 85 per cent. The accompanying table shows the comparison of sales and quotas for the United States and for the five Seventh District states.

The popularity of the 2½ per cent long-term bonds was even more marked than in the Seventh Drive, when elimination of a 2 per cent bank-eligible bond first resulted in substantially greater demand for the long-term category. Despite restrictions on subscriptions by insurance companies and savings institutions, total sales of these securities amounted to 9.8 billion dollars—2.7

billion more than sales of the comparable issue in the previous drive. Although this preference cannot be attributed to any single motive on the part of the investing public, it may reflect in part a prevailing anticipation of continued low interest rates on Governments as well as a desire to provide for future investment needs in view of uncertainty by investors as to when these bonds may again be offered by the Treasury. To some extent these heavy purchases were undoubtedly in anticipation of resales at a premium after the drive.

Sales of long-term securities, including 3 billion dollars of subscriptions for the 2¼ per cent bonds, constituted 60 per cent of the drive total. Because of this concentration of sales in higher-coupon issues, the average interest cost to the Treasury on the aggregate of securities sold during the Victory Loan is higher than for any of the previous drives.

Demand was lighter for the marketable issues other than the 2½ per cent bonds. Sales of 2¼ per cent bonds were about 2 billion dollars less than in the Seventh War Loan. Subscriptions for 7⁄8 per cent certificates of indebtedness amounted to 3.7 billion dollars compared with 4.8 billion in the Seventh Drive.

BANK PARTICIPATION CONTINUED

Each war loan drive has given rise to a fairly large expansion in commercial bank credit through the absorption of previously outstanding Government securities and

(Continued on Page 8)

VICTORY LOAN SALES AND QUOTAS UNITED STATES AND SEVENTH DISTRICT STATES

(Amounts in millions of dollars)

Areas	Grand Total			Individuals									Corporations and Associations		
				Total			Series E			Other Issues					
	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota	Sales	Quota	Per Cent of Quota
U.S. total	21,144	11,000	192	6,776	4,000	169	2,204	2,000	110	4,572	2,000	229	14,368	7,000	205
Illinois	1,386	756	183	420	281	149	164	146	112	256	135	190	966	475	203
Indiana	319	165	193	133	92	144	54	50	108	79	42	187	186	73	255
Iowa	273	135	202	143	81	177	68	46	148	75	35	214	130	54	241
Michigan	511	329	155	217	161	135	96	90	107	121	71	170	294	168	175
Wisconsin	449	203	221	117	86	136	53	45	117	64	41	156	332	117	284
Five state total	2,938	1,588	185	1,030	701	147	435	377	115	594	324	183	1,908	887	215

The Reconstruction of European Agriculture

Complicated Problems Slow Revival

Americans are interested in the problems and prospects of reconstructing Europe's agriculture from two principal standpoints. In the first place, widespread publicity has been given to the needs of Europe for food and agricultural products if starvation, destitution, and social chaos are to be prevented.

Furthermore, much of the discussion of Europe's relief needs has tended to give the erroneous impression that the agriculture of Europe has been practically gutted by the war and that the productive capacity of European agriculture is but a small fraction of its peacetime potential.

In the second place, some Americans are interested in the prospects for agricultural reconstruction in Europe in terms of a market for American farm products. In the years between the two world wars the prosperity of American agriculture, especially for certain commodities, was highly dependent upon exports from this country.

AGRICULTURE AT THE WAR'S END

As a result of the developments attendant upon the termination of fighting in the closing year of the war, the Continental supply of foodstuffs from domestically produced sources available for the current year's consumption was the smallest since the war began. Severe drought in the Mediterranean basin, the worst in 20 years, caused a drastic deterioration in the Continental European food situation. For the Continent as a whole the decline has been estimated at about 15 per cent below that available in the 1944-45 season, and perhaps 25 per cent below prewar average.

An important element in the wartime damage to European agriculture is the fact that there have accumulated during the war period, and rising to a dramatic crescendo currently, all kinds of shortages in the vital production factors: manpower, draft power, machinery, and fertilizers. In many countries the all-important nitrogen fertilizer has become drastically short, and the shortage of phosphates has been of duration equal to the period of the war.

Perhaps never before has the world had an illustration of the vital part played by transportation in a modern economy as forcefully put forth as that afforded by the breakdown in transport consequent upon the hostilities in Europe. Even where production has been substantially maintained in terms of elemental food energy as it has in some countries, damage may be accurately said to have occurred to the agricultural economy because of the sterilization of farm production through the inability to move stocks from relatively surplus areas to districts where the need is most acute.

This breakdown runs almost the whole gamut from the seizure and destruction of locomotives and rolling stock to the destruction of roads and highways. An important item in reconstructing European agriculture is, therefore, the restoration of transportation facilities. This deterioration and disorganization of transport facilities has affected production as well as distribution, for it has prevented the allocation of supplies to producers.

Since agriculture in any specialized economy is more than just farming the land, the extensive damage to food processing factories and plants cannot be ignored in appraising the tasks of reconstruction. Such damage has resulted both from bombing and shelling and from the policy of "scorched earth" pursued by military forces in retreat. While some of this damage has been in part repaired, it may be several years before the necessary facilities will have been restored to capacity.

Not all the damage is the result of physical destruction or war-induced shortages. European agriculture cannot be said to be fully restored until the lands are back in their full productive capacity again. This is particularly true of eastern Europe, the region running from Poland through Hungary and Rumania and Yugoslavia. In each of these countries there are extensive programs of reform under way which will tend to penalize full production equal to prewar years for some time to come. The most important of these reforms are those having to do with land ownership, the breaking up of large estates and re-parceling the land to smaller farmers.

But programs are under way in varying degree aimed also at the seizure and redistribution of livestock and machinery. These changes, coupled with the general administrative disorganization resulting from wartime chaos, present a very real check to the prospect of early and rapid restoration of full agricultural production.

PRODUCTION SUSTAINED BY CHANGED PATTERNS

Simple statement of wartime food output on the Continent conceals the importance that must be attached to the many extreme measures taken throughout Europe to make the food resources go further in an elemental food sense. Calories were gained by diverting production and by changing crop use from feeds to food. These gains were made at the expense of deteriorating materially the composition of the diet. Substantial reductions were thus made in the consumption of foods of animal origin and of fats. Feed grains were heavily mixed with bread grains, and high rates of flour extraction were required, running so high in some countries that it has been said that there was practically no waste, that is, no mill by-product from the extraction.

Estimates of the decline in production below prewar levels do not measure the reduction of energy intake of European peoples. It is a rough measure only of the decline in fundamental food energy production. A factor of major significance was the drastic decline in food imports into European countries. When this factor's influence is added to the production decline and the dietary conversion, and considered with the drastic change in ultimate distribution of available supplies as between urban and rural Europeans, only then can the reader grasp the seriousness of the food situation of many of the countries of Europe under which an energy intake for the typical consumer runs from one-half to two-thirds the prewar average.

ANIMALS AND ANIMAL PRODUCTS SACRIFICED

The war caused a drastic conversion in the agricultural production pattern of the European nations. In general these countries, by curtailing the production of foods from animal origin and diverting their resources to the production of "direct" foods, gained a higher yield in calories per unit of resources employed. This meant some liquidation of livestock numbers and of poultry. In fact, it may be said that up to the drought of 1945, the net reduction in agricultural production of Europe during the war years was due largely to the curtailment of animal production. The total calories produced from plants was generally well maintained until the 1945 crop. Cultivation of additional acreages largely compensated for the lack of fertilizer and other production goods.

This necessary liquidation of livestock production hit hardest such countries as Denmark, Holland, and Belgium, although all the important livestock or animal producing countries did, of course, feel its impact. At the time the war broke out Europe was as a whole a substantial importer of two classes of agricultural products: grains, particularly feed grains; and fats, both edible and soap varieties. Denmark and Holland enjoyed a very substantial outlet for high-value products, particularly in the English markets, to which they exported bacon, eggs, and butter produced from the feed grains which they imported. Danish poultry flocks were reduced by nearly 40 per cent; Dutch flocks were cut to a low point where they were less than 15 per cent of their prewar level. The German flocks were, however, reduced by less than 15 per cent.

Hogs met a similar fate. At one time the Danish swine numbers were only 40 per cent of their 1939 total, and the Dutch prewar swine herd was reduced by more than two-thirds. German reductions amounted to about one-third at the low point. French reductions came to about 30 per cent, while the reductions in other central and south-eastern European countries were generally more moderate.

Cattle were subject to a much more moderate reduction. Cattle, mostly dairy animals, are of vital importance to most of Europe's agriculture on two scores. They permit the utilization as pasture of extensive acreages unsuited for crops because of slope, moisture, or altitude. Cattle

are the most important source of fertilizer valued highly in Europe's intensive crop cultivation. Germany maintained its cattle herds almost intact throughout the war. In Holland the milk cows were reduced by about one-fourth. Danish liquidations were about half this rate, or one-eighth. In France it appears the maximum liquidation was about 10 per cent, but in Denmark and France, and in several other countries, there is evidence that the closing years of the war saw some restoration of cattle numbers. The same is true of hogs, but to a lesser extent. Evidence indicates that at the lowest point in European livestock numbers during the war years cattle in 21 countries had been reduced by one-sixth, and in 17 hog producing countries hogs had been reduced by slightly more than one-fourth. The reduction in sheep in 14 sheep producing countries had been between five and ten per cent.

The production of milk, because of the moderate reduction in milk cows and the shortage of feed concentrates, has been reduced on the Continent to a level about one-sixth to one-fifth below the prewar output. Egg production has shown the greatest rate of decline, since poultry were the easiest to liquidate in reducing feed consuming units, and it appears that egg production was cut to scarcely half the total of prewar years. Meat production is estimated to have been reduced to a rate about one-fourth below the levels holding before the war.

In replacing the acreages formerly devoted to feed production greatest emphasis was placed on expanding the production of oilseeds, potatoes, truck crops, and sugar beets.

HOLLAND A STRIKING EXAMPLE

Perhaps no single country illustrates the changes wrought by war in its agriculture as well as does Holland, although admittedly the changes may be somewhat more extreme than for some other countries and its reconstruction problems correspondingly greater. Before the war Dutch agriculture was principally oriented around the production of butter, cheese, eggs, and pork, which were exported, largely to the British market.

This production was based upon large imports of animal feeds, and in addition some food grains were also imported in supplement to the domestically produced supplies. But the whole structure of its agriculture was an integral part of a complex system of trade and production. Before the war about two-thirds of its caloric food consumption was domestically produced. About 30 per cent of its consumption in calories was in the form of animal products, which were produced at home plus an amount for export about equivalent to ten per cent of its domestic caloric consumption, or one-fourth of its animal product output. The war forced a conversion from a livestock producing economy to an entirely self-sustaining agriculture dispensing with imports of feeds, bread grain, and fats.

To meet the needs for bread grains and fats it was necessary to plow up pastures equal to one-fifth of Hol-

land's field crop acreage. These acreages were planted to vegetables, potatoes, rye and wheat, and rapeseed to provide fats. Yields declined due to lack of manures, fertilizers, and other materials. The imports of feed having been cut off and a higher priority for human use having been given to rye and barley, the reduction in livestock numbers was inevitable, to which reference was made above. Holland after occupation by the Nazis was integrated into the Reich food economy, draining some of its badly needed food out of the country. Before the German retreat nearly 10 per cent of its most productive land was flooded, and another 3 per cent was put out of production by land mines.

Reconstruction of Dutch agriculture is therefore faced with problems that will be difficult and will require several years to solve. Dependent as it was upon foreign outlets for an important part of its animal products, reconstruction can hardly be said to be achieved until it has resumed its place in the interdependent relations with the economic life of countries beyond its borders. Furthermore, Dutch agricultural production was based upon a highly technical and skilled system, the revival of which will be a long and laborious task. It will have to wait on the revival of demand from other countries for its highly refined and relatively high-priced animal products. The resumption of imports of feeds is likewise an indispensable factor in its reconstruction. On the land itself a three-fold problem confronts Holland. Plowed land must be returned to pasture to restore fertility, fertilizers will need to be applied for several years in large amounts to restore plant foods exploited from the soil, and the flooded areas must be drained and reclaimed.

In varying degree the story for other European countries is similar to the Dutch experience. In the countries where agriculture is less intensive the conversions were not so extreme, but the over-all pattern of shifting to concentrate on caloric energy production was much the same. During the war agricultural production capacity (in terms of calories) improved in the British Isles, Norway, Sweden, Denmark, Holland, Belgium, Switzerland, German-occupied Poland, Czechoslovakia, Hungary, Rumania, and Spain. On the other hand, France, Portugal, Italy, Austria, and most of Germany showed little change in capacity to produce calories. Internal Russia showed some improvement, but most of the Baltic states, European Russia, Poland, and Yugoslavia showed a substantial decline in productive capacity.

Up to this point nothing has been said of the damage to Russian agriculture and the problems of reconstruction. No other country suffered the holocaust to its agriculture that was visited upon the enemy-occupied parts of Russia. At the point of furthest German penetration an area holding one-third of Russia's population was under occupation, an area holding also roughly 40 per cent of Russia's agricultural productive capacity of the main items. Similarly about 40 per cent of the nation's tractors, harvesting machinery, and trucks were either destroyed, disabled, or removed by the Germans. The area was twice subjected to "scorched earth" techniques, with the

result that an even larger proportion of the agricultural processing plants, factories, and farm buildings were destroyed. More than half the livestock was destroyed or carried off. As the Germans retreated they left the fields loaded with mines and overgrown with weeds, and there is neither the machinery, manpower, nor materials to restore the region's agriculture in the immediate future.

MANY PROBLEMS PLAGUE RECONSTRUCTION

At the present time it is difficult for even the closest students of world agriculture to say what will be the patterns of agricultural reconstruction. There is little reason to expect the general pattern in each country to return closely to that obtaining in the prewar period. Perhaps at best all that can be done is to sketch the main problems, the principal obstacles to reconstruction.

The restoration of administrative law and order in the war-torn and formerly occupied countries is of the greatest importance. This must be a beginning, because without it there is great difficulty in marketing and distributing even the existing products of agriculture today in these countries. Experience thus far has shown that such restoration is extremely difficult. Old lines of authority have been destroyed and the new are slow to take hold.

The transportation systems of many countries have been virtually destroyed as a result of the war. The rebuilding of adequate transport facilities is a problem of first magnitude to be solved before agriculture in Europe can proceed very far toward reconstruction and full vigor. Of similar importance is the replacement of the destroyed processing facilities—creameries, mills, elevators, sugar factories, etc.

Before Europe's agriculture can return to full capacity, much work and expense must be put into the soil to replace and restore plant nutrients exploited during the war. This is particularly true in the "intensive" agricultural countries of western and northern Europe. It will probably be 1948 before enough fertilizers will be available for this task.

Countries which were before the war heavy producers of animal products face the decision whether to continue the emphasis of the war years on direct food production or to return to the importation of feedstuffs and the production of animal products. Uncertainties over the existence and magnitude of their former markets and doubt as to the resources with which to pay for feedstuffs imported make this decision a difficult one. International monetary and trade relations will furnish the key on this score. Furthermore, in many countries there is a strong feeling that self-sufficiency in food should be maintained from the standpoint of nationalistic self-interest.

What will be the proper balance between plant production and animal products for such countries is thus inextricably bound up with future international prospects not now too clearly discernible. The patterns for agricultural reconstruction are as yet for the most part not discernible and will be shaped largely by the nature of international economic revival.

Financing Unemployment Compensation—II

Seven Billion Dollar Reserve for Future Jobless Benefits

American experience with unemployment insurance initiated in the years 1935-37 has been limited largely to a period in the economic life of the country when there has been little unemployment, a surplus of job opportunities, and high weekly earnings relative to insurance benefit payments provided for the unemployed. The unemployment payroll taxes on employers, having been predicated on lower levels of employment than obtained during these years, have been far in excess of the contemporary requirements for benefit payments and, despite the effect of reduced tax rates through experience rating devices, have effected a steady accrual of surplus funds for the future.

The Federal Unemployment Trust Fund is the depository for all state-collected unemployment payroll taxes. As rapidly as payments are received by the states they are placed in this fund to the credit of one or more accounts for each state. The trust fund is usually thought of as having 52 accounts; one for each state, the District of Columbia, the territories of Alaska and Hawaii, and railway employers. A decreasing number of states (now four), however, use reserve accounts for individual employers. Contributions and related benefits are earmarked in these accounts as funds in states with pooled reserves are handled on a statewide basis; i.e., each employer's account is affected only by his contributions and benefits chargeable to his account. It has been estimated that there were 50,000 such accounts in 1944.

Unemployment benefits are met by withdrawals from these accounts by the several states. The trust fund is invested in Federal securities and the interest earnings added to the tax accruals in proportion to balances on hand. The deposits, interest earnings, and withdrawals from the fund are shown by quarters and fiscal years for the period beginning with the creation of the fund to date in Table I. Similar data for the accounts of the states in the Seventh Federal Reserve District are in Table II. The balances in the fund and in the accounts of these states are plotted in Chart I.

Since each state is responsible for the solvency of its own account or accounts, the aggregate balance for all states is an insufficient indication of the adequacy of the fund to finance the contingent liability of a particular state. The earmarking of reserves for individual employer and state accounts sterilizes a substantial portion of the balance, according to one estimate, in terms of 1944 benefit provisions, by as much as one-third to one-half.

FUND AMPLE FOR RECONVERSION

The extra-adequacy of the present unemployment trust fund, taken on a nationwide basis, is widely recognized.

This generalization is based upon the present level of benefits and on the assumption that the fund is not intended to do more than to provide for frictional unemployment and temporarily to alleviate drastic cyclical fluctuations. In the hearings on Emergency Unemployment Compensation before the Senate Committee on Finance in September 1945, it was estimated that in the nine months from October 1, 1945 to June 30, 1946, unemployment compensation benefits under existing state laws would not exceed 1.1 billion dollars and might be as low as .7 billion dollars and that benefits in the ensuing fiscal year would range between 1.5 and 1.0 billion dollars. These benefits would be charged against the fund which aggregated over 6.9 billion dollars in September 1945 and to which payroll taxes were estimated to accrue at the rate of 1.0 billion dollars annually. While balances in the accounts of some states may be seriously impaired during these years, the fund as a whole will on the basis of such estimates come close to maintaining its present level right through the period of reconversion. At the end of 1945 the balance was 6,838 million dollars.

The fund transactions for the accounts of the Seventh

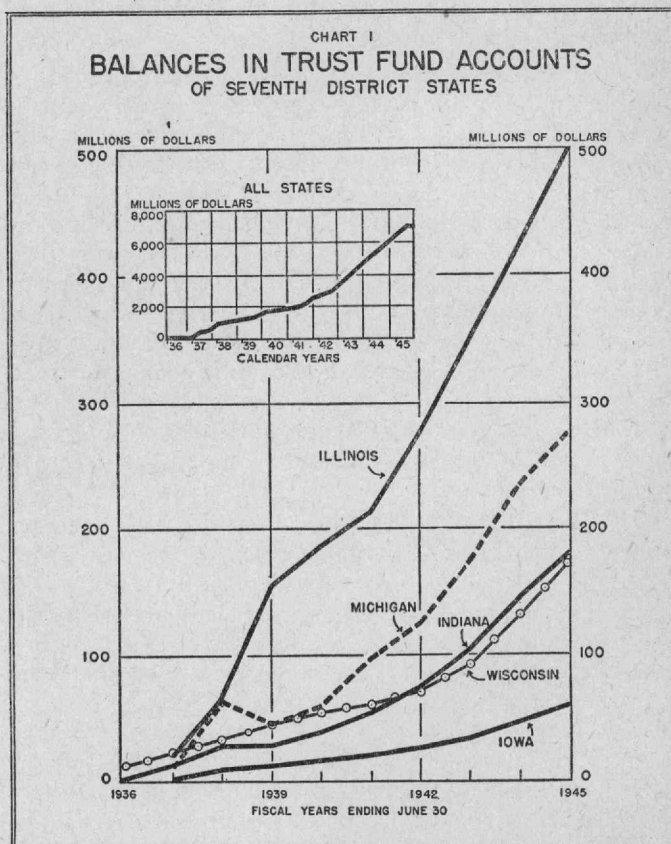


TABLE I
RECEIPTS, DISBURSEMENTS, AND BALANCES OF THE UNEMPLOYMENT TRUST FUND
By Quarters and Fiscal Years, 1936-46¹
(In millions of dollars)

PERIODS	RECEIPTS			DISBURSEMENTS			Balance at at End of Period
	Deposits by States	Interest Credited ²	Total	Transfers ³	Withdrawals by States	Total	
<i>First quarters end September 30</i>							
<i>Second quarters end December 31</i>							
<i>Third quarters end March 31</i>							
<i>Fourth quarters end June 30</i>							
1935-36 First quarter.....							
Second quarter.....							
Third quarter.....	6.5		6.5				6.5
Fourth quarter.....	12.3	.1	12.4				18.9
Fiscal year 1936.....	18.8	.1	18.9				18.9
1936-37 First quarter.....	15.2		15.2		.1	.1	34.1
Second quarter.....	30.5	.4	30.9		.1	.1	64.9
Third quarter.....	131.5		131.5		.5	.5	195.9
Fourth quarter.....	114.5	2.3	116.8		.4	.4	312.4
Fiscal year 1937.....	291.7	2.7	294.4		1.0	1.0	312.4
1937-38 First quarter.....	155.3		155.3		.4	.4	467.2
Second quarter.....	165.3	5.8	171.2		.9	.9	637.6
Third quarter.....	188.2	.1	188.2		75.7	75.7	750.1
Fourth quarter.....	238.9	9.3	248.2		114.0	114.0	884.2
Fiscal year 1938.....	747.7	15.2	762.8		191.0	191.0	884.2
1938-39 First quarter.....	202.2	*	202.2		128.7	128.7	957.7
Second quarter.....	200.0	.1	200.1		85.6	85.6	1,072.3
Third quarter.....	221.0	11.9	233.0		113.2	113.2	1,192.0
Fourth quarter.....	188.0	14.8	202.8		114.3	114.3	1,280.5
Fiscal year 1939.....	811.3	26.8	838.1		441.8	441.8	1,280.5
1939-40 First quarter.....	209.6	.1	209.7		119.8	119.8	1,370.4
Second quarter.....	211.8	.1	211.9		82.4	82.4	1,500.0
Third quarter.....	230.9	17.2	248.2		129.4	129.4	1,618.7
Fourth quarter.....	207.6	20.0	227.6	1.8	151.3	153.1	1,693.2
Fiscal year 1940.....	859.9	37.5	897.4	1.8	483.0	484.8	1,693.2
1940-41 First quarter.....	209.7	.1	209.8	44.0	144.6	188.6	1,714.4
Second quarter.....	212.6	22.5	235.1	52.5	91.2	143.7	1,805.9
Third quarter.....	227.0	.1	227.1	4.9	107.5	112.5	1,920.4
Fourth quarter.....	242.8	23.2	265.9	2.7	89.9	92.6	2,093.7
Fiscal year 1941.....	892.0	45.9	937.9	104.1	433.2	537.3	2,093.7
1941-42 First quarter.....	261.3	.1	261.4		76.8	76.8	2,278.3
Second quarter.....	277.1	31.2	308.3		67.7	67.7	2,518.9
Third quarter.....	286.6	.1	286.7		124.9	124.9	2,680.7
Fourth quarter.....	271.0	30.6	301.6		98.6	98.6	2,883.7
Fiscal year 1942.....	1,096.0	62.0	1,158.0		368.1	368.1	2,883.7
1942-43 First quarter.....	276.5	.1	276.6		83.4	83.4	3,076.9
Second quarter.....	304.4	38.1	342.5		37.3	37.3	3,382.0
Third quarter.....	312.4	—2	312.2		33.7	33.7	3,660.5
Fourth quarter.....	324.4	37.6	361.9		19.9	19.9	4,002.6
Fiscal year 1943.....	1,217.7	75.6	1,293.2		174.3	174.3	4,002.6
1943-44 First quarter.....	352.2		352.2		13.5	13.5	4,341.2
Second quarter.....	339.2	44.8	384.0		10.4	10.4	4,714.8
Third quarter.....	316.6		316.6		18.3	18.3	5,013.1
Fourth quarter.....	341.4	43.7	385.1		17.8	17.8	5,380.4
Fiscal year 1944.....	1,349.3	88.5	1,437.8		60.0	60.0	5,380.4
1944-45 First quarter.....	342.3		342.3	.1	12.6	12.7	5,710.0
Second quarter.....	316.7	3.4	320.1	.1	14.3	14.4	6,015.7
Third quarter.....	266.7	57.8	324.5	.1	21.6	21.7	6,318.5
Fourth quarter.....	330.3	52.0	382.3	.1	21.6	21.7	6,679.0
Fiscal year 1945.....	1,256.0	113.2	1,369.2	.4	70.1	70.5	6,679.1
1945-46 First quarter.....	329.5	3.5	333.0	.1	91.5	91.6	6,920.6
Second quarter.....	234.1	4.9	239.0	.1	321.9	322.0	6,837.8

¹State accounts only; excludes railroad unemployment insurance account separately established in 1940.

²Quarterly period in which accrual took place estimated in part.

³To railroad unemployment insurance account.

*Less than \$50,000.

Note: Items do not necessarily add to totals due to rounding.

SOURCES: *Daily Statement*, U. S. Treasury; *Social Security Bulletin*.

Federal Reserve District states are summarized in Table II and Chart II. The proportion of benefit payments (withdrawals) to tax collections (deposits) is approximately 25 per cent in Illinois, Indiana, and Iowa for the fiscal years 1936 through 1945. This compares with an average of 26 per cent for all states in the country. A considerably larger relative disbursement was made in Michigan (41 per cent), and a much smaller proportion in Wisconsin (15 per cent). These variations are indicative of the range in state financial policy toward unemployment insurance as well as of the geographical divergencies in employment conditions.

With reference to the comparative adequacy of present balances for benefits during the conversion period, the variation among these states is indicated by the percentage that such balances are of 1944 annual taxable wages. These percentages range from 7.2 in Michigan and 9.5 in Indiana to 12.5 in Wisconsin. Illinois and Iowa, having percentages of 10.7 and 11.6 respectively, approximate the average for the country as a whole which is 11.0. It is evident from these comparative relationships that the states are pursuing quite diverse benefit programs, taxing provisions, and reserve policies even though all fall within the framework of the Social Security Act.

As a safeguard against the temporary embarrassment of reserves in particular state funds due to abnormal reconversion unemployment, the War Mobilization and Reconversion Act of 1944 set aside as a Federal unemployment account the difference between the yield of the Federal unemployment tax and expenditure for unemployment administration (approximately 500 million dollars) as a loan fund to state accounts until October 1, 1947. Present indications are, however, that such loans will not be needed.

PAY-AS-YOU-GO FINANCING

The policy of accumulating reserves for the payment of unemployment benefits has been criticized by those who urge the financing of such disbursements on a pay-as-you-go basis and who would attempt an annual or quarterly balance of benefits disbursed and taxes paid. If it is desired to restrict benefits to frictional unemployment, and it is assumed such unemployment can be distinguished in individual cases from cyclical unemployment, current financing in this manner is entirely practicable. The conditions of unemployment and the problems of administering benefits, however, are such as to make the proposal unrealistic. Moreover, it would require maximum tax rates in periods when employment and payrolls are low and tax burdens are most onerous; it would entail nominal rates in prosperity. Inasmuch as unemployment benefits and the payroll taxes are of sufficient magnitude to have a significant effect upon the economy, such a cyclical characteristic would add to

those forces accentuating rather than to those minimizing the violence of cyclical fluctuations.

ACCUMULATION OF RESERVES

The alternative to a short-run pay-as-you-go policy involves the balancing of costs and benefits over a longer period of time and, to some degree, of concentrating costs (the aggregate of tax payments due to high payrolls and not of necessity through varying the rate) in periods of high prosperity and minimizing them in periods of depression. This policy may be effectuated by creating a reserve fund which accumulates to the size required for

TABLE II
RECEIPTS, DISBURSEMENTS, AND BALANCES OF
UNEMPLOYMENT TRUST FUND ACCOUNTS OF
SEVENTH FEDERAL RESERVE DISTRICT STATES
1936-45

(In thousands of dollars)

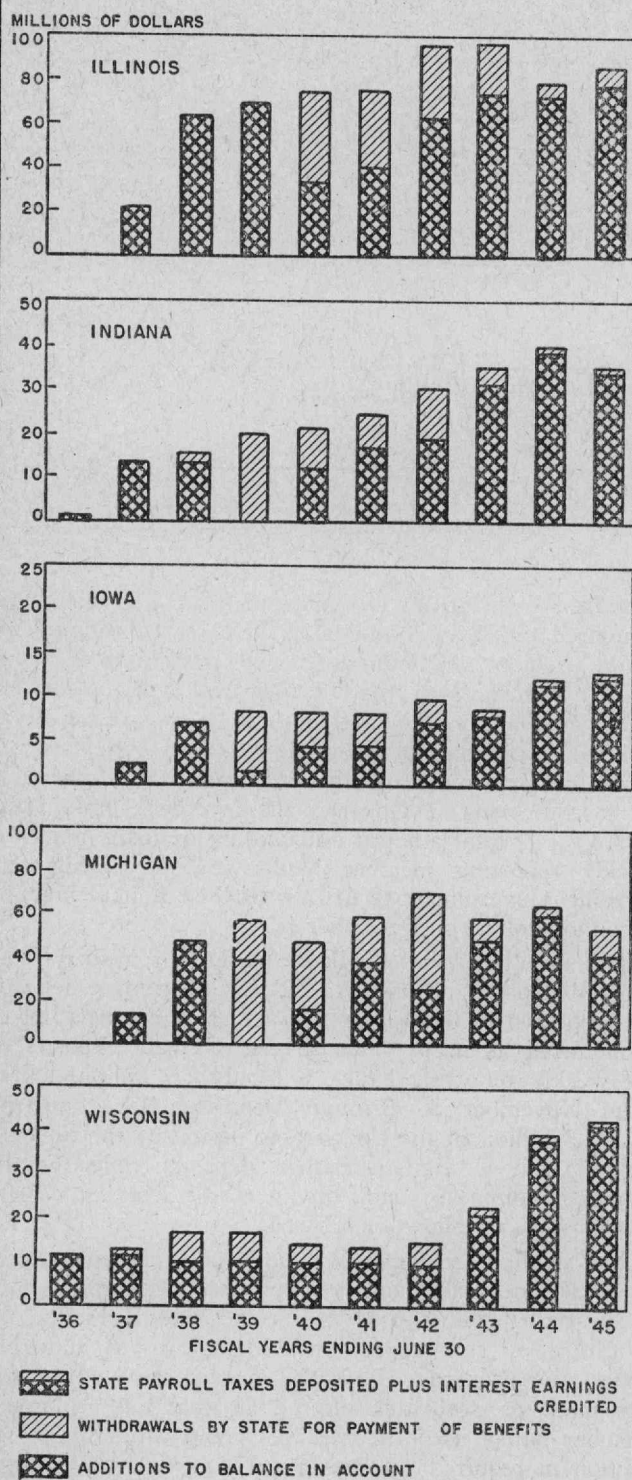
Fiscal Year Ending June 30	Deposits by States	Interest Credited	Withdrawals by States	Balance at End of Period
Illinois				
1936				
1937				
1938	84,314 ¹	464		84,778
1939	66,130	2,977		153,885
1940	69,795	4,291	42,000	185,972
1941	70,609	4,836	34,973	212,603 ²
1942	89,963	6,097	33,400	275,263
1943	90,889	6,958	23,500	349,610
1944	72,578	7,234	6,900	422,523
1945	77,811	8,821	7,750	501,405
Indiana				
1936	855	1		856
1937	13,060	143		14,058
1938	15,136	545	2,500	27,239
1939	19,624	602	20,300	27,165
1940	20,928	849	9,450	39,492
1941	23,150	1,141	6,600	53,994 ²
1942	28,675	1,629	10,600	73,698
1943	33,032	1,969	3,800	104,900
1944	38,468	2,358	2,070	143,656
1945	32,805	3,086	1,365	178,182
Iowa				
1936				
1937	2,750	7		2,757
1938	7,000	163		9,920
1939	8,100	264	6,500	11,784
1940	7,941	349	3,885	16,189
1941	7,693	416	3,325	18,851 ²
1942	9,283	561	2,375	26,320
1943	8,157	666	725	34,418
1944	11,414	750	308	46,274
1945	12,022	1,002	270	59,028
Michigan				
1936				
1937	13,040	92		13,132
1938	47,986	916		62,034
1939	38,060	1,082	57,400	43,775
1940	47,409	1,228	32,450	59,962
1941	57,720	1,858	21,050	96,559 ²
1942	67,253	2,942	43,700	123,053
1943	55,885	3,245	9,300	172,883
1944	60,299	3,892	3,500	233,574
1945	48,833	4,904	12,450	274,861
Wisconsin				
1936	11,400	82		11,482
1937	12,345	431	1,000	23,258
1938	15,406	709	6,100	33,274
1939	15,751	931	6,550	43,405
1940	12,804	1,203	4,050	53,362
1941	11,911	1,394	3,350	61,353 ²
1942	12,883	1,646	4,800	71,082
1943	21,042	1,808	1,420	92,513
1944	37,661	2,095	1,274	130,995
1945	39,897	2,932	515	173,309

¹Includes \$20,814,000 credit for Federally collected payroll taxes before state law became effective.

²Balances are adjusted in this year for transfers of funds to the railroad unemployment insurance account: Illinois, \$13,841,000; Indiana, \$3,190,000; Iowa, \$2,122,000; Michigan, \$1,931,000; Wisconsin, \$1,964,000.

SOURCE: *Annual Report of Social Security Board.*

CHART 2
DEPOSITS TO AND WITHDRAWALS FROM
UNEMPLOYMENT TRUST FUND
ACCOUNTS OF SEVENTH DISTRICT STATES



any anticipated drain and, once the fund has reached this dimension, by reducing the deposits to it to the level of current withdrawals. This, in theory, resembles the method employed at present, though recognition of the nature and duration of cyclical movements has been inadequate.

Experience rating is the usual device which controls the rates of deposit to the accounts, but various provisions to safeguard the solvency of the funds include restrictions of benefits when drains reduce balances to low levels. The present devices for assuring solvency are imperfect and tentative as would be apparent in a period of prolonged unemployment. However, the intended role of unemployment insurance in meeting the social and economic problems of depression is not yet clear. Moreover, the relation of benefit payments to earnings, the duration of benefits, and the conditions for qualification and disqualification are still in the process of evolution. Given a settled policy on these issues the actuarial requirements of the fund depend largely upon the prognosis of the course of the business cycle.

Present state funds are being accumulated in a more or less arbitrary fashion with the expectation that revisions in policy with respect to them will await further experience. The level of tax rates originally adopted, before experience rating, has been more than adequate to provide for the scale of benefit payments thus far. Admittedly, experience to date has been largely in a period of extremely high economic activity with a present scale of benefits less liberal in terms of equivalent price levels than that originally adopted. Much interest is being displayed both in state legislatures and in the Congress in the liberalization of benefit provisions themselves, the terms of qualification, and in relaxation of the terms of disqualification. While thus far these proposals are not beyond the reasonable limits of an insurance scheme, they could easily be made to encroach upon the field of public aid which contributions of employers should not properly be expected to finance.

DEFICIT FINANCING

Still another possibility with respect to financing and reserves would equate an average level of benefit payments to a minimum stable tax rate and avoid the accumulation of reserves by deficit financing of benefits in periods of abnormal unemployment. This would obviate the hazard of predicting the liabilities of the insurance system in such periods and would not require the accumulation of anything more than a normal operating balance. A policy of this kind obviously would do violence to the concept of employer responsibility implicit in present financing arrangements if the repayment of the deficit were financed out of subsequent payroll taxes. By broadening benefit coverage, however, such payments could be made a charge on general revenues of the Federal Government or on the Federal Government and the states.

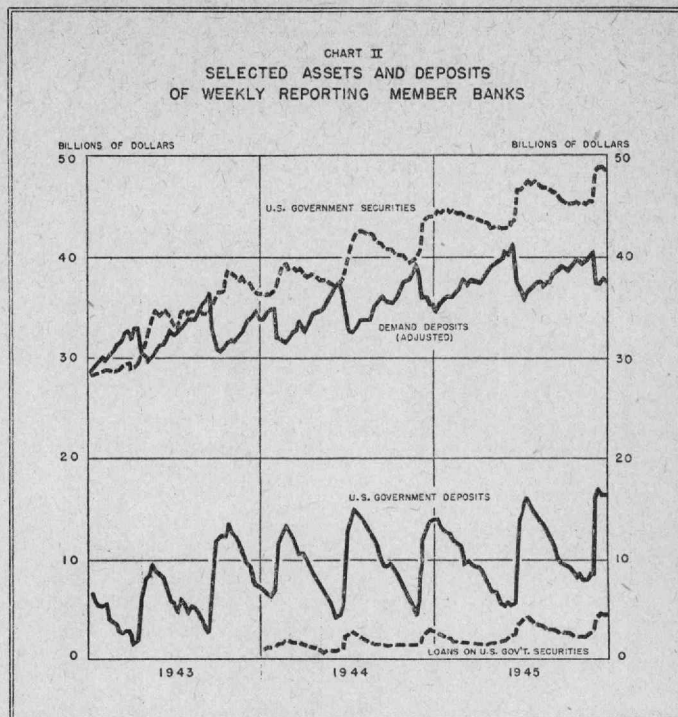
RESULTS OF THE VICTORY LOAN

(Continued from Inside Front Cover)

through the rise in loans on Governments. Prior to the Victory Loan, in addition to its usual measures to limit credit expansion, the Treasury restricted war loan accounts at commercial banks to 30 per cent of deposits other than war loan, as of October 31, 1945. The limitations placed on insurance company and savings bank subscriptions were also expected to reduce shifting.

Despite these precautions, a large portion of the purchases of securities by nonbank investors was financed indirectly by bank credit. From the statements of weekly reporting banks it is apparent that although the dollar volume was smaller than in the Seventh Drive, the proportion of the smaller sales total which was financed by bank credit was considerably larger than in the last drive. During the period October 24 through December 12, holdings of Government securities other than Treasury bills by the reporting banks rose 2.6 billion dollars—an increase of about 600 million dollars less than for the comparable period of the Seventh Drive. Of this increase, about 1.4 billion was in Treasury bonds. Chart I shows the continuation of the tendency for banks to shift their purchase from bills, certificates, and notes to bonds. A limited amount of the securities obtained during the last drive was acquired through direct purchases of new issues from the Treasury under the savings deposit formula, but the larger portion was obtained in the market. In addition to the increase in commercial bank holdings, Government securities held by the Federal Reserve Banks increased about 1 billion dollars.

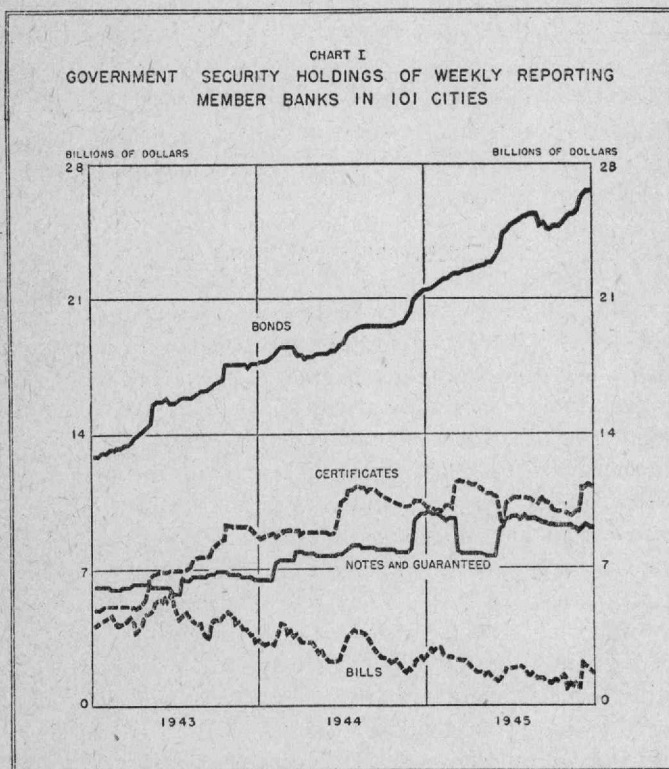
Loans by reporting banks for purchasing and carrying



Government securities also expanded 2.6 billion dollars, compared with 2.3 billion during the corresponding period of the previous war loan, and were largely related to the heavier purchases of the 2½ per cent bonds. The increase in loans to others than brokers and dealers was about 175 million dollars greater than in the Seventh Drive and accounted for almost 70 per cent of the total increase in loans on Governments for the Victory Loan period. The total amount outstanding of loans made by weekly reporting member banks for purchasing and carrying Government securities reached a new high of 4.7 billion dollars on December 12.

The familiar war loan drive pattern of a shift from demand deposits adjusted to U. S. Government deposits was repeated in the Victory Loan period but was not so pronounced as in previous drives. Private deposits of the weekly reporting banks fell only 2.9 billion dollars from November 28 through December 12, compared with 5.3 billion in the comparable period of the Seventh Drive, while U. S. Government deposits, reflecting the increased volume of bank credit, rose 8.2 billion. These relationships are shown in Chart II.

The smaller decline in demand deposits is attributable partly to the smaller net nonbank absorption of Victory Loan securities and partly to the large net Treasury expenditures in connection with redemptions of maturing issues, the proceeds of which, in turn, were used for purchases of securities offered in the Victory Loan. Member banks used the reserves freed through the reduction in required reserves and those received through heavy net Treasury disbursements to retire part of their indebtedness to the Reserve Banks and to repurchase Treasury bills.



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