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BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Consumer Spending Since V-J Day

Retail Sales Rise Sharply Despite Unsettled Conditions

Consumer spending in the Seventh Federal Reserve District since mid-August 1945 has followed an almost unbroken upward course to new all-time records, contrary to some earlier predictions that a fairly sharp and perhaps even prolonged decline could be expected after the end of the war.

In Illinois, Indiana, Iowa, Michigan, and Wisconsin, retail sales, which now account for about two-thirds of total consumer expenditures, fell only slightly for one month, then recovered, reached an annual rate of roughly 16.4 billion dollars in February, and have continued upward. This level is almost 25 per cent above that of V-J Day, and about 110 per cent higher than in 1939. The corresponding national increase since the end of the Japanese war is estimated at 27 per cent, indicating that relatively greater work stoppages in this District resulting from extensive wage-price-profit controversies have prevented retail sales from showing still larger gains and have held actual increases somewhat below the national average. Data on recent trends in consumer expenditures for services are fragmentary, but available information indicates that such expenditures also have been well maintained.

Major factors contributing to these record consumer expenditures have been: continuing and expected high levels of individual income payments; increasingly less tendency for individuals to save from income with the war won; an increase of 1,200,000 in the civilian population of the five District states because of demobilization; large expenditures by the Federal Government for mustering-out pay and terminal leave funds; use of 110 million dollars of unemployment compensation benefits and veteran readjustment payments between August and December, and probably an equal amount since, offsetting, at least in part, the effects of reconversion unemployment; relatively high over-all production of consumers' goods, including some scarce durable items; heavy cashing of Series E war bonds; increase in insurance policy loans; and some rise in installment financing.

Large increases in retail prices have occurred in the clothing and housefurnishings groups since V-J Day, but over-all retail prices of consumers' goods are reported by the United States Department of Commerce to have risen less than one per cent from August to January. The post V-J rise in retail sales appears thus far to have been mainly a growth in the volume of unit sales, although clearly weighted by goods selling at prices much above prewar levels as well as by noticeable upgrading of merchandise above prewar standards.

The continuance of record levels of consumer spending in this District and in the nation will depend primarily upon how well income payments are maintained, the volume and prices of consumers' goods available, and the general outlook for individual incomes and the price level.

These will combine to determine how extensively accumulated savings may be used for current consumption or investment purposes.

INCOME-SPENDING RELATIONSHIPS

While consumer spending at retail is continually subject to a wide variety of influences, particularly under present-day conditions of early postwar readjustment, it is nevertheless evident from public and private analyses of prewar sales trends that the level of individual incomes after taxes (i.e., disposable income), both current and expected, regularly determines the general level of individual spending to a greater extent than do such other factors as accumulated savings. During the period 1922-41, for example, the United States Department of Commerce reports that about 70 per cent of any given increase in disposable income went for purchases at retail outlets. Under present conditions, during the transition to peace, however, with heavy demobilization and further price advances expected, there are many indications that accumulated savings are exerting a strong, if only temporary, influence upon the current level of consumer spending. In addition, it should be remembered that incomes now include large supplementary payments to veterans.

TRANSITION BUYING PATTERN

The war years, as is well known, were marked by a sharp rise in individual incomes in the Seventh Federal Reserve District and in the nation. Retail sales also showed unprecedented gains. In spite of rationing and serious shortages of many types of non-rationed merchandise, at the close of the Japanese war retail sales in the five states were at an annual rate of about 13 billion dollars, roughly 70 per cent above the 1939 figure. More than 60 per cent of the 5.5 billion dollar rise in the annual rate of retail sales from 1939 to V-J Day, however, was directly attributable to price increases reflected in official price indexes. The large increase in dollar volume of sales was also aided by a significant shift to the manufacture and sale of higher-priced merchandise on which a greater profit generally was realized, by upgrading, uptrading, elimination of special sales, and similar devices.

Considering prewar sales-income relationships, however, even these gains were smaller than would have been expected from the corresponding growth in consumer incomes, principally because of shortages of durable goods available for purchase, wartime incentives to save, and price controls. A United States Department of Commerce study of wartime relationships between retail sales and consumer income

(Continued on Page 8)

Propose Raising Parity Prices

Critics of Current Parity Urge Changes

The concept of parity prices for agriculture has been for some time the subject of critical attack from certain quarters, and recently there have been attempts to amend existing parity legislation by including farm labor in the formula for computing parity.

The notion of parity for agriculture as a national policy was established in the depth of the depression, in 1933. At that time, the nation's agriculture was in the most distressed period in its entire history, with farm commodity prices and farm incomes at a disastrously low level. These distressed conditions gave rise to political unrest in rural areas so profound that special national measures were deemed necessary to deal with the farm problem. Farm legislation including parity prices as a goal for farm policy thus became a part of a large body of special laws formulated to deal with distressed economic conditions.

The parity objective has been widely accepted by the general public as fair treatment of the agricultural segment of the economy. This general acceptance has existed in spite of the fact that relatively few people understand either the philosophy behind it or the technical methods by which it is calculated and implemented. This acceptance is probably due to the fact that when parity was instituted as a policy,

prices of farm products had declined faster and farther than other prices. An additional factor in the general assent to such a goal probably has been the choice of the term "parity" itself, denoting equality or justice.

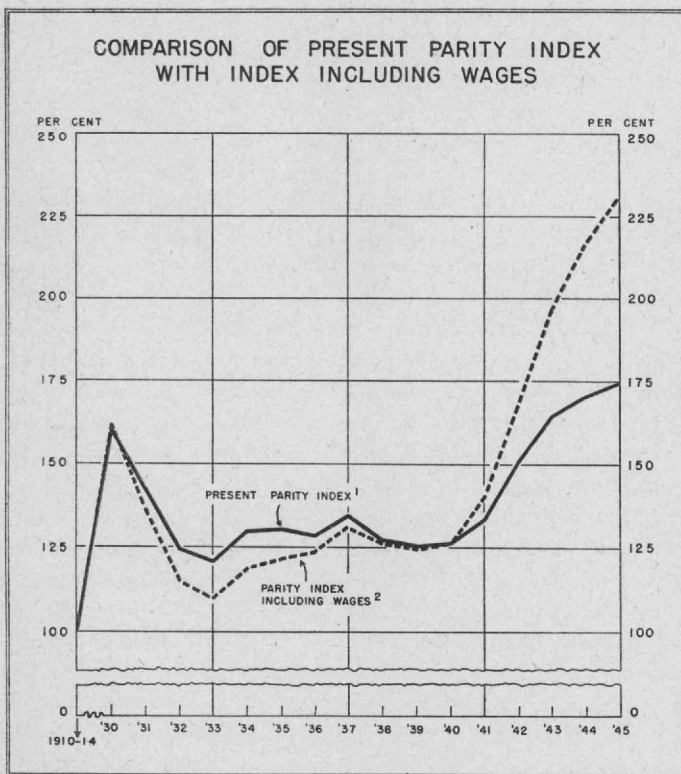
PARITY DEFINED

A parity price for a given farm commodity is the price which will give to a bushel, pound, or other physical unit of the commodity the same purchasing power (exchange for some number of physical units) which the commodity had in a base period. The goods and services used by farmers in living and production are currently priced and totaled. These totals are then compared with the value of the same goods and services in the base period, which for most commodities is 1909-14, although some commodities have other base periods. When prices paid by farmers for these items are higher than they were in the base period, the index is at some figure above 100, and conversely, is below 100 when prices paid are below the level of the base period. The computation of the parity price of a commodity is performed by taking the average price of a given commodity in the base period and multiplying it by the index of prices paid. Thus the parity price of a commodity rises and falls with the index of prices paid by farmers.

THE SOCIAL BASIS FOR PARITY

The period 1909-14 was chosen as the base period because it was believed that in that period agriculture's share of the national production of wealth was the most reasonably normal of any time in the nation's history. The intent in choosing this period and of implementing policy to achieve parity in terms of that base period was to give to agriculture a corresponding per capita share of the total national product. It is obvious that the use of parity as a policy for all segments of the economy is impossible of practical achievement. If it were followed, each economic segment in the economy would seek a base period in which its share of income was the most favorable. To the extent that this is true, it would be impossible to reconcile the inconsistencies of the respective parities for different time periods. Such attempts to freeze the pattern of income distribution in terms of an historical period leave no room for necessary adjustment to dynamic changes in a healthy and evolving economy.

The justification for the use of this device in the case of agriculture has generally been put upon largely social grounds. It is argued that the farm is the major source from which population replenishes itself and that therefore a healthy and prosperous agriculture is an eminent necessity. It is sometimes also argued that parity is justified on economic grounds because a substantial proportion of the work-



¹Prices paid by farmers for commodities, interest and taxes, 1910-14=100.
²Combination of index of commodities, interest and taxes (68%) and index of farm wage rates (32%).

ing population is engaged in agriculture, and that therefore raising the purchasing power of agriculture promotes a more active economy. However, the same argument can be and is being currently used to justify similar programs for groups representing even proportionally larger groups of the population.

THE PERFORMANCE OF PARITY

In spite of the goal of achieving parity prices for farm products, parity was never even approximately achieved in any of the peacetime years since it was instituted. Under present legislation, farm prices are calculated to have been at parity in 1920. Considering all commodities as a whole, farm prices were below parity until 1942. In 1939, prices averaged 77 per cent of parity and rose thereafter to 80 per cent in 1940, 94 per cent in 1941, and 106 per cent in 1942. During the last three years the index of prices received by farmers has reflected farm prices 15 to 20 per cent above parity.

For individual commodities considerable range has been shown. Hogs averaged only 60 per cent of parity in 1940 and reached a maximum of 20 per cent above parity in 1942. Beef cattle were at 6 per cent above parity in 1939 and achieved a level of 39 per cent above parity in 1943. Corn was at 60 per cent of parity in 1939 and averaged very close to parity in 1943 to 1945. The range in butterfat is from 74 per cent of parity in 1939 to the high of 18 per cent over parity achieved in 1943. For milk the 1939 ratio was 85 per cent of parity, with a peak of 22 per cent above parity reached in 1943. At the present time the major commodities in American agriculture are substantially above parity.

Extensive programs involving substantial expenditures have been operated under the parity legislation since 1933, but in spite of these efforts, it required the inflationary war period and the war's expanded demands to bring farm prices up to parity.

ATTACKS ON PARITY

The concept and machinery as they exist have been repeatedly attacked and critically scrutinized throughout the life of the policy. These attacks have been made on several grounds. It is said that the structure of parity takes no account of changes in the costs of producing commodities since the base period. Changing farm technology since 1914 has materially affected the relative costs of producing some commodities. For example, wheat costs less in terms of resources to produce than it did in 1909-14. On the other hand, some commodities like beef and milk cost more in terms of resources to produce today than they did in the earlier period. The point of this criticism is that providing parity prices for commodities subject to these changes unfairly compensates some farm enterprises and penalizes others.

A second line of attack has been that the mechanical promotion of parity prices for specific commodities takes no account of the changes in demand for different commodities. With the passage of time, consumers have come to place

PARITY PRICES OF SELECTED FARM COMMODITIES

Commodity	Parity Price, Mar. 15, 1946	Farm Price, Mar. 15, 1946	Per Cent Farm Price Is of Parity Price
Hogs.....	\$13.00	\$14.20	109
Beef cattle.....	9.70	13.10	135
Veal calves.....	12.10	14.10	117
Lambs.....	10.50	13.60	130
Milk, wholesale.....	2.86	3.29 ¹	117
Butterfat.....	.48	.51 ²	107
Chickens.....	.20	.23	114
Soybeans.....	1.72	2.12 ³	123
Apples.....	1.72	3.68	214
Rye.....	1.29	1.75	135
Rice.....	1.46	1.89	129
Hay.....	21.20	16.30	77
Cottonseed.....	40.40	47.50	118
Potatoes.....	1.80	1.57	121
Sweet potatoes.....	1.57	2.36	150
Wool.....	.33	.41	124

¹Does not include dairy production payment of 65c per cwt. in March 1946.

²Does not include dairy production payment of 17c per pound in March 1946.

³Comparable price.

SOURCE: *Agricultural Prices*, U.S.D.A., B.A.E., March 1946, pp. 4-5.

different values on commodities than prevailed in the base period. For the most part these changing values reflect changing tastes arising from nutritional education, higher standards of living, and other changing social customs. Under strict adherence to parity as a goal, these changing consumer choices are not reflected as they should be in the shifts in production that the changes would call for.

In other terms it has been said that the parity goal, to the extent that it succeeds, results in a misuse or misallocation of agricultural resources, encouraging their use in the farm enterprises according to the demands existing in the base period rather than in terms of current needs and tastes. This tends to aggravate the accumulation of unwanted surpluses and to encourage the dissipation of soil fertility.

Recently some farm organizations have taken the lead to advocate an overhauling of parity which would overcome some of these difficulties. The essential feature in the proposals for revision is that the base period would be eliminated as the beginning of the parity calculation for the individual commodities, substituting instead a moving average of a recent period, such as 5 or 10 years, for each commodity. The parity price for each commodity would then be calculated by adjusting these averages up or down, according to the ratio or relationship between the general level of prices paid by farmers and prices received by farmers in the base period. This device would, therefore, permit changes in the cost of production and changing levels of demand for various commodities to be reflected in the parity prices.

Some leaders and students of agriculture advocate the complete scrapping of the parity price concept as a basis for farm policy and suggest a substitution of other social devices as an aid to farmers, such as compensatory benefit or income payments or publicly subsidized nutrition programs.

AMENDMENTS TO PARITY PROPOSED

In the last two or three years there have been serious attempts in Congress to amend the present parity legislation.

The legislation has previously been amended a number of times in minor ways. The only major change that has been made was in 1936 when the law was changed to allow the inclusion of interest and taxes in the list of goods and services entering into the calculation of prices paid by farmers.

Several attempts have been made to include farm labor wage rates in the formula. The most recent was the amendment which both the House and the Senate passed as a part of the Minimum Wage bill. The President indicated that he would veto the legislation if it contained this amendment. Farm interests in Congress have discussed attaching the measure to the bill extending the Office of Price Administration if necessary.

If the question of adding farm wage rates to the computation of parity were purely and simply a matter of logic, it is probable that a fairly good logical case exists for the inclusion of labor costs in pricing the goods and services that farmers buy. Although the amendments include both hired labor and family labor, priced at going rates for hired labor, the farm expense for labor is as real a part of farm operating expenses as is that for supplies, feed, machinery, interest and taxes, or any other tangible expense. The case for including labor costs becomes, however, somewhat weaker when applied to individual commodities. This is particularly important because some farm commodities require relatively much more labor expense in their production than do others.

An additional argument put forth by some of the sponsors of this amendment to parity is that they see a national wage policy for labor based upon adjustments in wages compensating for changes in the cost of living. They say that furthermore it appears to be national policy to allow manufacturers operating under OPA price ceilings price increases commensurate with increased costs. They therefore argue that in view of these policies running in the direction of covering increased costs, it is only fair and just to the farmer that his increased costs, in this case labor costs, should be covered.

In this and other connections there have occasionally been suggestions that farmers implement their position in the current situation by taking a leaf from the book of labor and

instituting some strikes. Regardless of the outcome of the parity amendments, it is unlikely that this will be much more than talk. The heterogeneous and dispersed nature of agriculture and the character of most of the farmers of the nation do not lend themselves to the effective organization and use of the strike as a weapon for group pressure.

EFFECTS OF ADDING LABOR TO PARITY

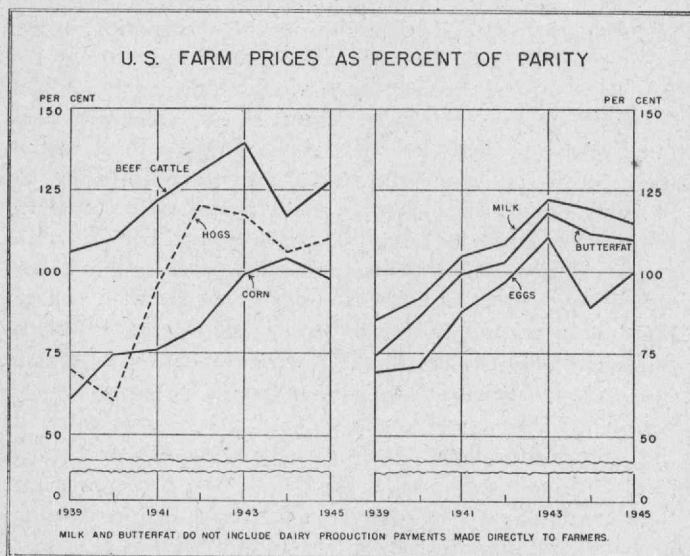
According to the U. S. Department of Agriculture, labor costs, including proper allowance for family labor, would account for 32 per cent of the total weights entering into an index of prices paid by farmers for goods and services used in living and production, leaving 68 per cent for non-labor expenditures. Currently the index of prices paid, excluding labor, is about 174 per cent of the 1909-14 average level. Farm wage rates are 350 per cent of the level in the same base period. Therefore, the inclusion of farm wage rates would result in a new index, would yield an index including labor 230 per cent of the 1909-14 level. This would mean that parity prices would be increased by about 32 per cent if labor wage rates are to be included in computing parity.

Secretary of Agriculture Anderson, in commenting on the proposed amendments, pointed out that there were good reasons why farmers ought to proceed cautiously in permitting and encouraging the inclusion of labor costs in the parity formula. Among other things, he cautioned that farmers may in the future have occasion to regret such inclusion. The full portent of these remarks is borne out by recalculating the index of prices paid along the lines suggested by the amendments to include labor wage rates. Such a formula would have lowered parity prices nine of the sixteen years since 1930, would have made no difference in one year (1940), and would have increased parity prices in six of the years. In 1930, parity prices would have been only one per cent higher, and for the five-year period 1930-34 they would have been 5 per cent lower. Adding labor to the formula would have lowered 1933 and 1934 parity prices by 9 per cent. In the five-year period 1935-39 lower parity prices would have prevailed for every year. On the average for the period, parity prices would have been 3 per cent lower than when calculated on the present basis.

Going into the war period, the inclusion of labor would have made no difference in 1940. For the five years 1940-44 parity prices would have been, on the average, 13 per cent higher, and for 1945 would have been 32 per cent higher.

With the passage or tapering off of the abnormal demand for war commodities, it would appear that the case for inclusion of labor costs in times of somewhat more normal demand would rest upon the expectation that farm labor wage rates are to remain indefinitely higher relative to other prices paid by farmers than they have been in past years.

Turning to some of the important farm commodities of the Seventh Federal Reserve District, the revision of parity prices along the lines discussed above would have some marked effects on the parity prices of individual commodities. For example, the parity price of hogs in 1933 was \$8.72, while under the proposed calculation of parity, the price would have been \$7.92. Throughout the 1935-39



period it would have lowered the parity price from \$9.38 to \$9.09. On the other hand, the 1945 parity price for hogs would have been \$16.92 instead of \$12.65. For beef cattle with a parity price under present methods of \$6.50 in 1933, the parity price would have been \$5.91. Beef is nearly one-third above parity today. The parity price of beef cattle would be raised by revising the formula from \$9.43 to \$12.47, still below present market prices.

The parity price of corn would have been reduced by seven cents in the depth of the depression and would have been three cents lower in the prewar years. For 1945, on the other hand, the suggested method would have raised corn from a parity price of \$1.12 to \$1.48. Similar changes are shown for butterfat which would have been dropped from 32 to 29 cents in 1933, would have lowered it by one cent in the immediate prewar years, and would have boosted it from 46 cents in 1945 to 60 cents. Similarly, changing parity would have reduced the parity price of milk from \$1.92 to \$1.74 in 1933, would have lowered it about six cents per cwt. in the prewar years, and raised it 32 cents during the war years. The 1933 parity price of eggs would have been 23 cents instead of 26, a difference of less than one cent would have been shown for the 1935-39 period, but the average of the war years would have been 36 cents instead of 32.

HIGHER PARITIES AND INFLATION

In view of the present concern over preventing or checking inflation, the effects estimated by high Government officials from raising parity prices are worth noting. Secretary Anderson, in commenting on the legislation, says that the change would upset the stabilization and price control program. He stated further that it would tend to have a very disturbing effect on this country's efforts to relieve famine and starvation among the populations of the world. As to the latter, his reasoning was that the expectation of higher parity prices for grains would aggravate and make more difficult the Government procurement of grains for shipment abroad by encouraging farmers to hold back marketings in anticipation of the higher parity prices. As to the effect on the stabilization program, his position was that the higher parity would necessitate raising price ceilings about one-third, particularly on corn, cotton, and wheat, and that as a result almost every other class of farm commodity would have to be adjusted upward. This, he said, would generate a new round of wage demands, thus wrecking the whole stabilization and price control program.

The Economic Stabilization Director, Chester Bowles, estimated that the higher parity would raise the average family's food cost \$125 a year and would increase the cost of such items as cotton goods by at least seven per cent. He said he felt that the resulting farm price increases would lead to new demands for higher wages, imposing upon the stabilization program a strain which it would be unable to bear, followed by a price collapse and an agricultural depression that would take many years to cure.

Another major problem raised by the proposals to elevate parity prices is the effect such a move would have on the

Government's commitment to support the basic and war-essential commodities at approximately 90 per cent of parity. These commitments on commodities representing a substantial proportion of the total farm production of the country require support programs under the present law until at least January 1, 1949, and later if official action declaring the war to have ended is not taken during 1946.

It is generally reported that many economists in the Department of Agriculture are apprehensive that delivering on these commitments will be a very heavy task when farm prices begin to readjust from the wartime high levels. This problem, serious as it may be under existing law, would be greatly magnified by a boost of roughly one-third in parity levels. The amount of funds which would be expended out of the public treasury to support the higher levels would undoubtedly be several times the minimum amounts estimated to be required by the commitments under the present law. In addition to this, the higher parity price levels, assuming effective efforts were to be made commensurate with the greater task, would greatly stimulate the production of commodities favorably situated as to parity levels, thus aggravating the problems of size, storage, and disposal of surpluses.

Effects on farm land prices cannot be overlooked. Agricultural officials and other agricultural leaders have repeatedly warned of the dangers of another run-away land boom with disastrous consequences to agriculture. In some parts of the country, land prices have gotten out of line in the past few years largely because of the relatively favorable position as to parity prices enjoyed by the major commodities in such areas. The materially higher farm prices that would result from boosting parity standards can be counted upon to add explosive fuel to the farm land price situation. Farmers can scarcely be blamed for capitalizing land returns induced by putting higher stilts under the parity structure. Such capitalization benefits present land owners rather than those who will operate the land at the time parity programs are in operation. Furthermore, the tentative nature of parity benefits makes such capitalization a speculative influence in the land markets.

One of the arguments sometimes put forth on behalf of higher parity prices is that during the war period, under price controls, farmers were deprived as a group of the naturally larger returns they would have gotten from "normal" markets. A similar argument has sometimes been put forth on behalf of some labor groups with regard to wage controls. During the war a substantial inflation was probably politically and strategically inevitable in order to achieve a quick mobilization of the economy. But it would appear hardly conducive to economic peace and national well-being to base national economic policy for more normal times upon the notion that redress is due to selected groups in the economy because they did not get more out of it than they did. Farmers as well as other groups would do well to realize that the country can gain by the manipulation of the purchasing power medium only if added production results without inflation. If inflation is the consequence of such manipulation, the gains to a part of the population are to that extent made at the expense of others.

Illinois State Surplus and Debt—II

Debt History and Public Works Program

As of January 1, 1946, the State of Illinois owed 111 million dollars in long-term debts for which it had directly or indirectly pledged its credit. The major items in this total were 90 million dollars of highway bonds issued in the 1920's to finance construction of the statewide system of hard roads, and 17 million dollars of emergency relief bonds issued by the State in the 1930's but serviced from city and county shares of State motor fuel tax collections. Both of these issues will be retired before 1960 by annual principal payments of from 7 to 8.7 million dollars. The borrowings of the Illinois Armory Board and the University of Illinois were additional components but of minor significance. The Armory Board obligations, though not technically a debt of the State, are so classified since the proceeds were used to construct and equip armories for the State militia, and these structures are maintained by biennial appropriations of the State legislature for rentals in sufficient amount to defray the annual debt service requirements. A substantially similar situation obtains with respect to the borrowings of the University of Illinois.

EARLY HISTORY

Until 1923 the State government in Illinois had under its constitutions of 1848 and 1870 incurred insignificant amounts of public debt. Even during the Civil War, borrowings were little more than 2 million dollars, or about one-fourth of the revenue from taxes. The State's assistance to the City of Chicago after the catastrophic fire of 1871 entailed an indebtedness of but 250 thousand dollars. These

were the only significant State borrowings in the 75 years from 1848 to 1923. The fact that both of the constitutions in effect during that period imposed rather stringent limitations on the power to borrow probably was a major deterrent to deficit financing.

Moreover, the fiscal experience of the State in the 1850's and 1860's, when it was still struggling with an unmanageable debt incurred in the years 1836-42 and on which interest was regularly defaulted until 1856, was for some time a sufficiently recent experience to exemplify the hazards of excessive borrowing. In that seven-year period the State had borrowed approximately 14 million dollars for internal improvements or over eight times the aggregate of its tax receipts. A comparable borrowing today would be approximately 20 billion dollars. It is not surprising, therefore, that restrictions on debt issue were made a part of the fundamental law of the State in 1848.

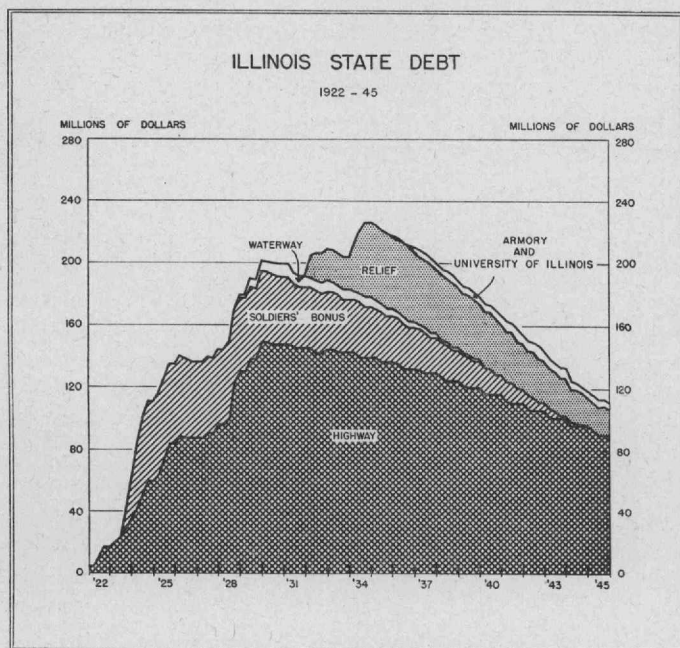
CONSTITUTIONAL RESTRICTIONS ON BORROWING

The constitutional provisions with respect to State debt in both the 1848 and 1870 constitutions are essentially alike except that the 1848 version set the limit for loans to meet casual deficits at 50 thousand dollars, whereas the constitution of 1870 fixed this limit at 250 thousand dollars. Borrowing "to meet casual deficits or failures in revenues" in the year 1848 was thus limited roughly to one month's revenue. Similarly, 250 thousand dollars was an average month's revenue in the latter 1860's. If the present constitutional limitation had been expressed in terms of an average monthly revenue, it would permit borrowing for casual deficits in the years 1940-45, for example, of between 20 and 25 million dollars.

In addition to loans for casual deficits, the constitution of 1870 permits the State to incur debt for purposes of repelling invasion, suppressing insurrection, or defending the State in time of war. Any other debt to be legally contracted must be submitted to a vote of the people and requires the approval of a majority of votes cast for members of the Assembly at a general election. Concurrently, provision must be made by the General Assembly for the levying of taxes sufficient to cover debt service requirements.

DEBT ISSUES SINCE 1920

Until 1908 no referendum for the issuance of debt had been approved by the Illinois electorate. A constitutional amendment with respect to inland waterways was adopted in 1908 and conferred authority on the State to issue 20 million dollars in waterway bonds. The first of these, however, were not sold until 1929. In 1918 the voters approved a highway issue of 60 million dollars, and under its terms



the bonds were first issued late in 1921. A subsequent highway issue for 100 million dollars was approved by the voters in 1924. In 1922 a soldiers' bonus issue was approved, and these bonds were sold to the public beginning in 1923. For the decade of the 1920's, proceeds of the foregoing State bond issues were equivalent to 40 per cent of State tax revenues.

The emergency relief issues sold in 1932 and 1934 funded tax anticipation notes which the State had issued in anticipation of a property tax levy to raise funds for relief. At an intervening general election, however, the voters approved bond issues to fund the tax anticipation notes. This procedure was resorted to twice before a co-ordinated Federal, state, and local program of financing unemployment relief on a current basis had been adopted.

The tax anticipation notes and the armory bonds illustrate two modes of avoiding—in the one case temporarily, and in the other case permanently—the necessity of obtaining voter approval on projected State expenditures financed by borrowing. In the one case—that of the tax anticipation notes—the temporary obligations were legally not in the category of debt.¹ In the other case the issues were not those of the State but those of the Armory Board, a public corporation or trust, which at the most could pledge as security only the income of rentals paid from State appropriations for the use of the armories to house and train the State militia.

The borrowings of the University of Illinois and the University of Illinois Foundation (a non-profit corporation organized to assist in developing and expanding the facilities of the University) do not differ in essence from those of the Armory Board. The funds raised, together with Federal grants, were used for the Medical, Dental and Pharmacy Building, Illini Union buildings in Chicago and Urbana, and Men's Residence Halls. Debt service has been provided from earnings, rentals, and a direct State appropriation in 1943 for retirement of certain callable issues.²

The creation by the General Assembly of public corporations with the power to incur debt and provide for its retirement by regular State appropriations for rentals does not have unlimited possibilities. The 62nd General Assembly (1941) created the Illinois State Public Building Authority, a "body corporate and politic, constituting a public corporation and government instrumentality" to purchase or construct, maintain, and operate State office buildings in Illinois cities of over 75,000 population. The Authority was empowered to issue bonds to finance the cost of such facilities and to enter into leases with the various State departments for office space. The Act was declared unconstitutional by the Illinois Supreme Court in March, 1943 (*People vs. Green*, 382 *Illinois* 577) as contrary to section 18, article IV, relating to the issuance of State debt. The following lan-

guage of the decision indicates the nature of the barrier to the use of the corporate authority device for financing capital outlays:

"... It is clear that the rent to be paid by the State of Illinois is substantially the only contemplated source of revenue of the Authority. The leases made by the State will, of necessity, have to be made with reference to the payment of interest on the bonds and the payment of principal, and the appropriation will have to be made with reference to the rentals fixed in the leases.

"The intent and purpose of the constitutional restriction is to impose a limitation on the power to appropriate, by limiting the amount of the indebtedness which may be incurred without a vote. There is, however, an exception to section 18, article IV, contained therein, excepting from its provisions State indebtedness incurred 'for the purpose of repelling invasion, suppressing insurrection or defending the state in war.' The purpose of the act before us does not come within that exception. In the present act there is an avenue opened for the building of lavish and elaborate buildings which might necessitate large and unusual appropriations to meet excessively high rentals, to meet the interest and principal payments for bond requirements. However admirable or desirable the plan may be, without some limitation on the amount of rentals, to be fixed in the leases, or some guide as to how they should be ascertained, the act violates section 18 of article IV of the constitution. The

TABLE 1
OUTSTANDING DEBT OF THE STATE OF ILLINOIS
1921-45¹
(In millions of dollars)

Cal-endar Year	Total Outstanding				Purpose for Which Incurred (Balances as of June 30)				
	Mar. 31	June 30	Sept. 30	Dec. 31	High-way	Sold-iers' Bonus	Water-way	Relief ²	Other ³
1921	—	—	—	5.0	—	—	—	—	—
1922	5.0	11.0	17.0	17.0	11.0	—	—	—	—
1923	20.0	23.4	38.1	61.1	23.4	—	—	—	—
1924	82.2	101.3	112.1	112.1	51.0	50.3	—	—	—
1925	117.7	127.7	136.1	136.1	74.0	53.7	—	—	—
1926	141.1	139.1	137.2	137.2	87.0	52.1	—	—	—
1927	137.2	141.2	139.3	145.3	91.0	50.2	—	—	—
1928	145.3	150.3	170.3	179.3	102.0	48.3	—	—	—
1929	179.3	190.3	189.7	202.5	139.0	46.3	5.0	—	—
1930	201.9	200.5	199.8	199.1	148.0	45.1	7.4	—	—
1931	198.8	195.0	192.7	192.6	146.1	41.9	7.0	—	—
1932	204.1	207.1	207.5	209.7	143.5	39.6	6.0	17.6	.4
1933	208.7	206.2	204.7	204.7	143.0	37.2	6.0	20.0	.2
1934	213.7	221.2	227.1	227.1	140.6	34.7	6.0	40.0	.2
1935	225.2	222.8	219.9	217.8	137.2	32.0	5.0	48.6	—
1936	216.2	213.7	211.9	210.0	133.7	29.3	4.0	46.5	.4
1937	208.0	205.5	202.5	199.7	130.1	26.4	3.0	43.7	2.3
1938	195.3	194.1	190.9	188.3	125.5	23.4	2.0	40.9	2.2
1939	184.7	183.7	180.4	178.2	121.2	20.2	1.0	38.0	3.3
1940	173.2	172.5	169.1	165.9	116.1	16.9	—	35.0	4.4
1941	162.0	161.1	157.8	154.6	111.1	13.5	—	31.8	4.6
1942	150.9	149.6	146.0	143.8	106.1	9.9	—	28.4	5.2
1943	138.4	136.4	132.8	132.2	101.2	5.6	—	24.8	4.9
1944	124.4	123.4	121.4	119.9	96.1	1.9	—	21.0	4.3
1945	116.9	113.3	113.1	111.3	90.3	—	—	19.0	4.0

¹Excludes interfund borrowings. Excludes \$1,814,000 of non-maturing trust obligations to educational funds that the State incurred by taking over trust funds and using them for general operation; the State now pays interest on such funds or fully supports the beneficiaries (State educational institutions) from general revenues.

²Includes tax anticipation notes subsequently refunded into bonds which, though issued by the State, are payable from city and county shares of the motor fuel tax.

³Except for 1932 and 1933, these amounts are for bonds issued by the Illinois Armory Board, the University of Illinois, and the Illinois Foundation, and are not a direct obligation of the State; principal and interest requirements are met, however, by earnings from properties or by State appropriations for rentals sufficient to cover debt service.

¹*People vs. Nelson*, 344 *Illinois* 46.

²Initially, the obligation of the University of Illinois was limited to the bond issue for the Medical, Dental, and Pharmacy Building in Chicago; the debt incurred for other structures was that of the "Foundation." The Illini Hall and Arcade indebtedness was retired in 1944 by a State appropriation and title transferred to the University of Illinois. Conveyances of the Chicago Illini Union Building, the Illini Union building, and the Men's Residence Halls were executed from the "Foundation" to the University in 1944; at present, all outstanding indebtedness is that of the University of Illinois.

TABLE 2
SUMMARY OF EXPENDITURES AUTHORIZED
FROM POSTWAR PUBLIC WORKS APPROPRIATION
AS OF JANUARY 31, 1946
(In millions of dollars)

Planning:	
Plans and specifications for State buildings..	1.6
Aids to local public works planning.....	2.0
Surveys3
Total Planning	3.9
Land Acquisition	2.8
New Construction:	
Public buildings	9.5
Equipment5
Water and sewer systems.....	.7
Highways	10.2
Total New Construction.....	20.9
Rehabilitation and Repair.....	2.7
Housing Grants	4.3
Total Expenditures	34.6

general scheme and plan of this act, upon which no limit is set, affords an opportunity of paying off the bonded indebtedness by appropriations and taxes which might well be construed as doing indirectly what the State cannot, because of the constitutional limitation, do directly. . . ."

POSTWAR PUBLIC WORKS PROGRAM

As the cash balance in the Illinois General Revenue fund continued to grow in the war years, it gradually became settled State policy that there would be no reduction in tax rates to avoid the accumulation of a surplus.⁴ It also became clear that at the cessation of hostilities, definite proposals would be enacted for the expenditure of surplus funds on a balanced program of public works. Actually, in anticipation of the war's final conclusion, the 64th General Assembly, in June 1945, appropriated 139 million dollars for a state-wide system of public works projects touching all major fields of State expenditure. The program was focused on the rehabilitation, reconstruction, and expansion of public buildings for general government, and for educational, correctional, and welfare functions. The postwar appropriations were made subject to the qualification that no funds were to be released for expenditure until the purpose and amount of such expenditure has been approved in writing by the Governor.

The 139 million-dollar program devotes roughly 55 per cent of the planned expenditure to the construction and

⁴The reduction in the retailers' occupation tax rate in 1941 from 3 per cent to 1.96 per cent was not intended to reduce the State's income so as to avoid the accumulation of a surplus; at that time, the sharp increase in productivity of State taxes was not anticipated. Actually, in the same legislative session, the General Assembly doubled tax rates on alcoholic beverages, enacted a cigarette tax, and strengthened the retailers' occupation tax to offset the loss in revenue from the reduction in the occupation tax rate.

equipment of buildings of various types. An additional 10 per cent of the total is earmarked for the repair and rehabilitation of buildings and equipment, and 10 per cent for purchase of land or buildings. Thus, approximately 75 per cent of the program is directed to providing a physical plant for housing the State's institutional and general governmental activities.

Other projects include 15 million dollars for rural feeder roads, 10 million dollars for housing, 3 million dollars for airports, 3 million dollars for waterways and flood control, 3 million dollars for conservation projects, and 5 million dollars for aids to local public works planning.

If the individual projects are classified according to the function to which they are related, educational institutions (the University of Illinois and the State normals) account for 23 per cent of the total. About 19 per cent is earmarked for the welfare and safety institutions, 8 per cent for armories, 11 per cent for buildings to house administrative offices, 11 per cent for highways, 7 per cent for housing, and 5 per cent for tuberculosis sanatoria and a public health building. Up to January 31, 1946, about 25 per cent of the 139 million dollars of appropriation had been authorized for expenditure; these items are classified in Table 2.

The 139 million-dollar program of public expenditure does not comprise the full volume of postwar construction, as it omits from consideration highway expenditures and capital repairs and outlays appearing in the regular biennial budget. Actually, Illinois could expend, under its appropriation authority, well over 200 million dollars for public works during the biennial period ending June 30, 1947.

With the measure of control that can be exercised by the Governor over the withdrawal of funds for placing postwar projects in operation, it is practicable for Illinois to time the less urgent expenditures on its public works shelf with proper regard to avoiding competition with residential and industrial construction. Because a considerable proportion of the State's program is in direct competition with private industry and individuals for construction materials and labor skills utilized in building the homes and residential units, it seems likely that much of the State program will be postponed until shortages in these other uses have been partially met.

On March 26, 1946, the Civilian Production Administration issued Veterans' Housing Program Order No. 1. The purpose of this order is to make available construction resources for veterans' housing that otherwise would be used for commercial, industrial, and public construction or other housing. The order is applicable to Federal, state, and local government building projects, although it does not apply to highway construction, water and sewer systems, plan preparation, and construction that is under way. Moreover, certain state projects can qualify as essential and thus secure exemption from the order. The screening involved in the approval of state projects by this agency, however, undoubtedly will serve as an additional check on the State's public works program and probably defer any additional allotment of funds for public works.

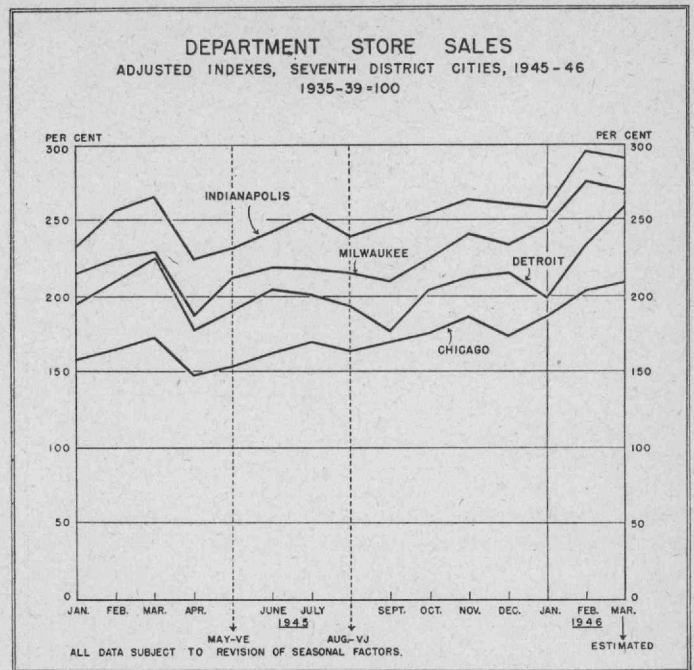
CONSUMER SPENDING

(Continued from Inside Front Cover)

reports that sales of non-durable goods stores during the war continued to increase in almost the same relation to income as in prewar years. In contrast, sales of durable goods stores since 1941 have fallen, because of shortages, very sharply below what could have been expected from available consumer purchasing power. In short, there seems to have been no large-scale diversion of greatly expanded consumer incomes to spending for non-durable goods and services because of shortages of important durable goods. The wartime growth in individual savings seems to have accounted for roughly the amount of funds which might otherwise have been spent for durable consumers' goods, had they been available, under the wartime level and distribution of consumer incomes.

Since V-J Day, consumer buying at retail has been marked by a shift toward the prewar relationship between incomes and retail sales and also by the presence of a number of important factors, at least some of which cannot be expected to persist indefinitely. Expansion in retail sales has been greater than corresponding gains in consumer incomes with an increasing proportion of current income being spent, particularly in strike-bound communities, rather than saved as it was during the war. Much current buying appears to reflect a general psychological reaction to the end of the war, which presumably has freed civilians from many wartime spending restraints and reduced their incentives to save. United States Government reports indicate that for the nation as a whole the rate of savings of individuals has dropped from a wartime peak of 30 per cent of income after taxes in the second quarter of 1945 to a current rate of 15-20 per cent, which is still considerably above the nine per cent rate of 1939. Seventh District figures indicate a parallel trend. Most veterans necessarily are spending their mustering-out pay and related allowances as well as some savings to re-establish themselves as civilians. Despite their outspoken resentment against price increases which occurred while they were in service, they have no other choice than to buy certain urgently required items, such as clothing, at prevailing prices and quality.

Although industrial wage-price-profit problems in recent months have had a retarding effect upon some civilian production, the over-all output of civilian-type goods has held up remarkably well since September 1945, and the proportion actually devoted to civilian uses has expanded considerably. Some scarce commodities, moreover, have been reappearing on the market in at least small quantities, and sales of these items, which have increased sharply, have contributed to the current record sales level. Retail sales of the automotive group, for example, have risen by almost a third since V-J Day, largely as a result of the acceleration of gasoline sales with the end of rationing and the increased business of parts and repair shops. New automobile purchases have not as yet appreciably increased the sales volume of the automotive group. Furniture and household appliances sales are reaching levels as high as 25 per cent above those of a year ago. Building materials sales by retailers jumped nearly 20 per cent following V-J Day as



restrictions upon home repairs and modernization were temporarily relaxed. Non-durable goods, nevertheless, continue to dominate the upward movement in total retail sales, although certain durable items are beginning to make spectacular increases.

Strikes appear to have affected the composition of retail trade to a greater extent than the volume. In particular, it has been observed that a strike tends to shift trade from higher- to lower-priced stores and from luxury goods and services to low- and medium-priced merchandise.

IMPLICATIONS OF CURRENT BUYING

Highly important to future retail sales as well as to the pattern of current sales activity is also the significant amount of "scare" and "scarce" buying by many consumers. "Scare" buying, carried over on a small scale from the war period, refers to the well-known tendency for consumers to rush to stock up on available goods which they have reason to feel will disappear shortly from the market. Recent illustrations of "scare" buying have occurred for white flour following the Government order that only "dark" flour would be available, for liquor following the new restrictions on the use of grains for beverage purposes, and for many items whose supply has been threatened temporarily by current or impending work stoppages.

"Scarce" buying refers to a somewhat different aspect of present-day buying and describes a recognized tendency on the part of some individuals not only to buy "scarce" goods whenever possible, but to continue to buy such goods well beyond their immediate or even foreseeable needs merely because the goods are presently scarce, although the outlook for greater supplies may be becoming increasingly favorable. Illustrations of such "scarce" buying and consequent building up of abnormally large inventories by some individuals include nylon stockings and certain other clothing items for

both men and women.

"Scare" and "scarce" buying have some significant implications for future buying. The attitude of consumers toward any individual commodity, it has been observed, can change suddenly because of the quantity or quality available or expected to be available. As many goods which have been in short supply become more readily available, particularly those which are rapidly used up, a marked swing away from their purchase has occurred.

Closely allied to these somewhat special types of buying is the abnormally large volume of buying taking place well in advance of actual needs, which has altered in varying degrees, if only temporarily, certain well established seasonal buying patterns, particularly for wearing apparel but also for many household goods.

A review of limited information on the volume of new orders being placed by individuals in the Seventh Federal Reserve District fails to reflect any clear-cut tendency, except that the degree of certainty associated with delivery dates and the willingness of retailers to accept orders appear to be the most important limits on the quantity of new and outstanding orders for goods currently in short supply. Considerable speculation prevails about the extent to which consumers are placing duplicate orders with several dealers in order to improve their individual prospects for obtaining scarce goods. It is not known, however, how widespread this practice may be, and there appears to be no practical method of determining this. Obviously, duplication of orders gives an inflated picture of the volume of actual demands and clouds the outlook for sales later in 1946 and 1947 both for producers and distributors. Some retailers express the belief that order duplication is not likely to be a serious consideration for them in the immediate months

ahead, but they are taking greater steps to assure themselves that future orders are "firm." Requirements for at least substantial down payments to accompany all new orders are common.

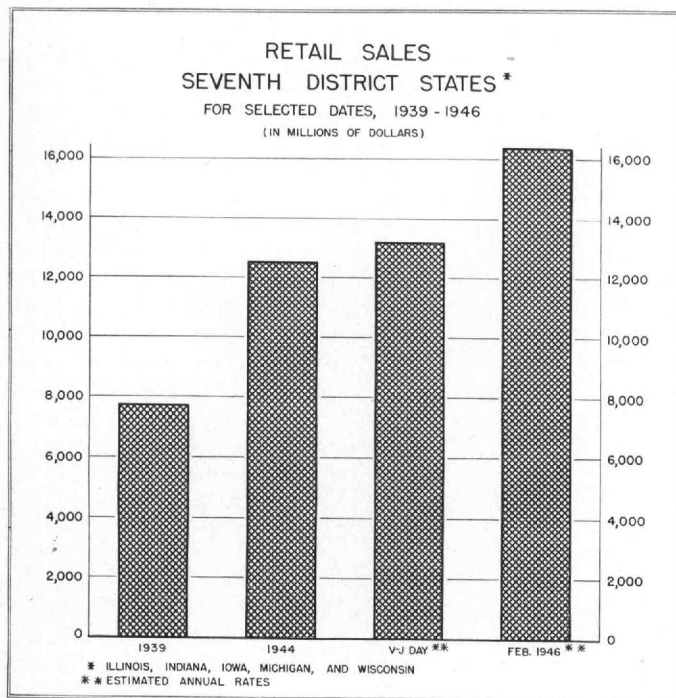
INDUSTRIAL AREA VARIATIONS

Regional variations in the movements of retail sales since V-J Day are to be explained initially by the differential amounts and speeds of physical reconversion and later by the relative incidence of labor disputes and their far-reaching repercussions. Recent sales trends in industrial areas within the Seventh District reflect variations in the sequence and severity of reconversion developments and indicate differences perhaps more striking than those between the nation and the District.

The Chicago industrial area did not share in the brief national and Seventh District September decline, with retail sales going steadily upward since V-J Day except for a less-than-seasonal rise in December. Although this industrial area had the greatest volume of new war industry among the nation's industrial areas, the broad base of peacetime industry and over-all product pattern was not altered substantially by the war, and subsequent reconversion problems were comparatively small. All the major strikes—oil, automobiles, agricultural machinery, trucking, meat-packing, steel, coal—have hit Chicago directly or indirectly, but fortunately not simultaneously. Effects on consumer buying in Chicago, moreover, were limited largely to local neighborhoods. A prolonged coal strike, of course, could reverse the present favorable trend and cut steel production further in South Chicago, Gary, and elsewhere.

In sharp contrast to Chicago, the Detroit area which was earlier and more severely affected by reconversion problems showed a substantial, 8.7 per cent, fall in retail sales in the first month after V-J Day. This decline is taken to reflect pessimistic reactions to losses in take-home pay and also anticipation of extensive work stoppages in the automobile industry. Following advances in October and most of November, Detroit was hit hard by the series of automobile strikes which began with the General Motors walkout on November 21. Until Christmas, however, retail sales more than held their own; Detroit, Lansing, and Flint all reported booming holiday trade. In January there was more than the expected post-holiday slump, but this decline was more than made up by a rapid increase which began in February as soon as strikes were settled or immediate settlement seemed in prospect.

Retail trade in other major Seventh District areas followed a more or less uniform pattern approximately midway between the Chicago and Detroit area extremes. Milwaukee followed the District pattern closely with slight declines in both September and December, in each case more than made up in the following month. Retail sales reports for Indianapolis indicate two successive months of slight retrogression in December and January which may be ascribed to an overlapping of reconversion problems with postwar strikes. These areas have all shared in the rapid rise of February.



SOURCE: Compiled and estimated from data of the United States Department of Commerce, Illinois and Michigan Departments of Revenue, Iowa State Tax Commission, and Federal Reserve Bank of Chicago.

SEVENTH FEDERAL



RESERVE DISTRICT

