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Deposit Decline Seen For Rural Banks

When and How Much Are the Real Questions

Most rural bankers apparently assume the idea that current deposit levels are very largely a product of the recent wartime and postwar price inflation, and they therefore anticipate a declining volume of deposits some time in the future. The opinion that rural deposits will decline is not unanimous, however, and there is little agreement as to when the decline will appear, how sharp it will be, how long it will continue, or at what new level deposits in rural banks would stabilize. However, judgment bearing on such problems must be made, consciously or unconsciously, in the day-to-day conduct of bank business, and facts which shed any light, dim though it may be, on the current situation or prospective developments should be useful.

This article presents data and suggestions which may assist the individual banker in reaching a considered judgment of prospects for his own bank. Relationships of deposits in rural banks to other selected factors, particularly cash farm income, have been reviewed, and the more pertinent results are reported here. Deposits in banks located in centers of less than 15,000 population¹ increased sharply during the past seven years—over four-fold in the Corn Belt² and more than three times in the Lake states,³ bringing deposits of most rural banks to levels never experienced before.

Rural bankers know, of course, that their deposit levels fluctuate with changes in farm income. A comparison of total deposits of rural banks in 20 leading agricultural states with U. S. cash farm income⁴ for the years 1924 through 1940 indicated that 82 per cent of the changes in deposit level could be accounted for by changes in *cash* farm income. Corresponding data for five Corn Belt and three Lake states were 83 per cent (see Chart 1) and 72 per cent (see Chart 2), respectively. The relationship between deposits of rural banks in 20 leading agricultural states and U. S. *net* farm income was not so close, and the relationship of deposits to the general average of prices received by farmers was even looser.

It is of interest to note that *total* deposits (demand and time) showed a closer relationship to cash farm income than did *demand* deposits alone. This was true for all three groups of states studied, although the difference for the Lake states was slight and suggests that, whether or not farmers are an important source of time deposits, the economic impact upon rural communities of changes in the level of cash farm income is a potent factor influencing the level of time deposits in banks in such areas.

The close relationship between level of deposits in rural banks and cash farm income during the 1924-40 period suggests that in other years deposits probably

would follow changes in cash farm income quite closely. However, since 1940 deposits have increased more rapidly than cash farm income and in 1947 were well above the level indicated by the relationship prevailing in the 1924-40 period. To bring 1947 deposits in rural banks down to the level indicated by cash farm income and the 1924-40 relationship between income and deposits would have required a deposit decline of 38 per cent for the Corn Belt states and 27 per cent for the Lake states. The indicated percentage decline in *demand* deposits would be greater and in *time* deposits less than for *total* deposits.

The exceptionally large increases in deposits in recent years apparently reflect the special conditions growing out of the recent war. Not only did farm income increase sharply, but farmer expenditures for production and living were limited by the availability of supplies and by price controls. Government deposits in rural banks increased during the war years, accounting for a significant part of the deposit rise, but declined sharply in 1946 and 1947. Of course deposits in country banks fluctuate to some degree because of other than farm conditions since even in rural areas by no means are all bank deposits farmer owned. Wartime industrial expansion was important in some small towns.

DEPOSITS REACH POSTWAR PEAK

The seasonal decline in deposits through April of this year was significantly larger than in 1947. This suggests that the postwar peak of deposits in rural banks may have passed, although in April this year deposits still were higher than in April 1947.

The prospective level of cash farm income appears to be the most critical factor in the outlook for deposits in rural banks. Future cash farm incomes, of course, can only be guessed at. The greatest unknown in this respect is the general level of prices and economic activity. Bureau of Agricultural Economics studies indicate that for the decade centering in 1960 cash income from farm marketings may average 23 billion dollars in a high employment economy, 17 billion dollars with average employment, or 11 billion dollars in depression.

If the BAE indications of cash income from farm marketings in future years materialize (they appear very realistic), and the 1924-40 relationship of deposits to cash farm income reappears, deposits in rural banks would decline very drastically—55 per cent from 1947 levels under

(Continued on Inside Back Cover)

THIS MONTH'S COVER

Downtown Milwaukee from the air.

(Courtesy of Milwaukee Sentinel)

¹1940 census.

²Ohio, Indiana, Illinois, Iowa, and Missouri.

³Michigan, Wisconsin, and Minnesota.

⁴Based on Bureau of Agricultural Economics data.

Milwaukee Employment—Income Continue Strong

Area's Record Gains Overshadow Spotty Weaknesses

Over-all employment and income in the Milwaukee industrial area¹ currently are at near-record or record levels with favorable prospects for continuance throughout the remainder of 1948. Not to be overlooked, however, are spotty signs of weakness appearing in Milwaukee as elsewhere among businesses whose products and services are no longer in heavy demand.

The 60 per cent increase in total employment in Wisconsin's leading industrial county since 1939 compares with 43 per cent for the nation as a whole. As a result of this growth in employment, coupled with rising wage rates, the area's total personal income has increased at a rate well above the national average. Milwaukee's general economic gains during the past decade, moreover, appear to be conspicuous among those of all other established industrial areas of comparable size.

Amidst these postwar "boom" conditions, a small but persistent decline has been evident since the outset of the year in manufacturing employment in the Milwaukee area. In part, this trend is directly attributable to shrinking markets for some local products, and also in part to

industrial strife and materials shortages. Total employment, however, has been maintained, and seasonal activities should bring their usual upswing in persons at work during the second half of the year.

EMPLOYMENT BASE AND PATTERN

Milwaukee totals of 365,000 employees and 1.8 billion dollars annual personal income are made possible by 16,000 firms, which comprise the business population. These establishments are distributed in a manner typical of large, fairly well diversified industrial centers: 40 per cent in trade; 24 per cent in service; 15 per cent in construction, transportation, and other nonfinancial lines; 10 per cent in finance; and 11 per cent in manufacturing.

Primarily by means of expansion of long established activities rather than the influx of vast new industries, Milwaukee's manufacturing establishments have added about 80,000 new jobs since 1939, representing an increase of 83 per cent for the 10-year period. Consequently, the general industrial pattern of Milwaukee has tended to retain its prewar appearance, although the relative economic significance of durable goods has become greater.

¹Includes Milwaukee County. References to Milwaukee, or "the area," refer to the entire county unless otherwise indicated.

TABLE 1
ESTIMATES OF EMPLOYMENT IN NONAGRICULTURAL ESTABLISHMENTS
MILWAUKEE COUNTY, 1939-48¹
(Employees in thousands)

Industry	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948
All industries	230.0	247.2	281.4	320.4	356.4	358.7	352.1	350.6	367.4	368.5
All manufacturing	95.5	106.3	130.0	155.5	190.0	190.4	179.8	167.6	176.4	175.0
Durable goods	55.7	63.6	83.6	105.4	139.2	138.9	127.2	111.3	119.2	120.9
Iron and steel	11.9	13.6	17.8	20.7	25.4	21.8	19.8	22.5	23.9	23.7
Electrical machinery	6.3	7.1	10.0	15.8	20.1	21.6	20.4	15.2	15.8	15.5
Nonelectrical machinery	23.0	26.9	36.0	46.3	61.8	60.9	59.1	54.0	58.0	60.7
Transportation equipment and automobiles	9.4	10.4	13.4	16.0	24.8	27.6	21.0	13.9	15.3	15.0
Other durable goods ²	5.1	5.6	6.4	6.6	7.1	7.0	6.9	5.7	6.2	6.0
Nondurable goods	39.8	42.7	46.4	50.1	50.8	51.5	52.6	56.3	57.2	54.1
Food	11.6	12.7	14.6	16.7	16.4	17.8	16.9	17.4	17.8	15.9
Textiles and apparel	8.5	8.8	10.2	10.2	9.3	9.3	11.2	11.6	11.4	11.3
Printing and publishing	5.9	6.6	6.4	6.6	6.4	5.6	5.8	6.6	6.9	6.7
Leather	7.4	7.6	7.7	8.1	9.3	9.7	9.2	9.9	10.0	9.7
Other nondurable goods ³	6.4	7.0	7.5	8.5	9.4	9.1	9.5	10.8	11.1	10.5
Mining and quarrying1	.1	.1	.1	.1	.1	.1	.1	.1	.1
Contract construction	8.5	8.6	8.6	12.0	6.7	6.8	8.2	11.2	13.6	13.2
Transportation and public utilities	21.6	22.6	24.0	24.7	25.4	25.9	26.2	27.2	29.4	29.4
Wholesale trade	12.4	12.8	13.6	13.8	14.6	14.9	16.1	17.8	18.0	18.4
Retail trade	37.6	39.5	42.6	42.6	45.0	46.8	49.1	51.5	53.4	54.5
Finance, insurance, real estate	10.6	11.2	11.8	12.8	12.6	12.2	12.7	12.6	13.6	14.2
Service and miscellaneous	25.7	27.4	30.4	34.6	34.5	35.0	33.6	36.8	38.4	39.2
Government	18.0	18.7	20.3	24.3	27.5	26.6	26.3	25.8	24.5	24.5

¹All estimates except 1948 are average for the year. 1948 data are averages for first four months. Excludes farm members, self-employed persons, and domestic service.

²Includes lumber; furniture; stone, clay, and glass; and nonferrous metals.

³Includes tobacco, paper, chemicals, petroleum and coal, rubber, and miscellaneous manufacturing.

SOURCE: Estimated from U.S. Bureau of the Census and Wisconsin Industrial Commission data.

TABLE 2
ESTIMATED PERSONAL INCOME
MILWAUKEE INDUSTRIAL AREA and UNITED STATES
1939-48¹
(In millions of dollars)

Year	Milwaukee Industrial Area	United States	Milwaukee as Per Cent of U. S.
1939	575	72,600	0.79
1940	675	78,300	.86
1941	800	95,300	.83
1942	975	122,200	.81
1943	1,100	149,400	.74
1944	1,200	164,900	.74
1945	1,275	171,100	.74
1946	1,500	177,200	.85
1947	1,750	196,800	.89
1948	1,825	209,000	.87

¹1948 data are for first quarter at annual rate.

SOURCE: Milwaukee income estimated from unpublished data from U.S. Department of Commerce and Wisconsin Tax Department.

While the bulk of the area's 1,800 manufacturing establishments are mostly small-to-middle-sized, i.e., under 50 employees, about 65 per cent of total manufacturing employment is in companies each having over 500 workers. As a result, the present average number of employees per manufacturing firm in the area is nearly 100, an increase of 40 employees per establishment since 1940. With this average, Milwaukee now ranks with such other areas as Detroit and Pittsburgh in having heavy concentrations of workers in large individual plants.

Although the general pattern of Milwaukee industry is one of relatively diversified manufactures, the "economic spark" of the area is heavy machinery. Engines, tractors, hoisting equipment, farm implements, automobile parts, electrical supplies, and construction machinery are the products upon which the area's prosperity is most heavily dependent, along with meat products, beer, hosiery, and shoes.

Despite Milwaukee's far-flung reputation as a manufacturing center, particularly of heavy machinery, the area's workers are now divided about equally between factory and nonfactory work. During the war years, manufacturing establishments employed over half of all the area's job-holders, as compared with a prewar proportion of 42 per cent. The current figure is about 49 per cent. The remaining workers are employed in: trade, 20 per cent; service, 10 per cent; transportation and public utilities, 8 per cent; government, 7 per cent; finance, real estate, and insurance, 3 per cent; and construction, 3 per cent.

Milwaukee's present employment level in manufacturing represents essentially a consolidation of wartime gains, inasmuch as the number of people at work currently is almost identical with the number employed at the close of the war. Since V-J Day nonmanufacturing employment has increased about 12 per cent. This is a continuation of a slow wartime increase, contrary to the declines experienced in most other industrial areas in nonfactory employment during 1941-45.

With the principal products of the Milwaukee area generally in very heavy demand in domestic and foreign markets, it is not difficult to account for the prevailing high over-all employment level. Recent employment de-

clines in fabricated metal industries have resulted principally from material shortages. Decreased numbers of workers in furniture, apparel, paper, leather, and miscellaneous products, however, appear to be directly attributable to weakened market conditions for these particular goods. Slackening in employment is also reported among trade and service establishments, e.g., in the eating and drinking and entertainment fields. These declines, however, commonly have been offset by gains in some manufacturing lines, e.g., transportation equipment, and by general rises in nonmanufacturing employment.

TRENDS IN PERSONAL INCOME

Record employment and such other factors as steadily rising wage rates and business earnings have combined to give the Milwaukee area a total personal income at a current annual rate of about 1.8 billion dollars. This figure is about three times the 1939 level, which was slightly under 600 million dollars. Milwaukee's share of national personal income has increased during the past 10 years, since the area's income expansion has outpaced the gain in personal income throughout the nation.

Available data indicate that Milwaukee's rise in personal income during the 1939 to 1947 period has been relatively greater than in any area of comparable size in the Midwest. For example, Cincinnati, Minneapolis, St. Louis, and St. Paul all appear to have experienced smaller increases. Inasmuch as Milwaukee's population does not appear to have grown any faster than in these other centers, the explanation for Milwaukee's relatively larger income gains seems to be found in the fact that local expansion has taken place primarily in the established metalworking industries, characterized by high wage rates and above average stability in operations since V-J Day.

In appraising short-run prospects for Milwaukee, it is important to recognize that total employment and income are highly dependent upon three purchaser groups; (1) industrial equipment, including material handling devices, as well as machine tools and motors; (2) farm equipment, including tractors; and (3) electrical products, both wiring supplies and motors. The market prospects for these products generally appear to be quite favorable.

At least 20 per cent of Milwaukee's manufacturing employment, however, is in lines which are meeting rising sales resistance. As already seen, some unemployment has occurred in these lines. Further spotty readjustments can be expected in these and other fields, but total employment and income in the Milwaukee area promise to continue near or above current levels throughout the remainder of the year.

Many of the conclusions presented here have been developed from data provided and/or reviewed by officials and staff members of: Wisconsin Industrial Commission, U. S. Bureau of Labor Statistics, U. S. Department of Commerce, Wisconsin Department of Taxation, Mayor's Commission on the Economic Study of Milwaukee, University of Wisconsin, Milwaukee Association of Commerce, and several other organizations represented in the Research Clearinghouse of Milwaukee. Full responsibility for the findings, however, rests with this Bank.

The Units of Local Government—I

A Pattern From the Past

The types and numbers of local governments are the product of a mixture of arbitrarily preconceived design and deliberate planning to specific needs. In the Seventh District the design dates back to the Northwest Ordinance of 1787 and the pioneer period when the Federal Government and the territorial governments in this area blocked out counties and townships. The planned features of local government organization began to appear as these areas were settled, and the governmental needs of the population were recognized to extend beyond the services that could readily be financed and furnished by counties and townships.

Villages, cities, and incorporated towns were created with boundaries coincident to those of closely knit communities. Specialized taxing units for such functions as schools and roads were organized in order to more closely identify the area of government service with that of financial support, a practical policy by virtue of the character of the property tax which permits an extremely close geographical association of taxes paid and services furnished. Thus, where a similarly circumstanced rural population required very little variation in the scope and cost of government services, the county and township units of government were able to operate satisfactorily. The growth of urbanization made new demands upon the institution of government by differentiating its character and cost. To associate the beneficiaries of larger expenditures with the additional costs, the incorporation of cities, villages, and other specialized municipal corporations was a natural development.

In the territorial period the functions of government and scope of its operations were so different from now that the thread of historical continuity back into that era does little more than suggest why there are so many units of local government in existence today. A popular explanation of the genesis of the present midwestern design of taxing districts relates their size to primitive modes of transport. The rural school district could hardly be larger than four square miles if children were to walk to and from school in the rigorous winters. The county was small enough so that a horseman could travel to and from the county seat between sunrise and sunset. No equally pat explanation has been advanced to account for the size of the political townships; in this region it follows closely the survey township. The latter, to the degree related to the acre through the square mile, also has a primitive origin for the acre is that area that a yoke of oxen could plow in one day.

Whatever the factors that account for the inherited physical characteristics of local government, the early settlers expected little of it, and it expected little of them in the way of taxes. Even today there are many sections in the United States in which this condition obtains. The

unincorporated areas of Maine, the public domain in the western states, and the cut over timber lands of northern Wisconsin and Michigan are regions in which the sparsity of population limits both the need for and ability to support any but the most rudimentary functions.

The hand-me-down design of local government from pioneer days renders any attempt to describe many elements of its organization in logical terms somewhat artificial. These features of the structure of local government have been at best tardily, haphazardly, and inadequately adjusted to fit present day conditions. One of its fundamental weaknesses is that local government fails to exploit anything like the real capacity of a well designed local unit economically to perform governmental services.

GENERAL PURPOSE UNITS

It is useful and realistic to regard existing units of local government as falling into two categories: the general purpose as contrasted to the special purpose units.

The principal general purpose units are the cities, villages, and incorporated towns. These governments do not come into being automatically but require positive community action. In some states they provide virtually the entire range of the local services within their boundaries. But in other states, although they have a variety of functions, important services are carved out and delegated to such overlapping special purpose units as school districts, the road, park, and sanitary districts.

The other general purpose governments are the counties and the townships; they also operate as arms of the state, serving as subordinate administrative areas. The withering away of the township as an important unit in local government organization is due to the arbitrariness and awkwardness of its dimensions. Following as it does the survey township of 36 square miles it seldom has circumscriptions that coincide with the natural boundaries of a community or the logical boundaries of some service area. The general purpose units may provide three levels of local government: the county, the township, and the city or village. The counties cover the entire land area of the Seventh District. The townships cover the same area excepting that in Illinois there are 17 counties that have no township organization; in Wisconsin the cities and villages and in Michigan the cities take over township functions in the area that they serve. Moreover, in the cities of Chicago, Illinois, and Sioux City, Iowa, there is no township government, and in 19 cities of Illinois and 35 cities of Iowa the township and city are coterminous. In effect this means that township functions have been virtually taken over by municipal government. Elsewhere, the functions of cities and villages are superimposed upon those of the counties and townships.

SPECIAL PURPOSE UNITS

The special purpose units of government have been found useful because they permit the creation of local government for a special function and directly relate the standards and scope of service to the level of taxation required to support that function. Small districts whose boundaries can be gerrymandered can be effectively used to prevent geographical subsidy or equalization. Thus the taxpayers in a community or even a part of a com-

munity with a wealthy tax base may draw the lines of their school district so as to exclude from their district the residents of an adjacent poor community. They thus obtain better services, lower costs, or both than if they had been a part of a larger district in which the benefits of a wealthy tax base were dispersed. These tax colonies, as they are commonly known, can operate on either or both of two natural advantages: a low requirement for municipal service (usually a sparse population), or a wealthy tax base (usually a concentration of investment

**SEVENTH DISTRICT STATES
GROWTH OF PRINCIPAL UNITS OF LOCAL GOVERNMENT¹
1850 - 1940**

Item	Number of Units in Existence									
	1942	1930	1920	1910	1900	1890	1880	1870	1860	1850
Total:										
District States	41,735	42,963	42,368	42,828	41,129	39,537	37,003	30,432	24,213	7,745
Illinois ²	14,824	14,648	14,422	14,438	14,202	13,719	13,668	12,738	10,667	3,316
Indiana ²	2,818	2,835	2,804	2,784	2,685	2,789	2,680	2,629	2,292	2,087
Iowa ²	7,566	7,574	6,981	7,597	7,319	6,846	6,322	3,018	2,156	1,492
Michigan ²	8,094	8,648	9,071	9,091	8,859	8,714	7,676	6,172	4,915	511
Wisconsin ²	8,433	9,258	9,090	8,918	8,064	7,469	6,657	5,875	4,183	339
Counties:³										
District States	447	447	447	447	446	444	435	416	405	303
Illinois	102	102	102	102	102	102	102	102	102	99
Indiana	92	92	92	92	92	92	92	92	92	92
Iowa	99	99	99	99	99	99	99	99	97	42
Michigan	83	83	83	83	83	83	79	65	57	41
Wisconsin	71	71	71	71	70	68	63	58	57	29
Townships:										
District States	6,680	6,686	6,626	6,529	6,335	6,200	5,788	5,057	4,458	2,220
Illinois	1,444	1,452	1,433	1,427	1,394	1,375	1,299	1,225	1,184	491
Indiana	1,015	1,016	1,014	1,013	1,009	1,028	1,025	1,006	969	831
Iowa	1,675	1,684	1,678	1,674	1,663	1,644	1,549	1,189	960	457
Michigan	1,266	1,268	1,263	1,239	1,229	1,158	1,025	866	673	151
Wisconsin	1,280	1,266	1,238	1,176	1,040	995	890	771	672	290
Cities, Villages, and Incorporated Towns:										
District States	3,588	3,545	3,253	3,187	2,666	2,057	1,621	1,094	542	290
Illinois	1,140	1,126	966	1,066	935	731	659	287	157	76
Indiana	529	525	483	471	402	350	290	346	153	144
Iowa	931	917	900	837	684	462	321	220	86	31
Michigan	475	475	452	436	384	305	220	133	91	19
Wisconsin	513	502	452	377	261	209	131	108	55	20
School Districts:										
District States	31,020	32,285	32,042	32,665	31,682	30,836	29,159	23,865	18,808	4,932
Illinois	12,138	11,968	11,921	11,843	11,771	11,511	11,608	11,124	9,224	2,650
Indiana ⁴	1,182	1,202*	1,215*	1,208*	1,182*	1,319	1,273	1,185	1,078	1,020
Iowa ⁴	4,861	4,874	4,304	4,987	4,873	4,641	4,353	1,510	1,013	1,262
Michigan	6,270	6,822	7,273	7,333	7,163	7,168	6,352	5,108	4,094	N.A.
Wisconsin ⁴	6,569	7,419*	7,329	7,294	6,693	6,197*	5,573	4,938	3,399	N.A.

¹For an enumeration of the minor units of government not included in this table see page 5.
²The present area of Illinois became a territory in 1809 and was admitted to the Union in 1818; Indiana was set off as a territory in 1800 and became a state in 1816; Michigan acquired territorial status in 1805 and statehood in 1837; Iowa became a territory in 1836 and a state in 1845; and Wisconsin was organized as a territory in 1836 and as a state in 1848.
³The date of establishment of counties is the year the county was organized for conducting government functions. In Illinois, Indiana, and Wisconsin, governments were organized in the counties almost immediately after the boundaries were laid out and approved by the legislature. Present day Iowa county areas were determined by 1855, but the organization was not completed until 1872; Michigan county boundaries were virtually established by 1840 while the organization was not effected until three decades later.
⁴Under Indiana statutes all cities, towns, and townships are authorized school corporations; however, some cities in the population class under 2,500 and many towns do not maintain schools. There is no actual count of school corporations available for 1900-30. Estimates included in the table represent the total number of townships plus the incorporated places over 1,000.
⁵The totals do not include the sub-districts which are responsible for single schools or groups of schools within the district.
⁶The 1930 estimate is the actual number in existence in 1935; the estimate for 1890 is computed from the report of the Superintendent of Public Instruction of that year.
 *Estimated.
 N.A. Not Available.
 SOURCES: County data were obtained from *Atlas of Taxing Units, Volume I of Local Finance in Illinois, (1939)*; Armstrong and Pence, *Indiana Boundaries, Volume XIX of Indiana Historical Collections*; *Iowa Magazine of History, Volume XX pp. 483-576*; F. D. Halverson, *County Histories of the United States*; and *Origin and Legislative History of County Boundaries in Wisconsin (Wisconsin Historical Collections)*. Township, cities, villages, and incorporated town statistics were compiled from the *United States Census Reports (Seventh to Sixteenth)*. Except for 1942 which is taken from the U.S. Census publication, *Governmental Units in the United States, (1942)*, school district figures are taken from the following sources: *Illinois Atlas of Taxing Units, (1939 edition)*; *Indiana Report of the Superintendent of Public Instruction, (1852-1914)*; *Iowa Report of the Superintendent of Public Instruction, (1880-1930)*; *Units of Government in Michigan, Bureau of Government Study, University of Michigan*; *Education in Wisconsin (now Report of the Department of Public Instruction), (1860-1930)*.

in industrial, public utility, railroad, or high valued residential facilities). The prevalence of tax colonies is probably less the result of deliberate planning than historical accident. The advantages of a superabundance of fiscal capacity were inadvertently realized up to the time of "tax planning."

Special purpose units also make it practical to create government areas best suited in size and location to particular functions. Among the Seventh District states, Illinois has made the most frequent use of the special units. Its general assembly has enacted legislation permitting the creation of 17 distinct levels of local government. Many of these authorizations have been motivated by borrowing and taxing restrictions on existing governments. Others can quite properly be regarded the most direct and logical approach to the governmental problems that overlap boundaries of present units. The Chicago Sanitary District is a specific example. The treatment and disposal of sewerage for a large portion of the Chicago metropolitan area is a common problem for scores of incorporated municipalities and unincorporated areas instead of the city of Chicago alone or in the alternative, the county of Cook. Similarly, the most economical provision for water supply may depend upon covering an entirely different area than that fixed by the community boundaries of a city or the artificial section lines of townships and counties.

Of the 43,100 units of government in the Seventh District states listed in the 1942 Census of Governments, there are 10,700 general purpose units consisting of approximately 450 counties, 6,650 townships, and 3,600 cities, villages, and incorporated towns. There are 32,400 special purpose districts of which 31,100 are school districts; the others are road and bridge, park, sanitary, drainage, levee, water, library, public health, airport, mosquito abatement, fire protection, and harbor units.

The conspicuous feature of the accompanying table showing the numbers of the principal types of taxing units by decades is the early date by which the pattern of local government was fixed. Since 1880 the number of counties, townships, and school districts has changed but slightly. New cities and villages, however, continued to appear in substantial numbers up to 1910 as the area's population grew, and the urbanization trend became pronounced.

The number of special districts has declined sharply in the past two years due to a program of school consolidation in Illinois. This state, with over 12,000 common and high school districts, has long had the increasingly dubious distinction of having far more school units than any other state in the union. To date, well over 4,000 districts have been abolished or consolidated, and if the present rate of reorganization continues, in another year there probably will be fewer than 2,500 districts to replace 12,000 in existence two years ago.

WHAT IS A UNIT OF LOCAL GOVERNMENT?

The lush growth of governmental institutions in the past half-century in an environment strongly influenced by the restrictions and obsolescence of state constitutions

has brought into being numerous local public agencies having many of the characteristics of units of government. Boards, commissions, agencies, authorities, and public corporations may operate autonomously or with varying degrees of dependence upon established and recognized local units. The United States Census of Governments defines a governmental unit as a geographic division maintaining a distinct legal existence as a public corporation or at least a quasi-public corporation and politically organized for the conduct of local affairs. This definition is broad enough to include nearly all varieties of local political organization. For the discussion of financial problems it is somewhat more useful to restrict the designation of a unit of government to those having the power to levy taxes. This eliminates various quasi-government authorities that have been given important corporate powers such as the right to incur debt, own and lease property, sue and be sued, and levy special assessments. It excludes drainage districts which are very common in the Seventh District states but seldom have power to levy taxes even though their special assessments for maintenance operations are often very close in form and practice to property taxes.

On the other hand, to dispense with the qualification of the right to levy taxes opens up the definition of local government units to include as separate units many subsidiary and auxiliary government enterprises and agencies.

While it may seem that the power to levy taxes provides a simple test for determining whether or not a particular agency is a unit of local government, such is not always the case. The agency or authority having the power to determine the amount of the tax levy is not always clearly set forth in the statutes of states. Thus, for example, the corporate authority of the school district whose boundaries are coterminous with those of the city may have the legal obligation to manage the district and make the tax levy subject to the approval of the city council. If this approval is a restriction upon the basic power of the school district, it may be contended that the school district should not count as a separate unit of government. While no great difficulty is ordinarily experienced in deciding how to classify school districts when a similar situation is encountered for library boards and less important agencies, it may be that it is difficult to maintain both a consistent and a realistic policy.

Generally, other guides to the character of the unit can be used to assist in its proper classification. Does it have an independent boundary, or is it necessarily coterminous with some other unit? Does it have a full list of powers ordinarily delegated by the legislature to the major units of local government? Is it organized to provide a function which it is expected to continue indefinitely? How is it regarded in the community where it exists? It is not always necessary that a taxing unit have separately elected officials. Its governing body may be an ex officio one and still fully exercise the power of taxation. The consent of the people to be taxed in this case is given if they approve the initial organization of the district.

Consumers Use More Credit

All Types Continue to Expand

Consumer credit¹ is now a third higher than its 1941 prewar high, and further advances are expected during the remainder of the year. At the end of June 1948, outstanding consumer credit approximated 14.2 billion dollars, a 12-month increase of almost 26 per cent and an increase since V-J Day of more than 153 per cent.

Disposable personal incomes have risen about one quarter throughout the Seventh Federal Reserve District and nation since the end of the war, but personal consumption expenditures have gone up almost twice as fast in the same period. Thus increased reliance on credit along with use of wartime accumulated liquid assets and reduced current savings has served to supplement many consumer incomes and supported augmented postwar expenditures.

As long as the underlying tone of business remains strong, consumer credit may be expected to continue its upward course. Except for the war period when above average consumer liquidity and the absence of durable goods resulted in a sharp reduction of consumer credit, there has been in the past a close relationship between the movements of consumer credit and business generally. The 1948 Survey of Consumer Finances of the Board of Governors of the Federal Reserve System indicates sustained strong demand for consumer durables in 1948 and increased (over 1947) expectations of buying on instalment terms. In spite of the sharp expansion in purchases of consumer durables during the past year, instalment credit, which now accounts for one-half of all consumer credit, is still in the process of regaining its prewar proportion of 60 per cent.

Although quite small relative to total personal disposable incomes and expenditures, consumer credit nevertheless represents an important inflationary force in an economy characterized by full employment generally and materials shortages in key industries, and particularly those manufacturing goods being bought to an increasing extent with instalment credit. To some extent, particularly in the early months after V-J Day, the inflationary effects of consumer credit arose primarily through expenditures by consumers and distributors and manufacturers from whom they bought of funds previously held idle by consumer credit firms. Beyond this, however, as consumer credit institutions increased their volume of business, they had recourse to banks and insurance companies for additional funds. The result has been further to expand money purchasing power.

Savings tendencies are being weakened in the case of

many average consumers, however, by their losing battle with the rising cost of living (including purchases of durables) which has forced them to draw upon their liquid assets. The 1948 Survey of Consumer Finances indicates "prospects for further heavy dissaving on the part of at least one-fourth of all spending units and no substantial change in the aggregate amounts saved by other spending units." Life insurance policy loans are again rising after several years of decline, and the dollar volume of policies turned in for their cash surrender value this year is above last year's level.

CREDIT TERMS

Credit terms, i.e., down payment requirements in the case of instalment-sale credit and maturity requirements for consumer credit generally, obviously have an important bearing on the amount of credit outstanding at any one time. For any given income level, the more lenient the credit terms the greater will be the amount of credit extended. Regulation W operated to restrict consumer credit during the war and early postwar periods through control of credit terms. Such control was relaxed piecemeal, charge account credit and certain types of instalment credit on December 1, 1946, and instalment credit used to purchase automobiles and 11 major household durable goods² on November 1, 1947.

In both cases, credit terms weakened perceptibly in the months immediately following decontrol and then more or less stabilized at the new more liberalized levels. For example, in the first 11 months of 1946 charge accounts receivable were outstanding an average of 50 days among

TABLE 1
PERCENTAGE CHANGES IN COLLECTION RATIOS¹
BETWEEN SELECTED POSTWAR PERIODS

Period	Instalment Accounts				Charge Accounts
	Department Stores	Furniture Stores	Household Appliance Stores	Jewelry Stores	Department Stores
V-J Day to November 1946 ²	+12	+17	0	+10	- 6
November 1946 to October 1947 ³	-16	-15	-17	-32	- 3
October 1947 to April 1948	-19	-17	-23	-17	- 9
November 1946 to April 1948	-32	-30	-35	-44	-12
V-J Day to April 1948	-24	-17	-35	-39	-18

¹Collection ratios are defined as collections during the month as a percentage of accounts outstanding at the beginning of the month.

²On December 1, 1946, Regulation W was removed from all forms of consumer credit except instalment credit to purchase a list of 12 consumer durable goods.

³On November 1, 1947, Regulation W was terminated.

SOURCE: Board of Governors of the Federal Reserve System.

¹The major types of consumer credit are: instalment sale credit, instalment cash loans, charge account credit, single payment loans, and service credit. The principal consumer financing institutions are: commercial banks, finance companies, small loan companies, industrial banks, and industrial loan companies. Finance companies limit themselves largely to instalment sale and accounts receivable financing; small loan companies concentrate on instalment cash loans; although the remaining agencies tend to engage in all types of consumer financing, the bulk of their business lies in the cash loan sphere. Retailers and dealers do some of their own retail credit financing.

²Refrigerators, stoves, washing machines, ironers, dishwashers, air-conditioners, radios and phonographs, sewing machines, vacuum cleaners, furniture, and carpetings.

TABLE 2
INCREASES IN MAJOR TYPES OF CONSUMER CREDIT
V-J DAY TO APRIL 1948

Type of Credit	Increase Since V-J Day		Per Cent of Increase Accounted for by Each Type of Credit
	Outstanding in Billions of Dollars	In Per Cent	
Total	7,949	143	100
Instalment	4,750	239	59
Sale credit	2,435	345	30
Cash loans	2,315	181	29
Single-payment	3,199	90	41
Charge accounts	1,818	126	23
Cash loans	1,207	89	16
Service credit	174	23	2

SOURCE: Board of Governors of the Federal Reserve System.

a sample of 475 department stores. In December 1946 the figure jumped 12 per cent to 56 days and remained at that general level throughout 1947. The slightly higher average of between 57 and 58 days for the first five months of 1948, however, is still considerably below the prewar level of about 64 days.

Between December 1, 1946, and November 1, 1947, Regulation W specified minimum down payments of one-third (one-fifth on furniture) and maximum maturities of 15 months on instalment credit extended for the purchase of automobiles and the indicated list of household durables. Maintenance of these standards now is definitely more the exception than the rule. Since decontrol on November 1, 1947, there has been a greater tendency to liberalize maturities than down payments in automobile financing. Maturities of 18 to 24 months on 1946 and later models have become readily available among auto dealers in large Seventh Federal Reserve District centers and reportedly in smaller areas as well. There has been much less tendency to extend maturities on pre-1946 models beyond 15 months, although instances of such extension are not rare.

In the Seventh District, credit terms, particularly down payments, have weakened much more among household durables than among automobiles since Regulation W was terminated. Leading mail order houses now offer a standard plan of 10 per cent down to all persons who can qualify as acceptable credit risks. Some department stores, appliance dealers, and furniture stores in the Seventh Federal Reserve District also have a 10 per cent plan; others still require up to 20 per cent down. Requirements of less than 10 per cent down are as yet relatively uncommon and occur mainly on lower priced items. Although instances of longer maturities are known to exist, those which now prevail generally throughout the District are: major electrical appliances and furniture, 15 to 18 months; radios, 18 to 24 months; and pianos, 36 months.

Banks, small loan companies, and other financial institutions make cash loans directly to consumers for a number of purposes. Loans to buy durables are available among District institutions offering such a service on maturities which approximate those available directly from instalment sellers and dealers. Except for home

repair and modernization loans, the bulk of which run three years, cash loans made by District financing institutions to meet miscellaneous personal expenses or to consolidate already existing debt currently have maturities which cluster around 12, 15, and 18 months. Home repair and modernization loans were exempted from Regulation W on October 15, 1945.

In spite of the weakening in credit terms which has accompanied the piecemeal relaxation and elimination of Regulation W, prevailing terms in the Seventh District are generally still more conservative than those existing in the immediate prewar period. It can already be seen, however, that as supplies of consumer goods return to more normal levels in relation to demand, credit terms resume their importance as a selling device and become still more liberal. Judging from recent experience in such lines as jewelry and pianos, once products become in normal supply relative to demand, credit terms quickly approach those which were customary before the war.

COLLECTION RATIOS

Collection ratios, i.e., collections during the month as a percentage of accounts outstanding at the beginning of the month, on instalment accounts at department, furniture, household appliance, and jewelry stores turned down in November 1946 and have since declined 30 to 44 per cent (see Table 1). In the case of charge accounts at department stores the decline has been less than one-half as sharp but has extended throughout the entire postwar period. These downward movements are the result of two factors, the already noted lengthening maturities on credit extended and a slight postwar increase in the number of consumer borrowers failing to adhere to payment schedules.

Now that collection ratios are approaching their prewar levels, lenders and credit sellers are again watching them very carefully as possible danger signals of too lenient lending standards. Unduly low collection ratios often give indications that credit extension is becoming less profitable, either because of increased bad debt write-offs or because such write-offs are being avoided only through more intensive cost-raising collection (including repossession) procedures.

Under wartime conditions of rising incomes, goods shortages, and credit control, consumers found their liquid assets accumulating, made prompt payments on debts, and bad debt losses fell virtually to zero. For several reasons such losses are still negligible. Consumers in the aggregate are still in a more liquid condition than they were prewar. Further, in the case of some types of consumer indebtedness, notably automobile obligations, dealers or other types of creditors, if necessary, are able to liquidate the debt through repossession and resale, inasmuch as many markets for used articles continue to be strong. In general, therefore, credit terms by no means have reached levels which are dangerous from the point of view of bringing undue losses to lenders and credit sellers. The real danger under present conditions of re-

laxed terms lies, rather, in the already mentioned inflationary impact on the entire economy.

GROWING SCARCITY OF FUNDS

In the last year consumer instalment financing institutions have become increasingly concerned with the problem of "securing" sufficient funds to accommodate the fast growing credit demands of consumers. Bank lending policy has been, and will continue to be, an influential factor in determining the extent of future consumer instalment credit expansion, not only because of the importance of consumer instalment financing by banks themselves but also because banks are an important source of funds for finance and small loan companies, the two largest nonbank agencies.

Since the end of the war, banks have been subjected to increased demands for loans on all fronts—business concerns, home purchasers, consumers, and others. Given the existing general pattern of allocation of financial resources between loans and investments, banks have faced increasingly difficult decisions in meeting the rising loan demand. Because of uncertainty arising from the late 1947 drop in the Government bond market and growing instances of sales and financial problems among business firms, and with the encouragement of the American Bankers Association as part of its anti-inflation program, many banks in recent months have adopted more conservative lending practices.

During periods of strong or rising consumer demand for their services, finance and small loan companies obtain progressively increasing proportions of needed additional funds from banks. For example, bank funds now probably account for almost one-third of the total assets of the two leading small loan companies and more than one-half of the total liabilities and net worth of the three nationwide finance companies. This compares with corresponding figures of about 18 per cent for both groups at the end of 1945.³ At the low point of the wartime period of curtailed demand for consumer instalment credit, these companies had virtually no bank loans. Available evidence indicates that regional and local finance and small loan companies are even more dependent on bank loans at all levels of business activity than their larger counterparts.

Along with companies in other industries, finance and small loan organizations within the past year have found it more and more difficult to expand their credit lines at banks. Some finance companies, notably several which operate in the Seventh Federal Reserve District, have attempted to secure some relief through greater emphasis on selling instalment paper outright to banks rather than by using such paper as collateral for straight bank loans. More important, a number of finance and small loan companies have turned to insurance companies for funds, either through debenture loans or through the sale of preferred stock. In spite of these efforts, managements of most companies, particularly the smaller ones, feel that

³In addition the two small loan companies since the end of 1945 have increased their nonbank (mainly insurance company) borrowings from 19 to almost 30 per cent of total liabilities and net worth. The analogous figures for the finance companies are four and 12 per cent.

they still have access to less funds than they will need in coming months.

CREDIT TYPE AND FINANCING AGENCY TRENDS

As seen, since V-J Day consumer credit outstanding has risen about eight billion dollars. Sixty per cent of this increase is accounted for by instalment credit and 40 per cent by one-time payment credit. Instalment credit also has shown the greatest postwar percentage rise (see Table 2). In spite of greater dollar and percentage increases, however, instalment credit is still relatively less important than it was prewar both with respect to consumer credit as a whole and to disposable personal income. With continued high level production of durable goods and with continued depletion of liquid assets in the hands of many of the middle and lower income families, instalment credit may be expected in time to regain, if not exceed, the relative position which it occupied prewar, banning restricted availability of credit generally.

With consumer demand for instalment credit rising rapidly, each of the major types of instalment financing institutions continues to experience substantial increases in business. Since the end of last year the increases in instalment outstandings of banks, finance companies, and small loan companies have ranged from 14 to 16 per cent.

The problems facing each agency in its competition for business remain essentially unchanged from those existing in the immediate prewar and early postwar periods. Banks, already the major instalment cash lender, have the problem in retail instalment sale financing of getting business either by winning dealers away from finance companies or by appealing over dealers heads directly to consumers. For the most part Seventh Federal Reserve District banks have chosen the latter course. Finance companies are concentrating their well experienced efforts on improving dealer relations. In order to expand their horizon, small loan companies are concerned mainly with increasing the loan limits under which they operate. Illinois and Michigan recently approved such increases from \$300 to \$500.

Although comprehensive information is not available on over-all consumer financing trends throughout the District, since V-J Day consumer instalment credit outstanding of Seventh Federal Reserve District banks has increased 141 per cent, slightly higher than the 138 per cent increase for the nation's banks in the same period. The slightly greater District rise probably stems from the fact that with above average disposable income and as the center of the durable goods producing industries of the nation, the District has a higher than average consumption of such goods. The District's higher proportion of above average income recipients and urban residents means not only relatively greater use of consumers durable goods but also somewhat more extensive reliance upon instalment financing of such goods. In one field, however, that of home repair and modernization loans, District banks have lagged considerably behind those generally of the nation, the respective postwar increases in outstandings being 96 and 151 per cent.

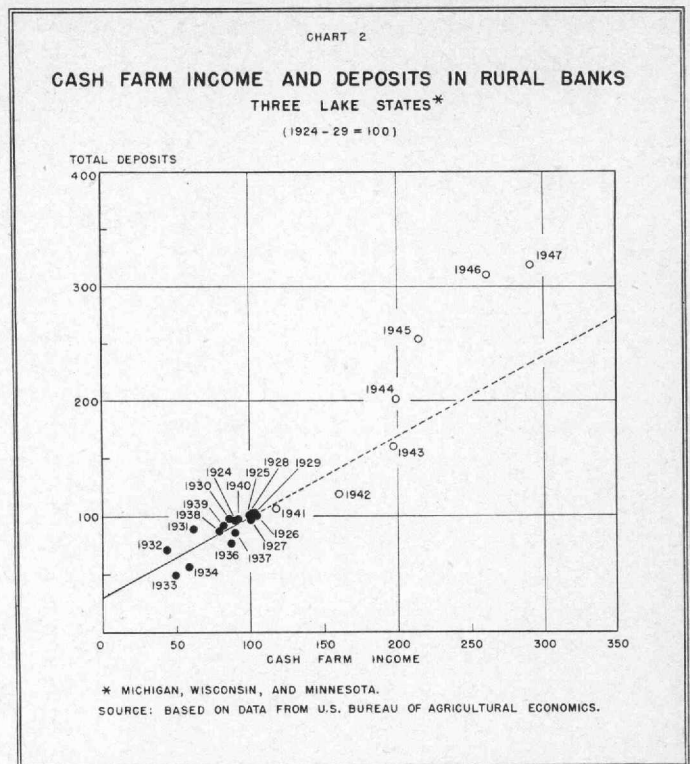
DEPOSIT DECLINE FOR RURAL BANKS

(Continued from Inside Front Cover)

conditions of full employment, 65 per cent under average economic conditions, and 75 per cent with depression conditions. While large declines appear quite unrealistic, the possibility of their occurrence should be considered.

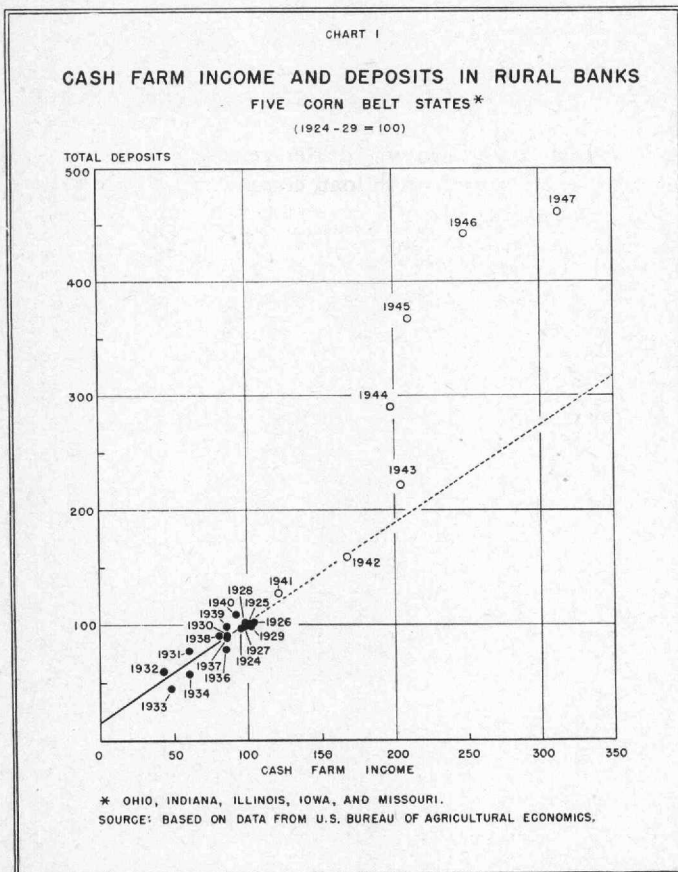
Many factors indicate that prices of the products farmers sell will decline relative to prices of the goods and services they buy, even under conditions of high level employment. Prices received by farmers in 1947 were 20 per cent above prices paid for supplies purchased by farmers, compared with 1910-14 relationships. With high level employment in the decade centering in 1960 the Bureau of Agricultural Economics estimates this ratio of prices received to prices paid will decline to that prevailing in 1910-14, but would drop 15 per cent below with average economic conditions, and 33 per cent below with depressed conditions. This would tend to shift deposits away from agricultural areas and cause a decline in deposits of rural banks relative to deposits in other areas.

There are several important reasons why the 1924-40 relationship of deposits in rural banks to cash farm income may not reappear. (1) The outstanding question in this respect is the effect on farmers financial policies of the large accumulation of liquid assets during the recent war and postwar years. The large increase in number of debt-free farmers together with a desire for financial liquidity may result in many farmers carrying much larger bank balances than had been customary. (2) Reflecting the decline in farm debts, the volume of funds



transferred annually from rural communities to urban centers for debt service has probably declined. (3) If and when cash farm incomes decline, part of the currently large holdings by farmers and other residents of rural communities of Government bonds and currency will flow into banks and reduce the rate of decline in deposits. (4) The mutual insurance of deposits through the Federal Deposit Insurance Corporation and the generally strong financial strength of banks may have engendered increasing confidence in banks and thereby increased the proportion of funds deposited with them. (5) It is frequently observed that an increasing proportion of all financial transactions are conducted through banks and that a much larger number of people during the current high income period have become accustomed to the convenience of checking accounts and other banking services. These and other similar factors lend support to the suggestion that deposits in rural banks may not decline fully to their prewar relationship to cash farm income.

There are several conditions which might lead to a decline in deposits of rural banks: (1) expenditures for farm machinery, equipment, and buildings at a level higher than current farm income would finance; (2) large volume of land purchases by farmers with the sellers taking funds away from rural communities; (3) change in farmers investment habits with the result that more of their savings were invested in things other than farm real estate; and (4) unfavorable rate of exchange between farm and nonfarm products, reduced farm production, or other developments which would reduce the proportion of national income going to farmers. In conclusion, a substantial decline in deposits of rural banks would develop, even with a partial return to prewar relationships between farm income and deposits.



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