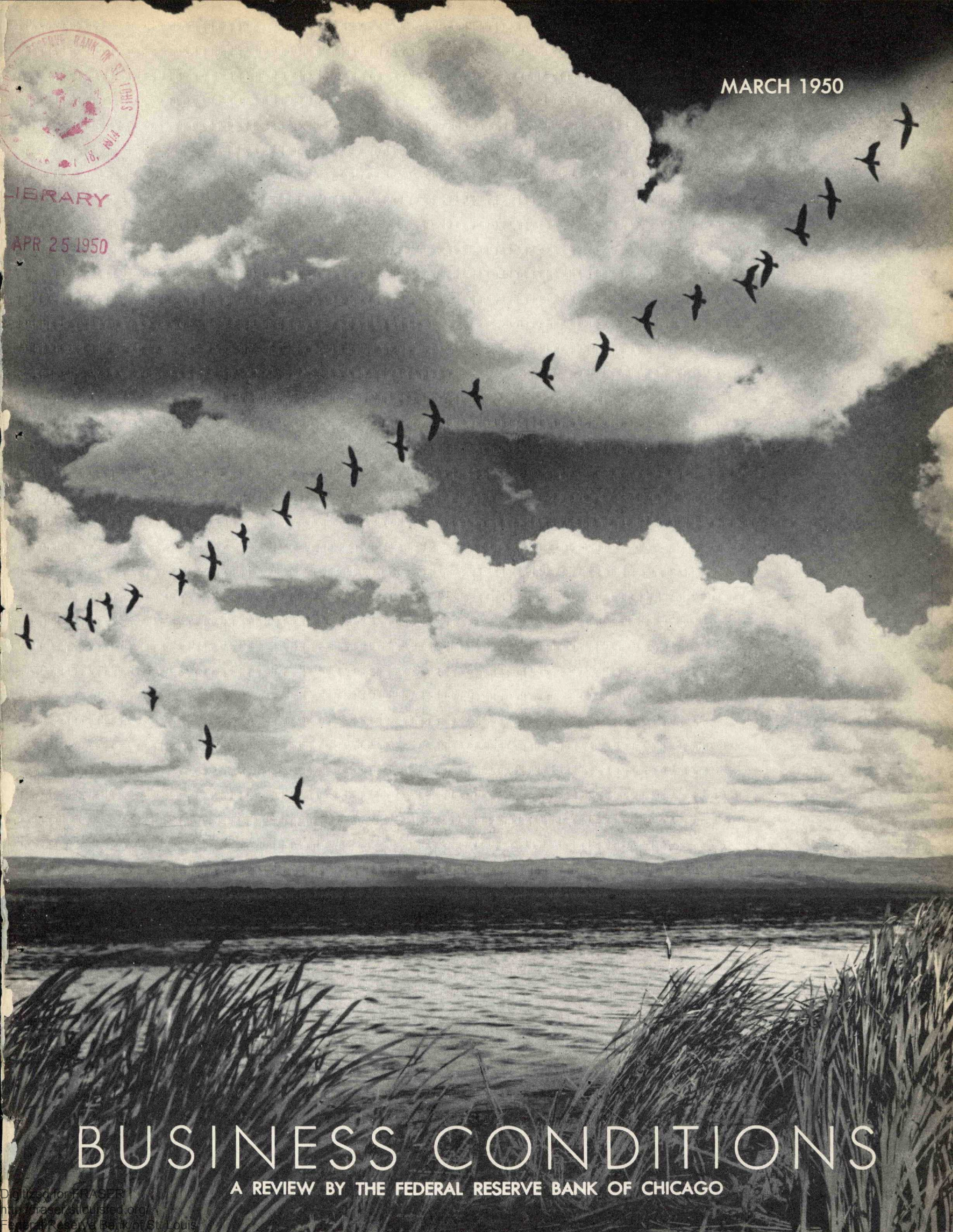
MARCH 1950



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Retail Sales Stimulus from GI Dividend

Special Payment of $2.8 Billion Boosts Personal Income

National Service Life Insurance dividend checks currently are being mailed to more than 16 million veterans of World War II. Payment of the dividend, which will total 2,800 million dollars when completed, has been and is giving important impetus to the upturn in personal income payments which began in December of last year. The stimulus to income afforded by this special nonrecurring payment is only temporary, however, since the distribution of checks from this first and largest dividend will be completed within a few months.

The basis for distribution of a GI insurance dividend arose through the payment of policy premiums by veterans for Government life insurance policies held during the war and postwar period. The premium charges established for this insurance proved to be higher than necessary because: (1) the table on which rates were based overstated the normal incidence of mortality, particularly for younger age groups, and (2) the insurance burden of the fund was reduced because all service-connected death claims were paid by special Government appropriation, while the premiums paid to cover the normal incidence of mortality for this group were left in the fund. Therefore, the National Service Life Insurance fund has accumulated a large surplus which is payable to insured veterans as mutual policyholders.

The size of the individual dividend is based on the amount of insurance originally purchased and the length of time the policy remained in force between August 1940 and its anniversary date in 1948. The largest dividend that can be received by an insured veteran is $528, but since many veterans terminated their insurance after demobilization, the average payment will be only about $175. For the group as a whole, the dividend represents a repayment of about 70 per cent of premiums paid through 1948.

The Veterans' Administration has been processing applications at the rate of more than 200,000 per working day. Over twelve million checks totaling about two billion dollars were processed and mailed between January 16 and the end of March. These mailings, however, represented payments on applications which were in perfect order. The rate of payment is expected to decline substantially after the run of perfect applications is completed, since most of the remaining disbursements will require special attention. Nevertheless, payment on all of the applications received to date is expected to be completed by the end of June.

Receipt of these special dividend checks will constitute an important addition to total personal income receipts during the first half of the year. During this period, the payment will increase incomes by an annual rate of about 5.5 billion dollars, or 2.6 per cent of total 1949 personal income. Furthermore, the dividend is nontaxable, and so will constitute a direct addition to personal disposable income. As such, it is about equal to the decline in income which occurred between the postwar peak in the last quarter of 1948 and the final quarter of 1949.

The probable effect of the dividend on consumer spending and retail sales is much more difficult to determine. It will depend entirely on the way in which the individual recipients decide to dispose of the "windfall" payment. In this respect income receivers have three choices; they may spend the windfall on goods or services, they may save it by accumulating liquid assets, or they may use it to repay debt incurred previously. In the first instance, sales are stimulated directly. If dividends are saved and used to increase liquid asset holdings or reduce indebtedness, however, sales will not be increased initially to the extent that are income payments.

SOLDIERS' BONUS OF 1936

Issuance of Adjusted Service Bonds in 1936 to approximately 3,500,000 veterans of World War I provides an example of a large prewar windfall payment similar to the insurance dividend currently being distributed. This payment, totaling ultimately more than 1,900 million dollars, originated from the issuance of Adjusted Service Certificates as additional compensation for war service in the armed forces, the maximum payment being $625 for overseas veterans and $500 for non-overseas veterans. The certificates, issued beginning in 1924, were in the nature of a deferred payment endowment, maturing 20 years after issue or on the prior death of the veteran. Congress was to appropriate an amount yearly which, when com-

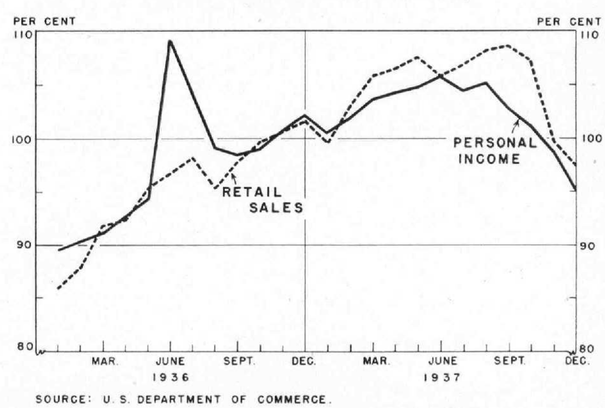
(Continued on Page Eight)

CHART I

PERSONAL INCOME AND RETAIL SALES

SEASONALLY ADJUSTED, 1936-37

(1936-37 MONTHLY AVERAGE = 100)



SOURCE: U. S. DEPARTMENT OF COMMERCE.

Commodity Credit Corporation

Financial Requirements Rise

The currently proposed two billion dollars increase in borrowing authority of the Commodity Credit Corporation has focused attention on the mushroomlike growth of this organization as it struggles to fulfill Congressional commitments for the postwar support of farm product prices. The Corporation is now authorized to borrow or enter into commitments up to 4.75 billion dollars.

Under the impact of two successive years of large crop production, declining demand for farm products, and high-level price supports, the CCC's financial requirements have mounted rapidly and are expected to increase further in the year ahead.

Total assets of the Corporation, for example, amounted to 3.6 billion dollars on January 31, 1950, compared with 2.4 billion a year earlier and 1.2 billion on June 30, 1948. Corporation estimates made last November and presented in the January 1950 *Budget Document*—based on assumptions that large quantities of food and agricultural products will continue to be needed in foreign countries, that domestic farm production will decline somewhat in 1950, and that the general level of agricultural prices will be near parity—apparently are already obsolete. These estimates indicated that the Corporation's assets would total about 3.3 billion dollars on June 30, 1950, and 3.6 billion at mid-1951.

Testifying recently before the House Banking Committee, the Secretary of Agriculture indicated that the CCC will have in use this spring a total of over 4.3 billion dollars, largely in support of 1949 and prior crops. This compares with total obligations on January 31 of 4.0 billion dollars. It was estimated, however, that following some further increase, sufficient recoveries would be realized by June 30, 1950, to reduce the amount in use to about 3.9 billion dollars at that time.

Maximum financial requirements of the CCC in the year ending June 30, 1951, are estimated currently at 5.3 billion dollars. The Secretary emphasized in his statement, however, that if 1950 crop production should exceed expectations or if demand for farm products should weaken materially, the CCC might require as much as 6.3 billion dollars to carry inventories from 1949 and prior crops and at the same time meet price support commitments on 1950 crops.

Of the 4.0 billion dollars invested in loans and inventories on January 31, 2.2 billion was in loans and 1.8 billion in inventories. Wheat, cotton, and corn accounted for the major part of the investment—2.7 billion dollars—with approximately one billion in each of wheat and cotton and 0.7 billion in corn loans and inventories.

The Federal Budget is affected, of course, by the financial transactions of the CCC. For the year ended June 30, 1949, all CCC activities resulted in net budgetary expenditures of 1.7 billion dollars. Estimates made in November and presented in the January 1950 *Budget Document* for the fiscal years 1950 and 1951 indicate budget expenditures of 1.6 and 0.9 billion, respectively. As indicated previously, recent developments suggest that budget expenditures will exceed these estimates.

PRICE SUPPORT THE MAJOR PURPOSE

The CCC came into existence on October 17, 1933, as a corporation under the laws of the State of Delaware, one of a family of emergency agencies created pursuant to the National Industrial Recovery Act of 1933. In its early years the Corporation was managed and operated in close affiliation with the Reconstruction Finance Corporation but in 1939 was transferred to the United States Department of Agriculture with the exclusive voting rights of its stock vested in the Secretary of Agriculture.

Life of the organization, at its inception, was temporary, to end June 30, 1939, or earlier if the President should so decide. Its existence, however, was perpetuated by a succession of Congressional acts, until 1948 when it was granted a Federal charter on a permanent basis.

Although the Corporation is authorized under its charter to engage in a wide variety of activities, its major function, except for wartime procurement and subsequent purchasing for foreign relief and rehabilitation, has been to raise and stabilize prices of selected farm products of economic or political importance. This is done largely through loan and purchase operations. The particular commodities to receive price support, as well as the level of support, usually have been determined by Congress with a decided tendency over the years toward extending support to more commodities and at higher levels.

With such a goal, the effectiveness of the Corporation cannot be measured in the usual manner, by its financial profit or loss. The CCC was established not to make a profit but as a convenient mechanism through which certain Government actions could be implemented. At best, the financial results of its operations are indicators of the cost to the Government of conducting programs, the goals of which have been accepted by the Congress as socially desirable and the achievement of which is presumed to be worth the cost involved.

There are indications currently, however, that an increasing number of people are beginning to view with some skepticism the increasing costs involved in achieving the goal of high and stable farm product prices. Unfortunately, the cost to date cannot be determined with accuracy, nor can the probable cost of continuing present programs into the future be estimated with any degree of assurance. Large inventories of commodities have been accumulated. Outlets for most of them are not in sight at the present time, and the "loss" or "profit" to be realized upon their ultimate disposition will be determined by future events, unforeseeable at this time.

With continued high levels of crop production the inventories now on hand and to be accumulated in the months immediately ahead could become an almost complete loss. If production in 1950 should be unusually small, however, or if demand were to increase sharply (as in war), most of the inventories could be liquidated at prices more than sufficient to cover the costs involved.

PRICES SUPPORTED BY LOANS AND PURCHASES

The activities of the Corporation may be divided into six general categories: (1) price support program, (2) supply program, (3) foreign purchase program, (4) commodity export program, (5) storage facilities program, and (6) loan to Secretary of Agriculture for agricultural conservation purposes. These programs are not entirely separate and independent of one another since in carrying out the primary objective of one the objective of another may also be fully or partially realized. This is true, for example, of purchases under the supply program which frequently reduce the amount of a commodity which must be acquired for price support purposes. Likewise, commodities acquired under the price support program may be used to meet supply requirements.

The *price support program* of the Corporation, as indicated above, accounts for its major activities currently. These operations are carried out in conformity with legislation currently in force; the operations in 1949-50 are governed largely by the Agricultural Act of 1948 and in 1950-51 will be in accordance with the Act of 1949. In addition to prescribing the commodities for which prices shall be supported and the level of such supports, the 1949 Act directs the Corporation to establish sales policies which will not deter manufacturers, processors, and dealers from carrying normal inventories. Also, sales are not to be made in the domestic market at prices below the current support price plus five per cent and reasonable carrying charges. Exceptions are made for certain limited purposes, such as disposing of commodities threatened with deterioration and sales or donations to institutions and relief agencies.

In carrying out its price support activities the Corporation utilizes the facilities of local banks, cooperatives, and other private lending agencies by entering into contracts in which the Corporation agrees to take over price support loans upon request of the lending agency. Service agreements are also made which permit lending agencies to make and service loans as direct agents for the Corporation and be reimbursed for such services on a fee basis.

Loans and purchases by the CCC for price support purposes in the year ended June 30, 1949, were the largest of any year to date, reflecting the large volume of agricultural production in 1948. Loans made totaled 2.2 billion dollars, and purchases amounted to 0.9 billion. A continued high level of crop production in 1949, plus the large carry-over from 1948, indicates a large volume of loans will be made again in the year ending June 30, 1950. Loan volume in the year ending June 30, 1951, will be determined largely by the volume of crop production in 1950, the level of foreign and domestic demand for farm products, and the level at which price supports are implemented.

Purchase agreements are provided so producers can obtain support prices without taking out loans. These agreements provide that the Corporation will purchase commodities eligible for price support if delivered in good condition during a specified period. Such agreements made in the year ending June 30, 1949, covered commodities valued at 0.6 billion dollars. For the fiscal years ending June 30, 1950 and 1951, a smaller volume of purchase agreements is indicated.

The inventory of stocks owned by the Corporation, resulting from deliveries under loans and purchase agreements as well as direct purchases, is estimated to total 2.2 billion dollars on June 30, 1950, and 3.1 billion a year later. This compares with 1.8 billion on January 31, 1950. Recent increases in inventory are due primarily to the large corn and cotton crops and purchases of dairy products. Anticipated further acquisitions of corn and cotton from the 1949 crops and wheat from the 1950 crop are the principal reasons for the projected increase in inventory in the year ahead.

The volume of inventory and loan stocks of a selected group of commodities as of January 31 is reported in Table 1. The size of stocks relative to annual production is indicated in the last column of the table. For example, CCC inventory and loan stocks of flaxseed and dry edible beans were equal to about one-half the 1949 production. Wheat and cotton stocks were the equivalent of about 40 per cent of a year's crop. Stocks of other commodities were relatively smaller. Perishable items such as potatoes, eggs, and butter can be stored only for relatively short periods without incurring excessively high costs or spoilage and, consequently, are not accumulated in large

TABLE 1
COMMODITIES IN CCC STOCKS AND LOANS JANUARY 31, 1950
(Amounts in millions)

Commodity	Unit	Inventory	Loans	Total	Total as Per Cent of 1949 Production
Linseed oil	lb.	430.1	—	430.1	61
Beans, dry edible	cwt.	4.9	7.0	11.9	55
Flaxseed	bu.	13.4	8.9	22.3	51
Wheat	bu.	159.7	320.2	479.9	42
Cotton	bale	3.7	2.8	6.5	41
Rosin	lb.	210.8	180.3	391.1	38[1]
Milk, dried	lb.	289.6	—	289.6	32
Grain sorghum	cwt.	3.3	39.2	42.5	28
Wool	lb.	51.4	—	51.4	24
Barley	bu.	25.1	27.9	53.0	22
Tobacco	lb.	—	373.9	373.9	19
Corn	bu.	100.8	526.7	627.5	19
Peas, dry edible	cwt.	—	0.6	0.6	18
Turpentine	gal.	1.9	3.3	5.2	16[1]
Peanuts	lb.	82.1	179.6	261.7	14
Rye	bu.	1.7	0.8	2.5	13
Prunes	lb.	45.5	—	45.5	13
Butter	lb.	100.1	—	100.1	6
Soybeans	bu.	2.7	10.4	13.1	6
Eggs, dried	lb.	78.1	—	78.1	4
Oats	bu.	11.3	30.5	41.8	3
Potatoes, Irish	cwt.	—	11.5	11.5	3
Cheese	lb.	25.5	—	25.5	2
Rice	cwt.	—	1.7	1.7	2

[1] Per cent of 1947 production.
SOURCE: Based on data from Commodity Credit Corporation *Report of Financial Condition and Operations* as of January 31, 1950, and the Bureau of Agricultural Economics.

quantities even though substantial price support operations have been involved.

The Corporation's *supply program* reflects the procurement of commodities for the purpose of supplying United States Government agencies, foreign governments, and relief and rehabilitation agencies. The Corporation is reimbursed fully by the agencies for which commodities are procured, and through December 31, 1949, had in fact shown a net gain from this activity in excess of 300 million dollars. The volume of purchases under the supply program is expected to decline sharply, however, on the assumption that foreign requirements will continue to decline and that commodities obtained as a result of price support operations will be used to meet the major portion of such requirements.

Under its *foreign purchase program* the Corporation buys agricultural commodities needed from foreign sources to meet both export and domestic requirements. During the war and early postwar period these purchases consisted largely of fats and oils, sugar, and rice which were in short supply. Such purchases in the year ending June 30, 1950, are estimated to total 49 million dollars, compared with 121 million dollars in the preceding year, and further declines are indicated.

The *commodity export program* carried on by the Corporation is designed to aid in the development of export markets for agricultural commodities both by retaining current outlets and developing additional ones. These activities are designed particularly to aid in the disposal of commodities in surplus supply domestically. The Corporation is authorized to accept strategic and critical materials purchased abroad in exchange for agricultural commodities. Although this activity is not necessarily limited to strategic materials which the Munitions Board is prepared to accept for stock-piling, it is not likely to extend to a large variety of items. The Corporation also provides funds to implement the International Wheat Agreement Act under which the United States guarantees to supply annually about 168 million bushels of wheat, or equivalent in wheat products, to participating nations at prices not in excess of $1.80 per bushel. Since this price is about fifty cents a bushel below the domestic price of wheat, a subsidy is involved. Advances made for this program in the year ending June 30, 1950, are estimated to total 82 million dollars. It is assumed, however, that appropriations will be made to reimburse the Corporation for this expenditure and that it will not suffer financial loss from the program.

The *storage facilities program* reflects the storage space requirements of the increasing stocks of commodities acquired under the price support program. The CCC first acquired grain storage facilities in 1939 in connection with the price support programs in effect at that time. As grain stocks decreased during the war years, however, the Corporation disposed of a large part of its storage space, realizing a loss of about 10 million dollars. The recent accumulation of stocks has again necessitated the expansion of storage capacity. This is being accomplished currently by the construction of CCC-owned facilities, making direct loans and guaranteeing loans made by other agencies for the construction of farm storage facilities, and providing storage-use guarantees to encourage construction of commercial storage capacity. As of January 31, 1950, the Corporation held, or had guaranteed, storage facility loans in excess of nine million dollars and had acquired about 370 million bushels of bin-type storage capacity. An additional 90 million bushels is being acquired currently.

TABLE 2

REALIZED GAINS AND LOSSES OF CCC

Program	Year Ended June 30, 1949	October 17, 1933 Through January 31, 1950
Price Support Program:		
Basic commodities	*$ 28,507,649**	*$ 64,272,502*
Corn	66,187*	44,663,388*
Cotton	1,023,816*	206,505,432
Peanuts	23,794,910*	59,479,642*
Rice	1,786	761,747*
Tobacco	115,524	5,322,984
Wheat	3,740,046*	42,651,137*
Designated nonbasic commodities	*217,221,674**	*439,556,213**
Potatoes, Irish	203,886,603*	350,089,793*
Wool	12,707,148*	88,884,048*
Other[1]	627,923*	582,372*
Other nonbasic commodities	*9,032,671**	*107,930,915**
Barley	672,499*	3,063,495*
Beans, dry edible	3,988	368,865*
Cotton, American-Egyptian	2*	494,975*
Cottonseed	—	775,508*
Eggs	773,476*	39,341,053*
Flax fiber	155,842*	335,708*
Fruit, dried	445,757	15,084,847*
Grain sorghum	3,590,174*	12,134,707*
Grapefruit juice	—	1,732,374*
Hemp and hemp fiber	8,946	21,457,387*
Hops	—	954,200*
Naval stores	420,567*	781,241
Oats	45,714*	286,134*
Peas, dry edible	140	632,300*
Seeds	364,337*	504.085*
Soybeans	26,054	4,903,608
Sugar beets	4,658,082*	16,517,269*
Other	1,163,137	67,143
Total price support	$254,761,994*	$ 483,214,626*
Supply Program:	5,232,858	302,891,522
Foreign Purchase Program:	48,999	50,239,551
Commodity Export Program:	60,632	13,745,632*
Other:		
Grain bins	438,460*	9,968,495*
Unallocated	138,717*	741,546*
Wartime Consumer Subsidy Program:[2]	2,235,782	2,101,851,084*
Grand total	$247,760 900*	$2,256,390,310*

*Denotes loss.
[1] Butter, cheese, honey, dried milk, and tung oil.
[2] Subsidy losses of 266 million dollars on corn for alcohol, wheat for alcohol, and wheat for feed are included on an estimated basis.
SOURCE: Commodity Credit Corporation, *Report of Financial Condition and Operations* as of January 31, 1950.

FINANCIAL EXPERIENCE

The financial experience of the Corporation on a "realized gain and loss" basis for the fiscal year ended June 30, 1949, and from its inception on October 17, 1933, through January 31, 1950, are shown in Table 2. This tabulation does not include the commodity valuation reserves set up on the Corporation books; rather, it presents the actually realized gains and losses for the periods indicated. A net gain of about 64 million dollars is indicated for the basic commodities—corn, cotton, peanuts, rice, tobacco, and wheat—due largely to cotton and tobacco, stocks of which were disposed of at considerable financial gain during the period of sharply rising prices in World War II. Losses in excess of 40 million dollars were realized on both corn and wheat while peanuts netted losses of about 60 million dollars. A realized loss of 439 million dollars is reported for "designated nonbasic commodities"—butter, cheese, honey, dried milk, Irish potatoes, tung oil, and wool—350 million dollars resulting from potatoes alone. The wool program has also been relatively costly, involving a realized loss of 89 million dollars.

"Other nonbasic commodities," which include all other agricultural products on which price support programs were in effect, resulted in a realized loss of 108 million dollars. The largest item in this category is the loss of 39 million dollars on eggs, followed by 21 million dollars on hemp and hemp fiber, and 17 million dollars on sugar beets.

The total realized loss on price support operations from October 17, 1933, through January 31, 1950, was 483 million dollars. Losses increased sharply in recent years: 72 million dollars in 1947, 125 million in 1948, and 254 million in 1949. Realized losses in the period, July 1, 1949, to January 31, 1950, have been at a reduced rate, 96 million dollars. The lower rate of loss in this period does not necessarily indicate a trend, as commodities were being accumulated and *losses* were not being *realized* to so large an extent.

Supply programs showed a net gain during this period of 303 million dollars. The foreign purchase program also showed a net gain, 50 million dollars, most of which was realized on purchases of fats and oils during the war years. The commodity export program, involving export payments on cotton and wheat, netted a loss of 14 million dollars. Subsidy payments made through the CCC, largely during the war and immediate postwar years, in connection with the maintenance of ceiling prices on agricultural products resulted in a net outlay of 2.1 billion dollars. Including all of these items brings the over-all realized loss of the CCC from its origin on October 17, 1933, through December 31, 1949, to 2.3 billion dollars. All operations other than the wartime consumer subsidy payments resulted in a realized loss of 155 million dollars.

An annual appraisal is made of the assets and liabilities of the CCC for the purpose of determining its capital impairment. If the net worth is less than the authorized capital of 100 million dollars, the Secretary of the Treasury restores the amount of such capital impairment to the Corporation; if the appraisal establishes the net worth as being more than 100 million dollars, the surplus is paid into the United States Treasury. Net United States Treasury contributions to the Corporation through June 30, 1948, totaled 1.9 billion dollars (Table 3). The operating loss for the period, June 30, 1948, to January 31, 1950, was 847 million dollars of which all but 417 million was charged to a reserve for the postwar price support of agriculture. Assuming that this remainder will be restored by the Treasury, the total restorations required to this date to maintain the net worth of the CCC would amount to 2.3 billion dollars. An additional contribution of Government funds in the amount of 500 million dollars was paid to the Corporation in March 1946, persuant to Congressional action, and set up as a reserve for postwar price support of agriculture. This reserve has now been depleted and is, in effect, a realized loss although it does not appear as such in the Corporation's capital accounts.

PROSPECTS LESS THAN BRIGHT

It is doubtful if this generally favorable showing to date in over-all realized losses of the CCC on its price support operations can be accepted as a typical experience for this type of activity or as being indicative of probable costs of such programs in the future. All evidence indicates that it was possible to liquidate the stocks of commodities accumulated during the thirties without suffering substantial financial loss only because of the wartime increase in demand and the associated price inflation. Recurrence of this type of demand increase presumably cannot be relied upon for the periodic liquidation of stocks accumulated in an effort to maintain prices at artificially high levels. Furthermore, present stocks have been accumulated not only at higher absolute prices than was true of inventories acquired in prewar years, but at prices which are much higher relative to prices of non-agricultural products.

It is obvious that the accumulation of stocks is inadequate as a continuing means of providing price support at high levels for agricultural products. The 4.0 billion dollars invested in inventories and commodity loans on January 31, 1949, with only limited outlets in prospect and with further large movements of commodities into loan and CCC stocks indicated for the months immediately ahead, bears witness to this observation. Effective control of the volume of marketings must be achieved if it is desired to maintain prices above "free market" levels for an extended period without large expenditures of public funds. Recent experience in the support of farm product prices, as reflected in CCC accounts, reveals that costs rise as the program is extended to more commodities, as levels of support rise, and as market prices decline. If these tendencies continue, the volume of capital contributions to the Corporation may be expected to rise further.

TABLE 3

PAYMENTS TO (—) AND FROM U. S. TREASURY TO MAINTAIN CAPITAL OF THE CCC

Date	Manner	Amount
June 1938[1]	Appropriation	$ 94,285,404.73
August 1939	Appropriation	119,599,918.05
June 1940	Payment to U.S. Treasury	−43,756,731.01
September 1941	Appropriation	1,637,445.51
June-September[2] 1942	Payment to U.S. Treasury	−27,815,513.68
May 1945[3]	Appropriation	256,764,881.04
July 1946	Note cancellation	921,456,561.00
May 1947	Note cancellation	641,832,080.64
April 1948	Payment to U.S. Treasury	−17,693,492.14
June 1948	Payment to U.S. Treasury	−48,943,010.36
Net restoration of capital from U.S. Treasury		$1,897,367,543.78

[1] Cumulated from October 17, 1933.
[2] $18,000,000 partial payment made in June 1942 and balance paid in September 1942.
[3] The impairment of $39,436,884.93 as of March 31, 1943, is included in the May 1945 appropriation.
SOURCE: Commodity Credit Corporation, *Report of Financial Condition and Operations*, January 31, 1950, U.S. Department of Agriculture.

Pressures for Federal Excise Tax Reduction Mount

Congressional Hearings Highlight Case for Reduction

The possibility of reducing the numerous war-expanded Federal excise taxes has been an object of increasingly widespread public discussion throughout the postwar period. Administration assent and public pressure make it likely that some excise tax relief will be enacted during this session of Congress, despite the prospect of substantial Budget and cash deficits. The extent of excise tax reduction will in part depend upon the action taken on the President's proposals for upward revision of other revenue measures.

The excise taxes collected by the Federal Government comprise levies on approximately 65 separate classes of commodities and transactions; fewer than two-thirds of these were in effect prior to fiscal 1942. Table 1 indicates the changes in rates and yields of the principal excise taxes from the pre-Pearl Harbor period to the present. Federal excise taxes traditionally are divided into six groups: liquor taxes, tobacco taxes, stamp taxes, manufacturers' excise taxes, retailers' excise taxes, and miscellaneous excises. All are indirect taxes, in the sense that the legal impact of the excises is on various producers and distributors at some stage in the manufacture or sale of the taxed goods and services, rather than on individual consumers. However, it is widely agreed that nearly all excises are fully shifted to consumers in the form of higher prices.

Collections of liquor taxes have nearly tripled in the period since fiscal 1941; the rates have been raised sharply on distilled spirits and wines and to a lesser extent on malt beverages. There has been little increase in tobacco tax rates, but collections have expanded greatly due to increased consumption of tobacco products. The same thing has been true for the so-called stamp taxes, largely on the issuance and transfer of stocks and bonds.

Collections from the manufacturers' excise taxes have risen rapidly due to the increases in rates and the taxation of new items and the increases in the prices and physical volume of the commodities manufactured and consumed. As in fiscal 1941, the taxes on gasoline and automotive products remain the most important manufacturers' excises in terms of yield. The retailers' excises, levied on furs, jewelry, toilet preparations, and luggage, were imposed in late 1941 for the first time. The most important revenue producers in the miscellaneous excise group are the taxes on communications and transportation services and on admissions. Other noteworthy taxes in the miscellaneous group are those imposed for nonfiscal regulatory purposes, such as the taxes on narcotics and oleomargarine.

Despite the more than threefold increase in total excise tax collections since fiscal 1941, the significance of excise taxes in the total Federal revenue picture has declined considerably in the same period. In fiscal 1941 excises constituted the largest single source of revenue. Currently they are overshadowed quantitatively by both personal and corporate income taxes.

EFFECTS OF EXCISE TAXES

The case against excise taxes has received much fresh publicity in recent weeks during the hearings on revenue revision before the House Ways and Means Committee. Taxes on consumption in general are objected to because they constitute larger percentages of the incomes of persons at the lower end of the income scale than of those at the upper end. Furthermore, in periods of declining demand for consumer goods, the existence of heavy excise tax levies can prevent the price declines necessary to stabilize sales and output.

Taxes on specific commodities, in addition, distort the market processes by raising the prices of certain commodities while not affecting those of others, thus restricting sales and output in certain areas. Usually the most productive excises are those on commodities widely consumed, and often these are considered "necessities." An objection raised to many of the less productive excises is that the small volume of receipts collected makes adequate enforcement of the tax law too expensive to be worth-while.

Prior to World War II, Federal excise tax collections were comprised overwhelmingly of collections from the levies on three widely-used types of commodities—liquor, tobacco, and gasoline. During the war, rates of most Federal taxes were raised sharply both to aid in war financing and to reduce consumers' effective demand for civilian commodities. High consumer incomes combined with the unavailability of most consumer durables had stimulated increased demand for such items as furs, jewelry, luggage, toilet preparations, and entertainment services; heavy excise taxes helped both to maintain price control on these items and to soak up part of the excess purchasing power in the hands of consumers. Similar factors had stimulated demand for telephone, telegraph, and transportation services, at a time when these facilities were being utilized to capacity for war purposes; heavy taxes on civilian use of these facilities were imposed to relieve the stress.

PRESSURES FOR REDUCTION

The ending of the war, however, has not been accompained by a return to prewar levels of most Federal taxes. The appearance of declining demand for certain commodities during the last 18 months has transformed isolated requests for excise tax relief into virtually unanimous demands by business for sweeping reductions. Represen-

TABLE 1

FEDERAL EXCISE TAXES: RATES AND YIELDS, FISCAL 1941-51

(Amounts in millions of dollars)

Excise Taxes	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950*	1951*	Rates in Effect Fiscal 1941	Present Rates
Liquor taxes:													
Distilled spirits	428.5	574.3	781.7	898.7	1,484.3	1,746.6	1,685.4	1,436.2	1,397.9	1,440.0	1,470.0	$3 per proof gal.	$9 per proof gal.
Fermented malt liquors	316.7	366.1	455.6	559.1	638.7	650.8	661.4	697.1	686.4	680.0	690.0	$6 per bbl.	$8 per bbl.
Wines	11.4	24.0	33.7	34.1	47.4	60.8	57.2	61.0	65.8	70.0	74.0	6¢, 18¢, 30¢ per gal.[1]	15¢, 60¢, $2 per gal.[1]
All other	61.8	82.5	152.5	126.1	139.4	68.0	70.7	61.0	60.5	57.0	56.0	—	—
Total, liquor taxes	818.4	1,046.9	1,423.5	1,618.0	2,309.8	2,526.2	2,474.7	2,255.3	2,210.6	2,247.0	2,290.0		
Tobacco taxes:													
Cigarettes	616.8	704.9	835.2	903.9	836.0	1,072.8	1,145.3	1,208.2	1,232.7	1,250.0	1,265.0	$3.25 per 1,000	$3.50 per 1,000
Cigars	13.1	14.2	23.1	30.1	36.6	41.4	48.3	46.7	45.5	45.0	45.0	$2–$13.50 per 1,000	$2.50–$20 per 1,000
Tobacco and snuff	61.8	59.6	55.3	53.0	57.3	49.4	43.6	44.4	42.7	42.0	41.0	18¢ per lb.	18¢ per lb.
All other	6.0	2.1	10.2	1.5	2.2	1.9	0.6	1.0	1.0	1.0	1.0	—	—
Total, tobacco taxes	697.7	780.8	923.8	988.5	932.1	1,165.5	1,237.8	1,300.3	1,321.9	1,338.0	1,352.0		
Stamp taxes:													
Issues and transfers of securities and deeds of conveyance	34.3	35.9	37.4	43.3	58.0	77.8	71.1	71.2	64.6	63.0	60.0	11¢ per $100, 5¢ per $100[2]	11¢ per $100, 5¢ per $100[2]
All other	4.8	5.8	7.8	7.5	7.5	9.9	8.9	8.3	8.2	8.0	8.0		
Total, stamp taxes	39.1	41.7	45.2	50.8	65.5	87.7	80.0	79.5	72.8	71.0	68.0	—	—
Manufacturers' excise taxes:													
Gasoline	343.0	369.6	288.8	271.2	405.6	405.7	433.7	478.6	503.7	530.0	550.0	1½¢ per gal.	1½¢ per gal.
Lubricating oils	38.2	46.4	43.3	52.5	92.9	74.6	82.0	80.9	81.8	83.0	83.0	4½¢ per gal.	6¢ per gal.
Automobiles and motorcycles	81.4	77.2	1.4	1.2	2.6	25.9	204.7	271.0	332.8	437.0	350.0	3½% of mfrs. price	7% of mfrs. price
Trucks, buses, and trailers	10.8	18.4	4.2	3.3	20.8	37.1	62.1	92.0	136.8	120.0	105.0	2½% of mfrs. price	5% of mfrs. price
Parts and accessories for automobiles	13.1	28.1	20.5	31.6	49.4	68.9	99.9	123.0	120.1	92.0	90.0	2½% of mfrs. price	5% of mfrs. price
Tires and inner tubes	51.1	64.8	18.3	40.3	75.3	118.1	174.9	159.3	150.9	145.0	140.0	Tires: 2½¢ per lb. Tubes: 4½¢ per lb.	5¢ per lb. 9¢ per lb.
Electrical energy	47.0	50.0	48.7	51.2	57.0	59.1	63.0	69.7	79.3	83.0	86.0	3⅓% of sale price	3⅓% of sale price
Electric, gas, and oil appliances	—	17.7	6.9	5.0	12.1	25.5	65.6	87.8	80.9	65.0	65.0	—	10% of mfrs. price
Electric light bulbs	—	3.1	3.7	5.4	11.0	17.8	23.2	24.9	26.2	25.0	25.0	—	20% of mfrs. price
Radio sets, phonographs, phonograph records, and musical instruments	6.9	22.4	8.7	5.9	7.7	20.1	82.5	85.4	64.9	50.0	45.0	5½% of mfrs. price[3]	10% of mfrs. price
Refrigerators and air conditioners	13.3	16.2	6.0	2.4	1.6	9.2	37.4	58.5	77.8	65.0	65.0	5½% of mfrs. price[4]	10% of mfrs. price
Business and store machines	—	7.0	6.5	3.8	10.1	15.8	25.2	32.7	33.3	30.0	30.0	—	10% of mfrs. price
Photographic and optical equipment	—	6.5	11.4	11.9	19.4	21.2	36.2	43.9	43.1	40.0	42.0	—	25% of mfrs. price
Matches	0.1	6.9	9.4	8.7	9.4	10.2	8.4	10.6	8.7	10.3	10.3	—	2¢ per 1,000
Sporting goods	0.1	3.5	4.1	2.5	4.2	7.9	17.0	18.8	19.9	17.0	18.0	—	10% of mfrs. price
All other	—	30.5	22.4	6.5	3.4	5.5	9.4	12.1	11.2	0.7	0.7	—	—
Total, manufacturers' excise taxes	610.6	768.3	504.3	503.4	782.5	922.6	1,425.3	1,649.2	1,771.5	1,793.0	1,705.0		
Retailers' excise taxes:													
Jewelry, etc.	—	41.5	88.4	113.4	184.2	223.3	236.6	217.9	210.7	199.0	201.0	—	20% of retail price[5]
Furs	—	19.8	44.2	58.7	79.4	91.7	97.5	79.5	61.9	54.0	55.0	—	20% of retail price
Toilet preparations	—	18.9	32.7	44.8	86.6	95.6	95.5	91.9	94.0	94.0	95.0	11% of mfrs. price	20% of retail price
Luggage, handbags, wallets, etc.	—	—	—	8.3	73.9	81.4	84.6	80.6	82.6	79.0	80.0	—	20% of retail price
Total, retailers' excise taxes	—	80.2	165.3	225.2	424.1	492.0	514.2	469.9	449.2	426.0	431.0		
Miscellaneous excise taxes:													
Telephone, telegraph, radio and cable facilities, leased wires, etc.	27.3	48.2	91.2	141.3	208.0	234.4	252.8	275.3	311.4	320.0	325.0	5% of amount charged in most cases[6]	25% of amount charged in most cases[6]
Local telephone service	—	26.8	67.0	90.2	133.6	145.7	164.9	193.5	224.5	250.0	255.0	—	15% of amount charged
Transportation of oil by pipeline	12.5	13.5	13.7	15.8	16.3	14.8	17.0	18.8	19.3	20.0	20.0	4½% of amount paid	4½% of amount paid
Transportation of persons	—	21.4	87.1	153.7	234.2	226.8	244.0	246.3	251.4	240.0	240.0	—	15% of amount paid
Transportation of property	—	—	82.6	215.5	221.1	220.1	275.7	317.2	337.0	320.0	330.0	—	3% of amount paid[7]
Admissions, exclusive of cabarets, etc.	71.0	115.0	154.4	178.5	300.6	343.2	392.9	385.1	385.8	385.0	395.0	10% if 21¢ or more	20% of charge
Cabarets, roof gardens, etc.	—[8]	—[8]	—[8]	26.7	56.9	72.1	63.3	53.5	48.9	42.0	40.0	4% of total charge	20% of total charge
Club dues and initiation fees	6.6	6.8	6.5	9.2	14.1	18.9	23.3	25.4	27.8	28.0	29.0	11% of amount paid	20% of amount paid
Leases of safe deposit boxes	2.2	3.7	6.1	6.6	7.3	7.9	8.6	9.1	9.5	10.0	10.0	11% of amount collected	20% of amount collected
Sugar tax	74.8	68.2	53.6	68.8	73.3	56.7	59.2	71.3	76.2	72.0	75.0	½¢ per lb. (approx.)	½¢ per lb. (approx.)
Amusement and gaming devices	—	6.5	10.5	18.5	19.1	17.1	20.4	19.3	21.1	21.0	21.0	—	$10 and $100 per yr.[9]
Use of motor vehicles and boats[10]	—	72.8	146.7	134.7	129.0	116.1	—	—	—	—	—	—	—
All other	29.7	26.9	15.2	16.4	17.2	16.2	30.8	42.6	46.0	48.0	56.0	—	—
Total, miscellaneous excise taxes	224.1	409.8	734.6	1,075.9	1,430.7	1,490.0	1,552.9	1,657.4	1,758.9	1,756.0	1,796.0		
Adjustment to daily Treasury Statement basis	+12.3	—	−18.5	−62.3	−10.2	+11.8	−14.4	−9.6	−23.1	—	—		
Total, excise taxes	2,402.2	3,127.7	3,778.2	4,399.5	5,934.5	6,695.8	7,270.5	7,402.0	7,561.8	7,631.0	7,642.0		

[1]Rate given is on still wines. For sparkling wines, rate in effect in 1941 was three cents per ½ pint; present rate is 15 cents per ½ pint.
[2]Deeds of conveyance, 55 cents per $500; issues of securities, 11 cents per $100; stock and bond transfers, 5 cents per $100.
[3]No rate in effect in 1941 for phonographs and phonograph records and musical instruments; rate given is for radios only.
[4]No rate in effect in 1941 for air conditioners or commercial refrigerating equipment; rate given is for household refrigerators only.
[5]Watches retailing for not more than $65 and alarm clocks retailing for not more than $5 taxed at 10 per cent. Silver plated flatware exempted.
[6]Cable and radio messages, 10 cents per message in 1941; international telegraph, cable, and radio, 10 per cent of amount charged at present; toll telephone, 10 cents, 15 cents, and 20 cent in 1941; wire and equipment service, eight per cent of amount charged at present; otherwise, as indicated in table.
[7]Coal, four cents per short ton.
[8]Data for "cabarets, roof gardens, etc." for years 1941-43 is included in total for "admissions."
[9]Lower rate for amusement devices, higher rate for gambling devices.
[10]Use tax on motor vehicles and boats of $5 per year, enacted by Revenue Act of 1941 (effective October 1, 1941), repealed by Revenue Act of 1945.
*Estimated.

SOURCES: *The Budget of the United States Government* (1941-1951); Bureau of Internal Revenue, annual releases on compilations of final data on internal revenue tax collections, by fiscal year (1941-1949); Treasury Department, *Exhibit 1, Excise Taxes: Rates and Yields, to Accompany Statement of Secretary Snyder Before the Committee on Ways and Means, House of Representatives, February 3, 1950.*

tatives from nearly every taxed industry have been appearing before the House Ways and Means Committee since January, urging reduction of the excises affecting their sales. Other supporters of excise tax reduction are those groups, led by the national labor organizations, who are seeking even greater reliance on heavy taxes on higher incomes and corporate profits.

State and local government officials and their organizations have added to the pressures for excise tax reduction. An obvious partial solution to some of the increasingly distressing fiscal problems of the states and their local subdivisions is to open up new revenue sources for their exploitation. Two broad principles have been suggested: "To every extent possible and feasible, the area of government which renders the service should levy the tax and collect the revenue to provide for it; and tax resources which can be administered adequately and efficiently by local governments or by state governments, to every extent possible and feasible, should be left to them, in order that each area of government shall be able to provide more effectively for its own needs."[1] The 15 per cent tax on local telephone service and the 20 per cent taxes on theater and cabaret admissions are easily administered on a local level, and local use of these taxes at low rates is widespread even now. Repeal or significant reduction of the Federal levies would undoubtedly result in increased local use of these sources.

THE TREASURY POSITION

During most of the postwar period, the Administration has opposed all proposals for tax reduction. In the initial postwar years, characterized by strong inflationary movements in the economy, the Administration position was based largely on desirability of utilizing large Treasury surpluses to combat inflationary pressures. Despite this opposition, Congress in the Revenue Act of 1948 provided for substantial reductions in the effective rates of the personal income tax and even larger reductions in the effective rates of the estate tax. The sharp increases in Federal cash expenditures since fiscal 1948 have been accompanied by some declines in receipts. The resulting substantial cash and Budget deficits during the current and ensuing fiscal years have produced Presidential requests for increases rather than reductions in total tax collections.

In January the President proposed a tax program which would combine limited excise tax reduction with increases elsewhere in the tax system to produce a small net addition to receipts. On February 3, the Secretary of the Treasury presented this program in detail to the House Ways and Means Committee. Table 2 shows the proposed changes in excise tax rates, which are estimated to produce, if enacted, a net revenue loss of 655 million dollars. There has been extensive comment that the rate reductions recommended are not great enough, particularly with regard to the retailers' excises. In addition, there is widespread support for extending the cuts to the taxes on admissions and local telephone service. Reduction of the manufacturers' excises appears less likely to be enacted.

TABLE 2
TREASURY PROPOSALS FOR EXCISE TAX CHANGES

Tax	Present Rate (Per Cent)	Proposed Rate (Per Cent)	Estimated Annual Revenue Loss or Gain (—) (Millions of Dollars)
Transportation of property	3	0	310
Transportation of persons..	15	10	75
Long-distance telephone and telegraph..........	25	15	120
Retail excises:			
Furs..................	20	10	25
Luggage..............	20	10	35
Jewelry...............	20	10	80
Toilet preparations[1].....	20	10	50
Extension of manufacturers' excise tax on radio sets to television sets....	0	10	−40
Total revenue loss...........................			655

[1] Estimated revenue loss allows for exemption of baby oils, powders, and lotions.
SOURCE: Treasury Department, Statement by Secretary Snyder before the Committee on Ways and Means, House of Representatives, February 3, 1950.

OTHER TAX RECOMMENDATIONS

The President and the Secretary have recommended that "excise taxes be reduced to the extent, and only to the extent, that the resulting loss in revenue is replaced by revenue obtained from closing loopholes in the present laws."[2] Foremost among the suggestions for closing loopholes is the proposed reduction in the special depletion allowances of oil, gas, and nonmetallic minerals producers and revision of sections of the tax laws providing for special treatment of oil producers. The existing provisions are estimated to cost the Treasury from 400 to 500 million dollars annually. Another loophole-closing proposal is to tax the income of tax-exempt charitable and educational institutions derived from the operations of businesses clearly unrelated to their primary functions.

To provide for net additions to receipts, the Secretary proposed increases in the corporation income tax and in the estate and gift taxes. The 53 per cent "notch" rate for corporate income between $25,000 and $50,000 would be eliminated, and the standard rate would be increased four percentage points to 42 per cent, producing an additional 675 million dollars. The elimination of the "notch" rate would reduce taxes for corporations with net incomes of from $25,000 to $118,750 and increase taxes for those with higher incomes. The recommendations in regard to the estate and gift taxes are considerably more sweeping. This reflects the fact that effective tax rates here are considerably below prewar levels, due largely to the 1948 Revenue Act. The Secretary suggested increasing rates and lowering exemptions sharply to correct this; in addition, he proposed an integrated wealth transfer tax, taxing both gifts and transfers at death at the same rates, to eliminate the present situation which permits substantial tax savings due to the lower rates on gifts (75 per cent of the estate tax rates). About 400 million dollars could be expected from these and other proposed changes in Federal taxation of wealth transfers.

[1] Testimony by the Council of State Governments, Governors' Conference, Conference of Mayors, National Association of County Officials, and National Association of Tax Administrators before the House Ways and Means Committee, February 17, 1950.
[2] Message of the President to the Congress, January 23, 1950.

RETAIL SALES STIMULUS

(*Continued from Inside Front Cover*)

pounded at 4 per cent, would be sufficient to redeem the certificates upon maturity.

Partly as a result of the depression which began in 1930, a considerable amount of pressure was exerted for redemption of the Adjusted Service Certificates at face value prior to their maturity. In 1931, the Veterans' Administration was empowered to make loans up to 50 per cent of the face value of the certificates through the Government life insurance fund. This system for lending met with immediate success; nearly a billion dollars of loans were made during the first three months of its existence.

Finally, in January of 1936, Congress passed the Adjusted Compensation Act over the veto of the President. This Act provided for the immediate payment of the face value of all Adjusted Service Certificates outstanding, less government loans thereon. Payment was made on or after June 15, 1936, by the issuance of nonnegotiable, but immediately redeemable, bonds in face values of $50, with the odd amounts due paid by check. The bonds matured on June 15, 1945, and bore interest at the rate of 3 per cent per annum, unless redeemed prior to June 15, 1937.

Bonds totaling nearly 1,800 million dollars and checks aggregating about 80 million dollars were issued on June 15, 1936, and during the rest of the year. Veterans cashed the bonds very rapidly. During the last half of June, redemptions totaled 725 million dollars, and on June 30 another 230 million dollars of bonds were in the process of redemption. By the end of July, redemptions totaled 1,130 million dollars, and 1,340 million dollars of the 1,800 million dollars of bonds issued had already been redeemed by the year's end.

Economic conditions in the summer of 1936 were good, and immediate prospects appear to have been favorable. The general level of business activity had been improving fairly steadily since the 1933 upturn. Gross national product, industrial production, corporate profits, personal incomes, and most other measures of economic activity had increased rapidly and, in 1936, were at the highest levels since fairly early in the depression. In addition, this substantial recovery was accomplished with relatively moderate advances in wholesale and retail prices. Despite a significant rise in employment and a drop in unemployment during the three-year period, however, the number of unemployed averaged nine million in 1936, or about 17 per cent of the total labor force of the country.

A substantial amount of the bonus payment of 1936 appears to have been saved, at least temporarily. As a result, the initial effects of this payment on total retail sales were relatively small (see Chart 1).

Net additions to liquid savings of individuals (including repayment of debt) in 1936 totaled about 4.3 billion dollars, according to Securities and Exchange Commission estimates. Additions to liquid savings in the preceding year amounted to only 1.6 billion dollars and in the following year to four billion dollars, although 1935 was good and 1937 was better than 1936, in terms of personal income. Thus, it appears that net liquid saving in 1936 was higher than might have reasonably been expected, perhaps by as much as 1-1.5 billion dollars. Most of this increase can be attributed to the bonus payment.

Therefore, it appears that only about 500 million dollars of the bonus payment was spent by consumers during the last part of 1936. Since part of the spending undoubtedly was for services rather than goods (retail sales amounted to about 60 per cent of total consumer spending during 1936), it is likely that retail sales were increased only about 300 million dollars as a result of the windfall. This increase would have accounted for less than one per cent of total sales in 1936, or 1.5 per cent of retail sales in the last half of the year, on a seasonally adjusted basis.

ARMED FORCES LEAVE BONDS OF 1947

A recent example of a relatively large nonrecurring addition to personal income resulted from the issuance of Armed Forces Leave Bonds to veterans of World War II in settlement of accumulated leave due enlisted men when demobilized. The bonds were issued in multiples of $25 as of the quarterly date following discharge from the armed services or as of September 1, 1946, whichever was earlier. Nonnegotiable and originally unredeemable, these bonds were to mature five years after issue date, bearing interest at 2½ per cent per annum.

Most of the bonds were distributed during the last three months of 1946 and the first half of 1947. On June 30, 1947, eight and a half million veterans held bonds with a total face value of nearly 1,850 million dollars. The average value of bonds was $216, and the median holding was between $150-$200. Over 83 per cent of the veterans held bonds valued at $300 or less. Bonds continued to be issued in small amounts after June 30, 1947, the total reaching 2,100 million dollars by the middle of 1948.

In the summer of 1947, by amendment to the Armed Forces Leave Act of 1946, Congress made the outstanding bonds immediately redeemable in cash after September 1, 1947, at the holder's option. Redemptions amounted to 890 million dollars in September, 160 million dollars in October, and at the end of six months, redemptions totaled 1,325 million dollars or about 65 per cent of all bonds issued to that date.

In its *Survey of Consumer Finances*, conducted in the early part of 1948, the Board of Governors of the Federal Reserve System queried veterans concerning the disposition of the proceeds of Armed Forces Leave Bond redemptions. Of those who had cashed their bonds, about 35 per cent indicated that they used the proceeds to buy nondurable consumers' goods, 25 per cent had purchased durable goods, 15 per cent indicated expenditures for various services, 10 per cent used the funds to repay debt, and 15 per cent indicated that they saved or invested the funds.

Regarding bonds which had not yet been cashed as at least temporary savings, nearly 900 million dollars, or 45 per cent, of the payment was saved, and 135 million dollars, or seven per cent, was used to repay debt. Thus, about 50 per cent, or approximately one billion dollars, was spent currently for goods and services. Of this amount, probably from 750-800 million dollars found its way into retail channels. This is reflected in the substantial initial rise in retail sales which occurred in September of 1947, and the continuance of sales noticeably ahead of income during the rest of the year (see Chart 2).

It appears, then, that the stimulus to retail sales was considerably greater proportionately in the case of the Armed Forces Leave Bonds payment than in the payment of Adjusted Service Bonds in 1936. It is estimated that only about 25 per cent of the bonus payment was spent in the initial period, as compared with nearly 50 per cent of the 1947 payment; furthermore, it appears that a substantially larger portion of the funds spent in 1947 found their way into retail sales channels than did the funds spent in 1936.

Part of the difference in the proportion of the windfalls spent may be attributed to the much smaller size of the average Leave Bond payment. It is likely that the incentive to save the smaller payment was considerably less. In addition, the large deferred demand for goods in 1947, particularly durables and semi-durables, undoubtedly induced a higher proportion of spending at retail than would have otherwise occurred. A large part of the increased willingness of consumers to spend, however, probably can be explained by their greatly improved financial positions.

Liquid asset holdings of individuals more than tripled during the war and early postwar period. Incomes in 1947 were at a high and rising level. The number of unemployed averaged only 2,140,000 as compared with 9,030,000 in 1936, even though the size of the labor force had increased nearly 40 per cent in the interim. Finally, prices were rising rapidly during 1947; this undoubtedly reduced the incentive of veterans to save and increased their willingness to spend.

PROBABLE EFFECT OF INSURANCE DIVIDEND PAYMENT

The National Service Life Insurance dividend currently being distributed differs in important respects from the two previous windfalls received by veterans. First, it is substantially larger in dollar amount than either of the previous payments. When measured in relative terms, however, the impact of the dividend on the economy is less than that of the 1936 bonus. The current payment amounts to about 2.7 per cent of second-half 1949 personal income, seasonally adjusted, while the earlier special payments amounted to 2.0 per cent and 5.1 per cent of second-half 1947 and 1936 incomes, respectively.

Second, the dividend is being distributed to a greater number of consumers than the former payments. While about 16 million veterans will receive dividend checks, only 3.5 million veterans received bonus payments and about 9 million were issued Leave Bonds. As a consequence, the average size of payment received is considerably smaller in the current distribution than it was in 1936 and 1947.

Third, the dividend will be paid by check to veterans, while the 1947 and 1936 payments were largely in the form of redeemable bonds. It will require a conscious act to save the proceeds of the dividend checks, whereas the payment was automatically saved in the previous windfalls. The form of payment, the greater number of recipients, and the smaller average size of the dividend will tend to increase the proportion spent.

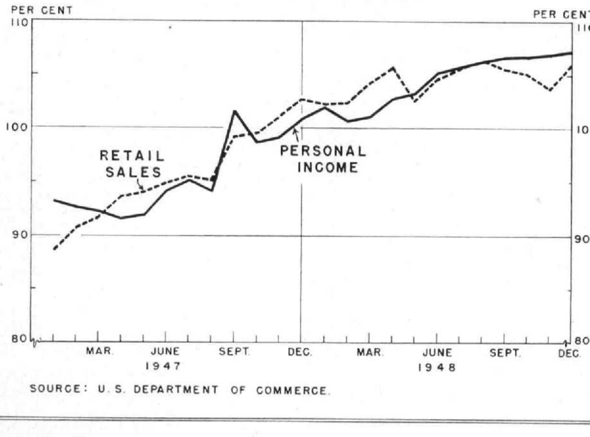
Another difference between the present payment and those of 1947 and 1936 is found in the present general economic situation. In both 1936 and 1947, business conditions were improving rapidly. Employment, personal income, the national product, and most other measures of economic activity were rising. Important differences between the preceding periods, however, are that prices were relatively stable in 1936 but were rising rapidly in 1947 and that unemployment was much greater in 1936 than in 1947.

During the past year, incomes, employment, production, and spending have remained relatively stable or moderately declined. Prices fell moderately during the year, and unemployment increased. The present economic picture undoubtedly affects the way in which veterans are disposing of their dividend. Continued high incomes, the large stocks of liquid asset holdings, and adequate supplies of salable goods probably increase the willingness to spend. On the other hand, increasing unemployment, stable prices, and some uncertainties about the future may deter immediate spending. Also, the rapid growth in short-term consumer indebtedness during the last half of 1949 suggests that some anticipatory spending prior to payment of the dividend occurred.

On balance, it appears that retail sales are being, and will be, stimulated by the payment of the GI insurance dividend, but that the proportion of the windfall spent initially is not likely to exceed 50 per cent. However, it is important to recognize that, to the extent the dividend is not immediately spent, a slightly higher level of sales over a considerable period of time may result. To the extent that the funds are saved, they probably will be spent at a later date. To the extent that the dividend is used to repay indebtedness, it will tend to increase the willingness and ability of veterans to incur new debt.

CHART 2

PERSONAL INCOME AND RETAIL SALES
SEASONALLY ADJUSTED, 1947–48
(1947-48 MONTHLY AVERAGE = 100)



SOURCE: U. S. DEPARTMENT OF COMMERCE.

SEVENTH FEDERAL

RESERVE DISTRICT