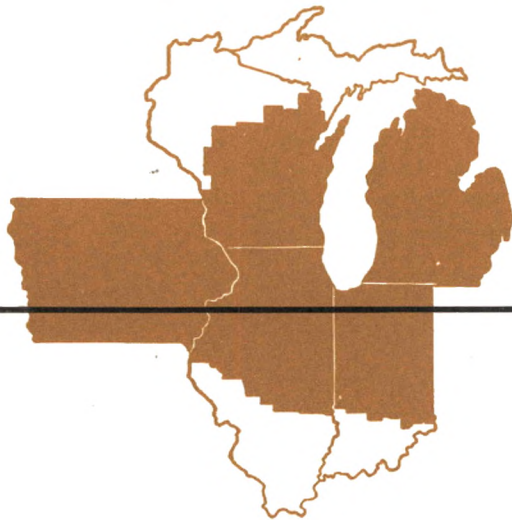


A review by the **Federal Reserve Bank of Chicago**

Business Conditions

1954 March



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THE Trend OF BUSINESS

The pace of the business decline over a six-month period can now be charted in terms of several measures. From the high of July 1953, industrial production, seasonally adjusted, had dropped 9 per cent. Manufacturing employment was about 7 per cent lower, and there had been a reduction of about one hour in the average work week. Manufacturers' sales were more than 9 per cent below the peak, and total retail sales, less volatile as might be expected, were off 5 per cent.

The deterioration in business activity which began last summer has been characterized as an "inventory adjustment," although spending by Government and consumers and capital outlays of business declined during the period. The initial phase of the inventory adjustment involved only a slowing in the rate of accumulation. Total business holdings, seasonally adjusted, rose 900 million in July, 500 million in August, and 400 million in September before the reduction began in October.

Total business sales have shown a downturn on an adjusted basis since July. The drop was sufficiently sharp in the fourth quarter so that sales declined faster than goods on hand. The rise in inventories relative to sales occurred in most manufacturing and trade lines, but this development was most spectacular in the case of hard goods makers whose stock-sales ratio rose from 2.0 to 2.3 in the second half of 1953.

The accompanying table compares changes in sales and inventories for the major components of American business during 1953.

December of 1953 is contrasted

with the same month a year earlier and with July, the peak sales month.

Although inventory reductions were not responsible for initiating the decline in activity in the summer of 1953, changes in inventory policy at that time played a vital role. The fact that additions to inventory were at a reduced rate in the third quarter brought important repercussions to income and employment. Continued accumulations in many cases were involuntary. More and more firms cut back on new orders as the second half wore on, but stocks kept rising because of a decline in sales. At the manufacturing level, holdings continued to rise as raw materials became goods in process and thence finished goods.

According to preliminary data, retail sales, seasonally adjusted, in January were 5 per cent below July and 3 per cent under year-ago figures. Reduced demand for automobiles accounted for much of this decline. Sales of automotive dealers dropped 15 per cent during the six-months' period of decline, whereas sales of all other types of stores declined only 2.4 per cent. Some comfort may be taken from the fact that consumer buying has been fairly

Sales lower at all levels, but inventories remain high

| | Change Dec. 1952 to Dec. 1953 in: | | Change July 1953 to Dec. 1953 in: | |
|------------------------|--------------------------------------|-------|--------------------------------------|--------|
| | inventories | sales | inventories | sales |
| All business | + 5.1% | -3.1% | -0.1% | - 6.2% |
| Manufacturing | + 5.7 | -2.5 | +0.5 | - 8.6 |
| Durable | + 9.8 | -7.7 | +1.5 | -13.8 |
| Nondurable | + 0.7 | +3.0 | -0.8 | - 3.3 |
| Retail | + 4.8 | -3.4 | -0.5 | - 3.8 |
| Automotive dealers ... | +18.2 | -2.3 | -1.6 | - 9.9 |
| Other than automotive | + 2.5 | -3.7 | -0.2 | - 2.4 |
| Wholesale | + 3.1 | -4.1 | -1.8 | - 3.0 |
| Seasonally adjusted | | | | |

Reductions in factory employment account for most of the drop in the number of workers

| | July | Jan. | Change | Per cent |
|---|--------|--------|--------|----------|
| (In thousands) | | | | |
| Total wage and salary | 49,511 | 48,352 | -1,159 | -2.3 |
| Manufacturing | 17,303 | 16,169 | -1,134 | -6.6 |
| Trade | 10,524 | 10,579 | + 55 | +0.5 |
| Government | 6,687 | 6,758 | + 71 | +1.1 |
| Transportation and utilities | 4,293 | 4,179 | - 114 | -2.8 |
| Construction | 2,511 | 2,475 | - 36 | -1.4 |
| Mining | 816 | 800 | - 16 | -2.0 |
| Finance, service, and miscellaneous | 7,377 | 7,392 | + 15 | +0.2 |
| Seasonally adjusted | | | | |

well maintained. Nevertheless, it had been hoped that any downward movement would be confined to certain lines and that other sectors would show compensating gains. Thus far the downturn has been quite general, although the impact has been most pronounced in the case of durable goods.

It may be noted that a drop in the demand for hard goods such as appliances and automobiles does not necessarily lead to increased purchases of other types of goods. One reason is that durables fill special needs and are directed to a more restricted consumer market than soft goods. More important, however, is the fact that purchase of durables commonly involves the use of instalment credit.

Through January it was evident that durable goods had been hit much harder than the rest of the economy, although most segments of business had experienced some decline from previous record highs. Unemployment was confined largely to production workers in manufacturing and to railroad workers. Nonmanufacturing employment in January was higher than a year earlier as trade and service establishments were able to fill out staffs to desired levels in the easier job market. Prospects for construction in 1954 remained excellent, and sales of items such as gasoline, natural gas, and electric power—industries enjoying long-term growth trends—were well above year-earlier levels.

Department store sales in Seventh District cities in January and February failed to match year-earlier sales totals largely because of sharply lower figures reported by Detroit stores. Midwest department store trade did not differ greatly from national experience. Certain other regions such as the Southwest and Far West reported considerably larger reductions from year-ago volume.

Inventories of Midwest department and apparel stores were appreciably larger at the start of 1954 than a year earlier. This was particularly true for Detroit and Indianapolis. However, stocks on order at year-end for all reporting department stores were 24 per cent lower than a year earlier.

Retail trade in January, according to preliminary data, followed a mixed pattern. Automotive dealers and apparel stores suffered the sharpest setbacks from the July high, while gasoline service stations continued to gain. The two largest combination mail order-department store chains reported January sales to be off about 14 per cent from the year before.

Automobile cities in early 1954 continued to experience rising unemployment rates despite a trickle of out-migration to farms and to the South. Kenosha reported an estimated 9 per cent unemployment ratio in January with a further increase expected by March. Special surveys announced by the Bureau of Labor Statistics in February placed Detroit, Toledo, and South Bend in the "substantial labor surplus" category with unemployment ratios of

Retail sales in the U.S.

| | July 1953 | Jan. 1954 | Per cent change |
|--------------------------------|-----------|-----------|-----------------|
| (million dollars) | | | |
| Total | 14,469 | 13,750 | - 5.0 |
| Automotive | 2,836 | 2,405 | -15.2 |
| Furniture and appliances | 768 | 755 | - 1.7 |
| Apparel | 900 | 760 | -15.6 |
| Drug | 393 | 400 | + 1.8 |
| Eating and drinking... | 1,115 | 1,085 | - 2.7 |
| Food | 3,434 | 3,355 | - 2.3 |
| Gasoline service | 874 | 925 | + 5.8 |
| General merchandise.. | 1,636 | 1,555 | - 4.9 |
| Seasonally adjusted | | | |

8 per cent or more. The number of jobless in these cities had risen almost entirely as a result of lower needs for workers by makers of automobiles and parts.

Automobile employment in Detroit in January was off almost 20 per cent from the April high, and the work week had been shortened. South Bend experienced additional automotive industry layoffs in February, and many Flint workers went on a four-day week. Some improvement was expected in motor vehicle employment in the spring, although retail inventories were reported to include 600,000 new cars—12 per cent above the previous record set last October. Seasonal demand was expected to melt large dealer holdings of new and used cars.

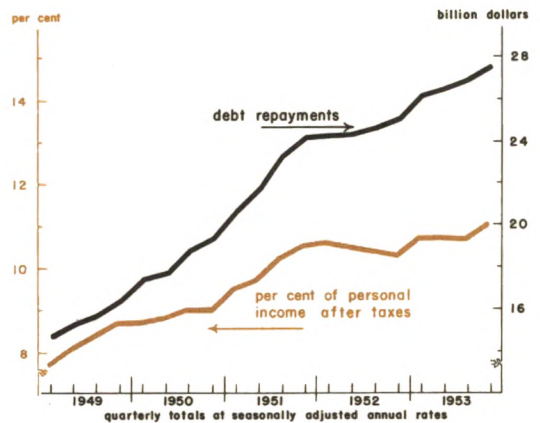
Farm machinery firms offered brighter news for a time at least, as output began to pick up seasonally in January and February. Racine, the Davenport-Rock Island-Moline-East Moline area, and certain other cities reported a return to work of some of the farm implement workers laid off previously. Employment in this industry had been running about 140,000—one-third lower than in the spring of 1952. In February, the "Quad Cities" area joined a growing list of Midwest centers classified in the substantial labor surplus group.

CONSUMER CREDIT

Instalment credit downturn in prospect as repayments outrun new credit extensions

By the end of last year, an uninterrupted rise of 21 months' duration had pushed consumer instalment indebtedness up to nearly 22 billion dollars. This was about 50 per cent higher than when controls over credit terms were suspended in May 1952. The rate of growth in indebtedness slowed as the year progressed, however, and in the fourth quarter the rise was less than one-third that of the same months in 1952.

Repayments on instalment debts continue rise, take 11 per cent of personal income



It seems probable that instalment debt declined in January and February—perhaps by as much as 500 million dollars. Credit extensions usually drop sharply after the Christmas season, as purchases of automobiles and other consumer durable goods are at their seasonal lows. Repayments, on the other hand, typically change little from month to month, owing to the contractual nature of the payment obligation. The consequent seasonal tendency for debt repayments to outrun new credit extensions is likely to have been intensified this year by a falling off in the use of credit noted toward the end of 1953.

This downturn points up the likelihood that the rise in instalment debt this year will fall short of last year's 3.1 billion dollar growth. In fact, present indications are that there will be little or no further expansion during 1954, and a sizable decline might even take place. The major support for this view lies in the widely-held expectation that sales of automobiles and most other durables—products commonly involving the use of credit—will fail to match their 1953 volume.

Moreover, the use of credit in financing such purchases appears to have fallen off substantially during the past year. If this trend con-

tinues, new credit extensions will be smaller in relation to total durable goods sales this year than in 1953. Regardless of what changes occur in credit extensions, repayments are likely to continue at or above the current volume for some months to come, since they are largely determined by instalment contracts previously written.

Such a change in the course of instalment debt could have a significant effect on the strength of consumer markets. Until recently, new credit extensions had greatly exceeded repayments, with the result that consumers received substantial amounts of purchasing power from this source. Now, however, a leveling off would mean that less money is being supplied consumers through new credit extensions, while repayments continue to absorb funds from the current incomes of those still owing on earlier debts.

Debt service burden growing

The slowing down in the growth of instal-

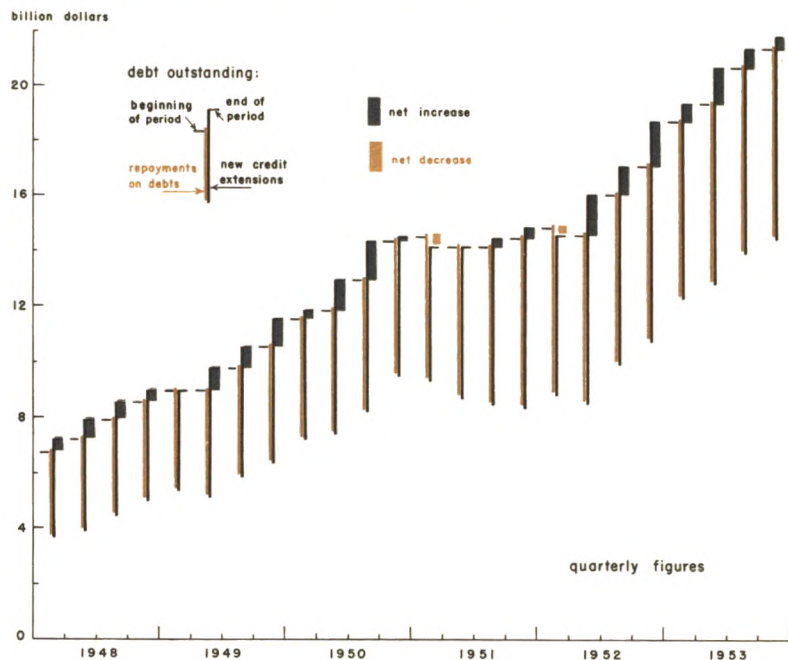
ment debt in recent months reflects both a decline in the use of credit and also a continued expansion in the volume of monthly payments on the debt. Repayments totaled 9 per cent more last year than in 1952 and by the final quarter were at a seasonally adjusted annual rate of 27.3 billion dollars, 2.3 billion higher than a year earlier.

Although the trend in repayment volume has been steadily upward during the past 1½ years, the increase appears relatively modest when compared with the rapid growth in instalment debt which has taken place. This reflects primarily the lengthening in contract maturities following the suspension of credit controls, which has had the effect of reducing the size of required monthly payments on new credits granted since then.

The abrupt change in terms in the spring of 1952, however, meant that the regular cycle of final retirement of obligations was broken. After all the debts incurred on more restrictive terms have been repaid, the majority of ex-

result from differences between the volume of new credit extended and repayments on prior contracts. When credit extensions exceed repayments, as during most of the postwar period, instalment debt rises; when repayments are larger, indebtedness falls. Since contracts are generally written for short periods (usually 12 to 24 months), turnover of the debt is relatively rapid. Last year repayments amounted to nearly 27 billion dollars, while indebtedness at year-end stood at less than 22 billion. This means that shifts in the demand for credit have a much more pronounced effect on the level of instalment debt than for longer-term commitments such as residential mortgages.

Changes in the level of instalment debt



tended contracts written in the summer of 1952 will still have some months to run. In the case of automobile credit, the most important component of instalment debt, maturities were commonly increased from 18 to 24 months. The importance of this now—1½ years later—is that relatively few automobile debts will be paid up in the six-month gap so created. Consequently, the volume of credit repayments will tend to increase more rapidly in the early months of this year.

As a result of longer credit terms and substantial increases in income, the higher total of indebtedness as yet has not imposed a significantly greater servicing “burden” on consumers as a group than was the case two years ago, before the recent upsurge in debt occurred. Monthly repayments now take about 11 per cent of personal income after taxes, as compared with 10½ per cent in late 1951 and early 1952. This is a significantly higher proportion than in 1940 and 1941, the peak pre-war years of instalment indebtedness.

Comparing repayments with total personal income after taxes does not adequately reflect the task of debt servicing faced by borrowers, however, since instalment debt is highly concentrated. According to the *Survey of Consumer Finances*, only about half the nation’s spending units owed on instalment contracts in early 1953. Such debts were reported most frequently by moderate income families (\$3,000-\$7,500) with children under 18 years of age. Moreover, most of the debtor families had little in the way of liquid assets which could be used in meeting repayment obligations.

More cars, less credit

The important role of instalment credit in the purchase of consumer durable goods is indicated by the fact that, in 1952, well over half the new cars, nearly two-thirds of the used cars, and a major share of the furniture, “big ticket” home appliances, and television sets purchased were financed in part through the use of credit. These proportions had increased steadily throughout the postwar period with the exception of 1951, when the Federal

Reserve regulations restricting instalment credit terms were in force.

There is considerable evidence, however, that credit buying became progressively less important in the sale of durable goods during 1953. New credit extensions for purchase of automobiles, as a proportion of dealer sales, reached a peak of nearly 50 per cent in the latter part of 1952 but declined steadily through last year to a low of about 42 per cent in the fourth quarter (see chart). Similarly, credit extended for other consumer goods relative to consumer expenditures for all other durables declined from a peak of 51 per cent in the third quarter of 1952 to about 45 per cent in the closing months of 1953.

By the fourth quarter, new credit extensions for purchase of both cars and other consumer goods were substantially lower than a year earlier. Automobile dealer sales, however, were higher and purchases of other durables only a little smaller from September through December than in the year-earlier period:

| | 1952 | 1953 | Per cent change |
|-----------------------------|---------------------------------|------|-----------------|
| | Billion dollars annual rates | | |
| Cars: | | | |
| Dealers' sales | 27.4 | 29.4 | +7.2 |
| Credit extensions | 13.4 | 12.2 | -8.8 |
| Other durable goods: | | | |
| Consumer purchases | 16.7 | 16.2 | -3.0 |
| Credit extensions | 8.2 | 7.3 | -11.0 |

What accounts for the relative decline in credit extensions? In the case of cars, the gain in automobile dealers’ sales last year was almost entirely confined to the upsurge in new car sales, with used car dollar volume little changed as a result of lower prices. Since fewer new car than used car buyers typically use credit in financing their purchases, this probably tended to reduce the volume of credit relative to total dealer sales. More liberal trade-ins and larger discounts—in effect, lower prices—may also have reduced the average amount of credit extended per transaction.

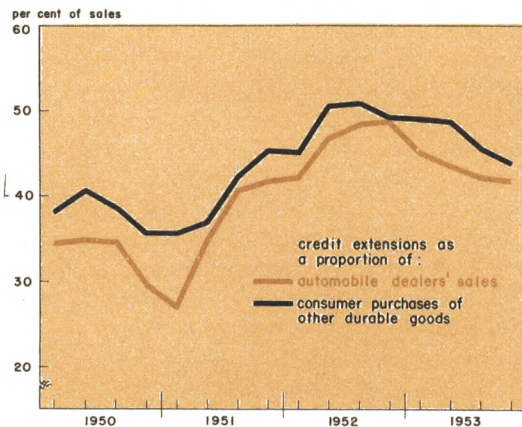
But the steady and sizable downtrend in credit extensions as a proportion of both auto-

mobile and other durable goods purchases suggests that a more basic change in credit buying has been taking place. For one reason or another, credit users have not been acquiring new debts in the volume necessary to maintain the share of total durable goods purchases made with credit.

In part, this development may stem from a tightening in the availability of credit. Although there is little evidence that down payment and monthly payment requirements have been stiffened importantly, many lenders appear to have become more selective regarding credit risks in the past year. Stability and tenure of employment, ratio of income to monthly payments, existence of other debts, and character of the collateral, especially in the case of used cars, commonly have taken on additional importance. Rapidly expanding consumer loan portfolios and greater uncertainty regarding the economic outlook probably account for the increased caution shown by many lenders.

Reluctance on the part of consumers to assume new debt obligations may be even more important in the downturn of credit buying. Instalment debt has risen rapidly over the postwar period and, as noted earlier, repayments now take a higher proportion of total consumer income than at any time before.

Credit extensions have fallen off relative to durable goods sales



Moreover, record consumer holdings of all types of durable goods may have temporarily blunted the edge of demand for additional acquisitions. Finally, increased layoffs and the virtual disappearance of overtime work may have convinced many potential credit buyers that this is a time to sit back and take stock of their positions.

Improved savings bond sales outlook rests on shift in large investor interest

The Treasury hopes to sell more savings bonds in 1954 than in any previous peacetime year. The new sales goal is 5.3 billion dollars, a billion dollars greater than last year's total. Emphasis will be placed on expanding Series E and H bond sales—an extension of the policy established in early 1953.

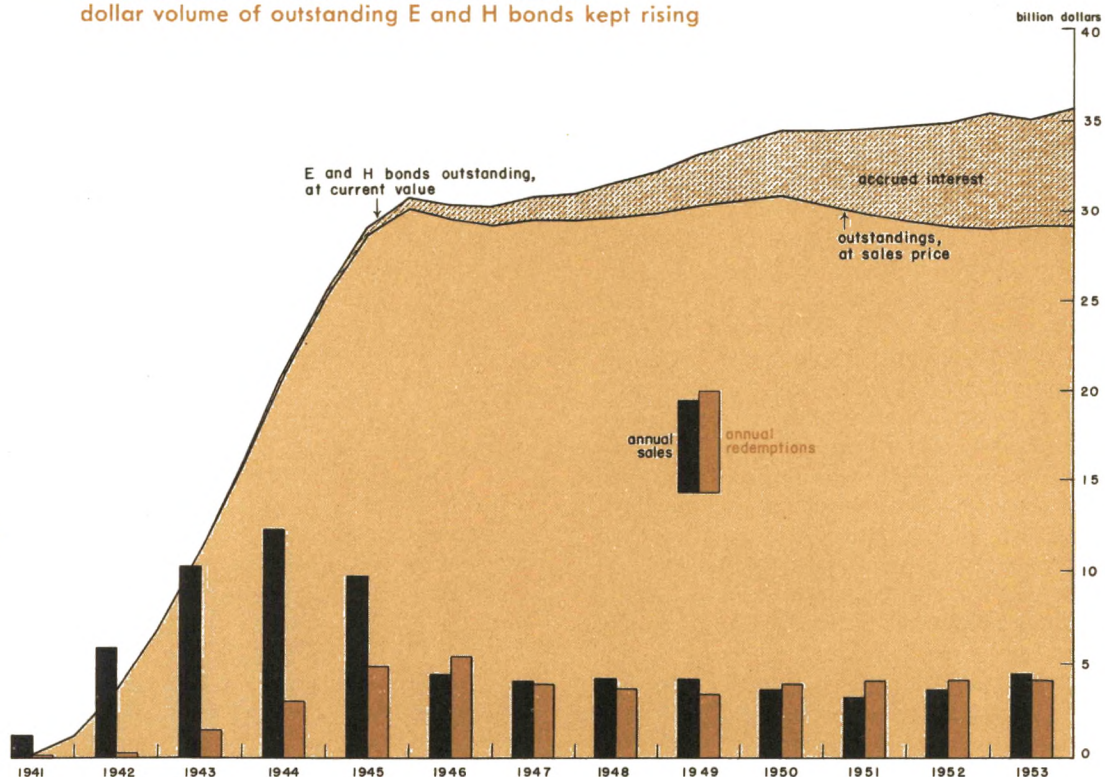
Goal within reach

If savings bond performance in the past year is any clue, the Treasury's higher 1954 sales target is not unduly optimistic. For 1953 saw considerable brightening in the savings bond picture over the prior two years. Sales of Series E and H bonds combined hit 4.4 billion dollars—almost a billion better than in 1952. And, even though redemptions of these bonds increased substantially, the year wound up with a net sales balance of 200 million—compared with a 500 million deficit in 1952.

Much of this pickup stems directly from the success of the Series H bonds introduced in mid-1952. Sales of these securities have been running at an average rate of almost 40 million dollars a month—in contrast to a monthly redemption rate of slightly over 1 million. Sales of Series E bonds (running roughly eight times as great as the H's) were exceeded by redemptions in 1953, for the fourth consecutive year. Nevertheless, even E bonds showed improvement last year. Sales were higher than in any year since 1949, and, as a result, the annual

A profile of the E bond program—1941-1953

Only because of "borrowed interest" has the dollar volume of outstanding E and H bonds kept rising



cash drain was the smallest since that year.

The big and the small

Significant though these general comparisons may be, they obscure even more important savings bond developments which occurred during the year. Rallying E bond sales in 1953 reflected primarily a strong upsurge in purchases by large investors. This marked what may turn out to be the fourth major change in the "balance of power" between big and little bond buyers since the E bond program was established in 1941.

Behind the broad structure of the over-all E bond program, there has always been, in a sense, two almost independently operating "programs." One consists of small denomination bonds—those up to \$100—which are typ-

ically acquired by the "small savers" who make up the vast majority of savings bond holders. The other consists of large denomination bonds—ranging in size from \$200 up through \$10,000—which are bought by a smaller group of "investors" more familiar with financial markets.

Between the small savers and large investors, there has existed, ever since the inception of the savings bond program, broad differences in motivation for bond purchase; and, as a result, there have been marked differences in their practices. This in turn has produced striking contrasts in the performance of small as against large denomination bonds.

Even the methods of bond buying have differed significantly between the two groups. Small savers, for example, tend to buy the bulk

of their bonds in fairly small but evenly spaced instalments through the Payroll Savings Plan. Consequently, monthly sales of small denomination bonds tend to proceed in quite even volume over the year.

The large investor, on the other hand, typically buys up each year the maximum amount of bonds permitted him under the law, and he usually does this in the first two or three months of each year. As a result, sales of large denomination bonds show a far more distinct seasonal pattern than do the small bonds.

The changing market

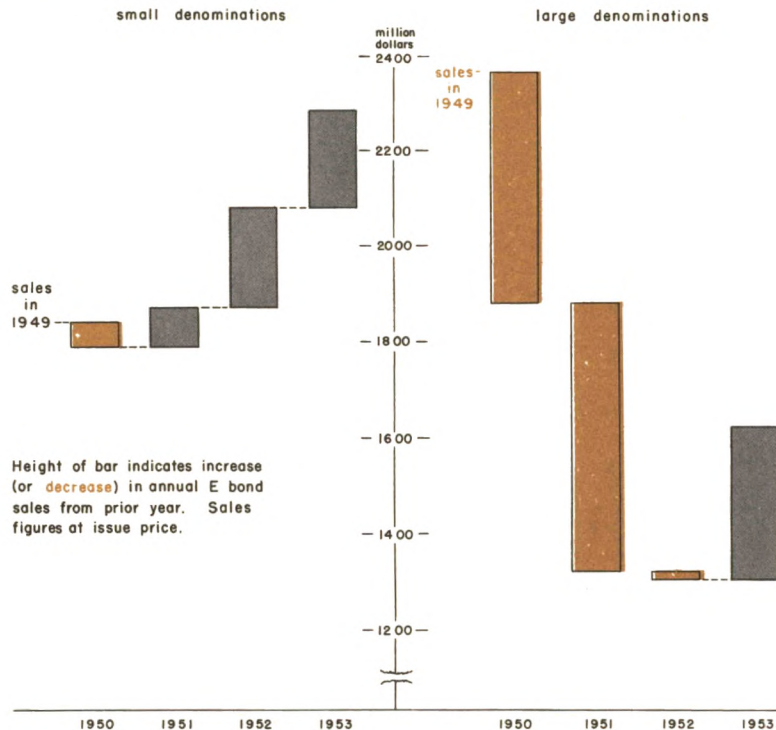
Beyond these seasonal differences, there have been major changes in the total volume of bond purchases made by big as against small investors. That is, the relative importance of these two segments of the bond buying population has see-sawed markedly — and sometimes surprisingly — over the years.

For the war years as a whole, more than two-thirds of total E bond sales were in small denominations. It was, in fact, one of the major objectives of the Treasury's war finance policy for small savers to carry the weight of the bond program. In the early postwar years, the balance shifted quite radically. While small savers funneled their cash into war-postponed spending, large investors were willing and able to increase their annual bond purchases. As a result, by 1948 almost 60 per cent of annual sales went into large denomination bonds.

Since 1948, annual sales of small-size bonds have increased moderately in all but one year. Rate-conscious large investors, on the other hand, were increasingly attracted to competitive outlets for investment funds. They sharply curtailed their E bond purchases, particularly in 1950 and 1951. Thus, the drop in total E bond sales from 1948 through 1951 resulted exclusively from declining sales of large-size bonds. This produced almost a complete return to the wartime pattern, with nearly two-thirds of total bond sales going into small denominations.

Beginning in mid-1952 this situation once again began to reverse itself. By 1953, sales of large-size bonds were 25 per cent above 1952, as compared with a less than 10 per cent improvement in sales of the small bonds. Part of this change undoubtedly reflects a narrow-

E bond sales since 1949—in small bonds a steady improvement; in large, a slump then recovery



ing in the rate gap between E bonds and other types of investment media—brought about both by the slight improvement in the E bond rate in mid-1952 and by a gradual decline in yields on alternative investments such as common stocks. Partly, it may have also stemmed from the “curtailment” of the J and K bond program, in which large individual investors had played a fairly important role.

Buttressing these developments was the Treasury’s decision in mid-1952 to double the limit on each individual’s yearly purchases of E bonds from \$7,500 to \$15,000 (issue price). This change gave a much wider buying opportunity to those large investors interested in building up their portfolios of E bonds. Whether this large investor interest will be sustained through 1954 and the years beyond will depend in great measure upon the future course of interest yields on marketable securities.

The redeeming feature

Selling bonds, of course, has comprised only half the problem of maintaining a successful

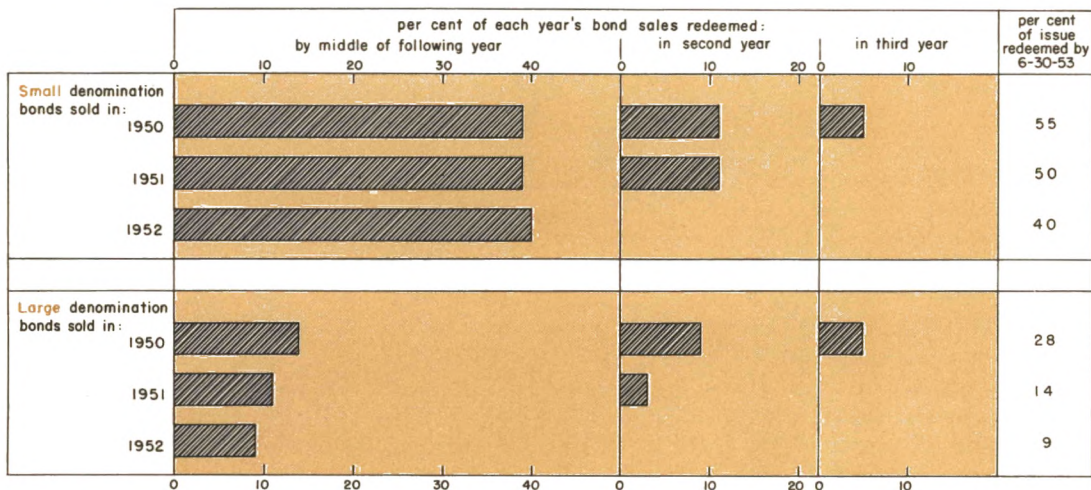
E bond program. The other, more difficult, task has been to induce purchasers to hold on to the bonds which they acquire. A large proportion of total E bonds sold each year have always been turned in for cash long before they reached maturity. This ratio of redemptions-to-sales soared after the end of the war and has in general persisted at a high level throughout the postwar years.

Here the existence of two, rather than a single, savings bond programs is even more obvious. Big and small bondholders have always followed contrasting practices in cashing in bonds. And this contrast has been sharpened rather than dulled by developments of the last two or three years.

It has become almost axiomatic that the larger the size of the E bond, the longer it will be held by the purchaser. Of E bonds sold in the late 1940’s, for example, the proportion redeemed by the end of three years ranges from over 2/3 for the \$25 denomination down to 1/4 for the \$1,000 denomination.

The key to small-*vs.*-big redemption practices, however, lies in decisions made by bond-

Early cash-ins of big bonds — always much lighter than for small sizes — have been dropping further



Note: Percentages apply to the maturity value of bonds sold in each calendar year which are redeemed within 18 months after the beginning of the year, and in each succeeding 12-month period.

holders within roughly a year after the bonds are bought. As the bonds "age," the distinction in the rate of cash-ins between big and small holders fades. Beyond the first two years, all denominations are cashed in at a fairly similar, sharply reduced rate.

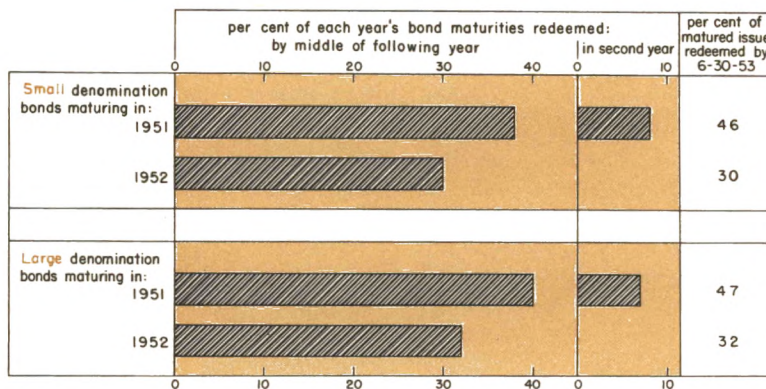
Just how important these first-year redemption decisions are in producing contrasts is amply illustrated in the record since 1950. The heavy first-year redemption rate of small-size bonds has continued at the same high level—about 40 per cent for denominations of \$100 and less. For \$25 bonds alone, over 50 per cent are cashed in by June of the year following their sale—a factor which, combined with the high cost of issuing these smallest-size bonds, has led to the Treasury's recent decision to stop pushing their sale.

In the case of large-size bonds, on the other hand, the first-year redemption rate—which was always considerably less than for the small bonds—has dropped even lower each year since 1950. Of bonds in the \$200-and-over size sold in 1950, about 14 per cent were cashed in by the middle of 1951; of the same size bonds sold in 1952, only 9 per cent were redeemed by mid-1953. Thus the recent E bond revival is even more a large investor phenomenon, resting upon both higher sales and a lower rate of cash-ins of large-denomination bonds.

Since early 1951, still another facet has been added to the complexities of the savings bond program. In the last three years, growing totals of E bonds have reached their original maturity dates.

Curiously, no significant difference between big and small bond buyers has as yet cropped up in terms of decisions to hold or redeem

Cash-ins of maturing bonds have been substantial in all sizes, but the rate is slowing



Note: Percentages apply to the maturity value of bonds maturing in each calendar year which are redeemed within 18 months after the beginning of the year, and in the succeeding 12-month period.

maturing bonds. Both groups have already cashed in close to half of their bond holdings which matured in 1951. But their "staying power" has shown considerable improvement for holdings maturing in 1952, and this improvement appears to be continuing into the 1953 maturities.

The extent to which holders of matured bonds accept the option to extend their interest-earning life up to another 10 years is of particular importance to the savings bond program. The present volume of matured but retained E bonds matched the gross proceeds of all new sales over the past two years. Moreover, the holders of these matured bonds have already proven themselves to be the most stable and dependable segment of the bond-buying public, and their loss would be particularly hard-felt.

Redemptions of matured issues which have already taken place have meant the difference between a net sales and net redemption balance in the E bond program over the past two years. Maturities will hit a peak in 1954 and continue high in 1955. Even if the improved sales outlook materializes, therefore, the E bond program will remain in the red, unless owners of maturing bonds retain a much larger proportion of their holdings.

Local government—the job of 116,000 separate public agencies

Ours is a big and diverse country, big and diverse in many ways. Take, for example, the arrangements for governing public affairs on the local level. The average citizen pays taxes to or buys services from at least three and often as many as seven or eight different units of local government, in addition to the Federal and state governments. Some of these local units, like the city governments, have a multitude of functions carried out by many branches and departments. Others are highly specialized, confining themselves to a single activity, such as education, or to a small group of closely related activities.

The 116,000 local governments range in fiscal importance from the rural school district spending 2 or 3 thousand dollars a year to operate a one-room school and the rural township maintaining a few miles of unpaved roads to the large city government spending many millions annually and the public authority operating facilities which handle hundreds of thousands of passengers or vehicles daily.

Americans accept diversity and complexity as the price of a constitutional system which emphasizes home rule. Responsible exercise of the powers of local self-rule, however, may be thwarted by the very complexity of the governmental structure that has arisen to confront the citizens. A maze of boards, commissions, departments, and councils—some elective, some appointive, some dealing with many important functions, others with one or a few minor activities—can be a real barrier to intelligent popular participation in civic affairs.

A changing picture

Local government has undergone significant change in the past decade. This is brought out by comparing Census enumerations for

1942 with those presented recently for 1952 in a new Census Bureau survey.¹ The big event in the past 10 years has been the virtual elimination of one-room country schools in several of the states. Consolidating rural school districts—closing schoolhouses that are out in sparsely settled areas, and transporting the pupils by bus to modern, centrally located quarters—has brought to rural school children the advantages of up-to-date educational techniques, a more diversified curriculum, and modern physical facilities at costs their parents can bear.

School districts for years have been the most numerous of all local governments, and they still are—even after nearly 40,000 of them have been closed. Even so, two-thirds of the country's 67,000 remaining school districts have fewer than 50 pupils, which indicates that the one-room school still is very much a part of the scene. Naturally enough, the biggest successes in school consolidation have occurred in the states that had the largest numbers of small independent schools to begin with. Illinois, long-time record holder in both the number of school districts and the number of other local governments, relinquished its claim to the former title by slashing its school district total from 12,000 to 3,000 in less than 10 years. Nine other states, two in the Midwest, three in the Southwest, and three in the Far West, also had impressive declines in school district numbers.

The school situation shows that really close-to-home local government thrives in the Midwest. Illinois, Indiana, Iowa, Michigan, and Wisconsin alone have 30 per cent of all the country's school districts, and if four other Midwest states are added—Missouri, Kansas, Nebraska, and Minnesota (the latter two are neck and neck for first place in numbers)—almost two-thirds of the total is accounted for.

Special-purpose governments

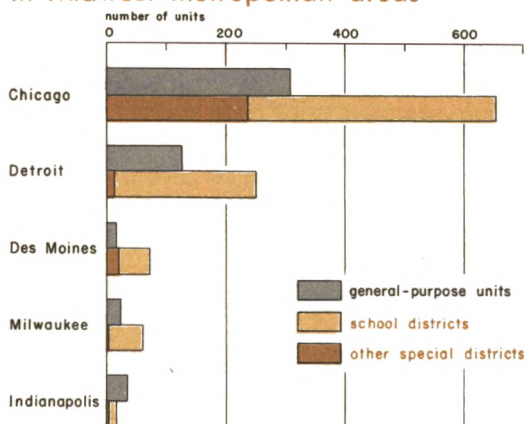
Just as significant as the drop in school district numbers has been a continued gain over

¹ U. S. Department of Commerce, Bureau of the Census, *Governments in the United States in 1952*.

the last decade in the popularity of other types of "specialist" local governments. Like the schools, these are agencies that concentrate their activities in the sphere of a single overall function. Thus, they differ from the so-called general- or multiple-purpose governments—cities, counties, and townships—which perform a wide variety of functions. The 1952 survey turned up more than 12,000 special units, a gain of about half in 10 years' time. Nearly two-thirds are rural agencies organized to supply such services as fire protection, soil conservation, and farm drainage and irrigation. The rest are mostly the kinds of single-purpose units found in cities: park districts, sanitary districts, transit authorities, health and hospital districts, port and airport authorities, and housing authorities.

Spread of the non-school special-purpose units contrasts with not only the declining numbers of school units but also the comparatively unchanging totals of the other governments. Between 1942 and 1952, the number of counties dropped by one, from 3,050 to 3,049. Cities, villages, and other "municipalities" in 1952 numbered 16,778, only 3.4 per cent more than a decade before, while the township total dropped from 18,919 to 17,202.

Special districts far outnumber general-purpose units in Midwest metropolitan areas



Special-purpose governments are created in order to meet specific and often localized needs. Perhaps the leading motivation behind the early rise of independent school districts was the desire to keep school affairs "out of politics" and as responsive as possible to popular guidance and control.

A different purpose probably lies behind the creation of separate units performing such other specialized functions as farm drainage, irrigation, and soil conservation. Many of these units have been organized because no existing general-purpose government covers the area the proposed service will benefit. Metropolitan water supply and sewage disposal districts are further examples. Sometimes, too, the nature of the specific function and the method of financing it make it desirable to create a special authority. Such an agency may not have any well-defined geographical jurisdiction. A toll bridge authority or an urban transit authority—one financed from tolls, the other from fare receipts—both are cases in point.

Many of the special districts, especially in the Midwest, came into being because state constitutions limit the borrowing and taxing powers of existing units, and the creation of new governments was a way to get more tax and debt capacity.

Illinois has gone in for just about every type of independent special district. The other states in the area have few, except schools, and instead continue to handle most local functions through departments of the cities, towns, and counties. Conspicuous among the special-purpose units in favor elsewhere in the country are numerous health districts in New York, the many independent water supply agencies out on the Pacific Coast, and Washington State's numerous port and navigation districts.

Urban consolidation

Operating in the other direction—toward less complexity—has been a lesser, indeed barely perceptible, movement toward consolidation of urban and suburban units of government in metropolitan areas. Underlying much of the

consolidation has been the steady transfer of fiscal and frequently administrative responsibilities from local to state governments. One form of consolidation is annexation of incorporated and unincorporated fringe areas by the central city—important in places like Madison and Milwaukee and San Antonio in Texas. Another form is the integration of city and county governments, sometimes by complete absorption of the county government where the boundaries are the same, sometimes by redistributing their functions so as not to overlap. Leading examples of this form of integration are Baton Rouge and Atlanta. A third type is more sweeping—and we have to turn to Canada to find the best example. On January 1, 1954, Toronto became Canada's largest city, by joining with its suburbs to form the new government of Greater Toronto, which administers some functions centrally, while leaving others to be exercised by the existing city and suburban councils.

Functions and finance

Special-purpose units in 1952 accounted for roughly one-eighth of all local non-school spending. This is disclosed by another recent Census Bureau study.² Among the individual functions for which the special units contributed a fourth or more of all local expenditure are natural resources (i.e., soil conservation, irrigation, drainage, and parks), housing and community redevelopment, water and air terminals, and urban transit. On the revenue side, special districts accounted for around a fifth of all local receipts from utility earnings and direct charges for services. Their income from the traditional property tax, however, was an insignificant 2 per cent of the total.

These ratios are instructive. For one thing, they show how important is the role of special districts in making available those local services that we associate with the needs of the modern community: airports, rapid transit facilities, urban housing, utility services, and river and harbor improvements. And the ratios

also show the place that prices for services—tolls, utility charges, landing fees, space rentals—have come to occupy in financing local services.

Both the spreading popularity of special-purpose local governments and the device chosen so commonly to finance them, the user charge, reflect a tendency to compartmentalize local public services. Those using a given service are the ones who pay for it. Another service will be supported by still a different group of users. If, on the other hand, costs are borne by general taxes, then the whole community will pay, and in proportion not to individual use but to income, purchases, or property value. Home owners are unlikely to resist a proposal for a new bridge if they know that only the users of the bridge will pay for it. Even when property taxes are used to pay for a new service, creation of a special-purpose unit, like a park district, can be a way to confine the cost of support to the property expected to benefit.

The proliferation of these agencies, however, has its disadvantages. Extensive compartmentalization of functions may tend to create vested interests in particular areas of spending and frustrate the community's effort to apportion its *total* local expenditure so as to secure the maximum over-all advantage. And not the least of the drawbacks to the multiplication of new agencies is that they further complicate an already involved and complex structure of government.

The inherent advantages of non-school special districts nevertheless make it likely that

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²U. S. Department of Commerce, Bureau of the Census, *Summary of Governmental Finances in 1952*.

their number will continue to grow. Further consolidation of school districts, on the other hand, seems inevitable, along with a slow shrinkage in the numbers of certain of the general-purpose governments. Since many of the special units supply services that can be paid for by users, growing reliance upon them offers a way for local communities to meet emerging needs without adding commensurately to pressure upon general tax revenues.

IN SEVENTH DISTRICT BANKS

Turnover of Midwest savings deposits surveyed

Time deposits in commercial banks rank as a major store of community savings. For some depositors, the funds represent accumulations for retirement, "rainy days," or similar long-range needs. Others build up their accounts temporarily, pending reinvestment elsewhere or purchases of high-priced items such as homes or autos. Still other depositors use their time balances as a substitute for checking accounts, drawing on them regularly and often to cover cash needs.

The relative significance of these various uses is reflected in the rate at which a bank's time deposits turn over, i.e., the ratio between withdrawals and average balances. New light on this aspect of time deposit behavior has been gained from a recent survey of turnover at 187 banks in 49 Midwest cities.

During 1953, savings deposits in these banks turned over, on the average, about once in two years. This rate of turnover is in marked contrast to that of demand deposits, which in recent years have been turning over more than twenty times a year in these same banks. On the other hand, the two-year turnover of savings deposits is about twice as rapid as the estimated average turnover of accounts in mutual savings banks and savings and loan associations.

Differences in turnover rates among banks

are substantial. Annual rates of savings deposit turnover for the reporting banks in 1953 ranged from a low of once in four years to a high of once a year. In four-fifths of the reporting banks, however, savings deposits turned over once in 1½ to 2½ years.

Bigger accounts, smaller turnover

Average size of account seems to play a major role in the differences in turnover of savings accounts. There are indications that the bigger the individual account the smaller its rate of turnover is likely to be. Apparently, the use of savings accounts as a semi-permanent investment is a good deal more common among large depositors. As a result, a bank with high average savings deposits is likely to show a lower rate of turnover than a bank with small average deposits.

A surprising side of the survey is the list of factors which do not seem to have much bearing on a bank's average turnover rate. For

Conclusions presented in this report were derived from a survey of time deposit debits among 143 member and 44 nonmember banks in the Seventh Federal Reserve District during calendar 1953. These reporting banks constituted 7.5 per cent of all banks in the District and accounted for 50 per cent of total time deposits—except interbank—as of June 30, 1953. The reporting banks cannot be considered representative of all banks in the District, however; all but 11 of the 187 banks are located in cities with a population of 25,000 or more.

Turnover rates for each bank were computed by dividing the average of end-of-month deposit figures by the average of corresponding monthly debits totals.

Debits figures as reported by some banks included varying amounts of debits to time deposits other than savings accounts (e.g., trust fund accounts, hypothecated accounts accumulated in repayment of personal loans). In those cases in which the debits to such non-savings accounts influenced turnover figures substantially, final turnover rates were adjusted to represent the estimated turnover of savings accounts only. This was necessary only in a minority of cases since, in two-thirds of the respondent banks, savings deposits constituted more than 90 per cent of total time deposits.

Debits to savings deposits are continuing to be reported by a reduced number of respondents. Additional reviews of turnover trends will be published as data become available.

instance, there is little connection between savings deposit turnover and the population size of the cities in which banks are located. Similarly, there is no necessary connection between the size of bank (measured either by the volume of time or total deposits) and the rate at which savings deposits turn over. Numerous smaller banks in smaller cities show lower rates of turnover than larger banks in metropolitan centers. In those large banks in which very low rates of turnover do appear, the main cause is believed to be the unusually large average size of savings accounts on their books.

Geographical differences in savings deposit turnover also did not appear particularly significant in the survey. There was some slight tendency for turnover rates to be higher in Michigan reporting banks. What the cause of this may be is not clear. Among other things, it may reflect the high level of 1953 business activity in Michigan or a smaller average size

of savings accounts because of fewer competing repositories for small savings.

Seasonal changes in savings deposit turnover are marked and quite similar in almost all the banks surveyed.

Highest peaks of activity for most banks occur in January and July, the two months following the most widely observed interest payment dates, December 31 and June 30. Since the general practice is to credit interest only for amounts remaining on deposit during the entire interest period, depositors tend to postpone withdrawals until the end of the period in order to earn the full amount of interest.

A small peak of savings deposit turnover is reached in March, probably reflecting the drawing down of accounts to meet Federal tax payments. Some banks also reported higher-than-average pre-Christmas activity, but these were not numerous enough to make much difference in the total.

