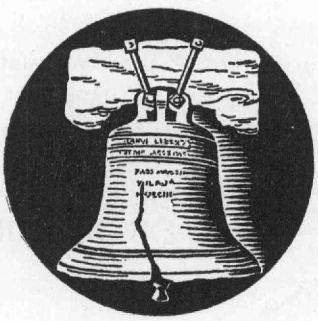
AUGUST 1949

THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA



STATE AND LOCAL FINANCE

Costs of local and state government have been steadily upward.
Third District states differ somewhat but conform to the general trend.
Rising costs reflect expanding services and higher prices.
If we want economy, we must consider demands for new services along with how we intend to pay for them.
More services mean more taxes, intensifying major problems such as overlapping taxes and other inequities.

INVESTING IN MUNICIPALS

Obligations of state and local government are more and more catching the attention of banks and other investors.
Supply of these issues is growing and high taxes give them appeal.
A factor to be taken into account, however, is the risk involved.

THE MONTH'S STATISTICS

Employment and payrolls are still down, but nondurables give evidence of strength.
The decline in bank loans may be ending.

STATE AND LOCAL FINANCE

The sharp rise in Federal expenditures and the Federal debt has focused public attention primarily on the cost of our national Government. It is true that the cost of the Federal Government has become the major part of total governmental costs. But the financial activities of state and local units are still of considerable importance. They bear an important part of the cost of our schools, highways, and other public services. The sources of their revenue have a significant influence on the distribution of the tax burden. The multitude of administrative units result in overlapping functions, duplicate taxation, and tax inequities. These and other problems involved in financing our local and state governments should be of interest to every citizen.

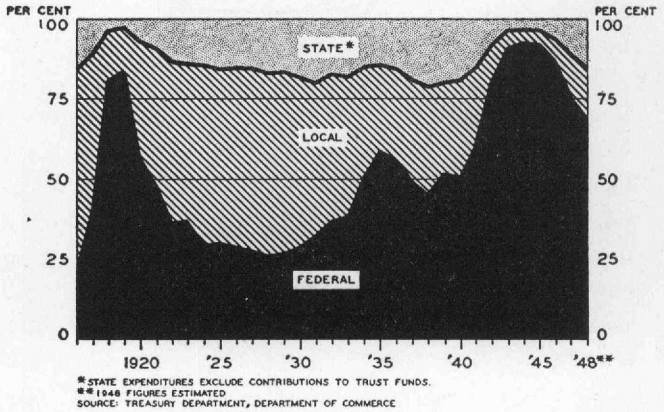
The primary reason for the high level of Federal Government expenditures is the high cost of war. Another, but much less important, reason for the upward trend in the cost of running our Government is an expansion in services rendered. Government is taking an increasing responsibility for the welfare of the American people—for better working conditions, improved health and educational opportunities, and for social security. Regardless of what we may choose to call this trend —the "New Deal," the "Fair Deal," or the "Welfare State"—it is clear the people are demanding more and more from their Government. This is not just a recent trend, but one extending over many years. Early in the history of the United States a program of internal improvement was initiated to stimulate economic development, and large grants were made to help support education. Later, efforts were made first by the states and then by the Federal Government to curb monopolies. Some health services have long been an activity of government, initially of local and state governments and more recently of the Federal Government.

The demand for more services is inconsistent with our demand for less government spending. In general, we can not expect our local, state, and Federal governments to provide us with an increasing number of services and at the same time reduce our tax burden. We must consider the benefits of services rendered and the cost of rendering them together.

TRENDS IN STATE AND LOCAL EXPENDITURES[1]

The long-term trend in the cost of government reveals: (1) a gradual shifting of responsibility from local to state and then to the Federal Government, and (2) a consistent increase in the expenditures of each. In 1916 the services of government cost the American people about $3.3 billion. Two-thirds of this, or $2.1 billion, was spent by local units, about $500 million by the states, and $700 million by the Federal Government. Local expenditures continued to exceed those of the states, excluding state contributions to trust funds, until 1947. Except during World War 1 and the early post-war years, the cost of local government exceeded that of the Federal Government until 1934. The cost of the depression in the early 'thirties and particularly the cost of World War II pushed Federal expenditures far above state and local expenditures combined. In 1948, it is estimated Federal expenditures were 68 per cent; state, 15 per cent; and local, 17 per cent of the total cost of our government. (Excluding state contributions to trust funds)

PERCENT DISTRIBUTION OF FEDERAL, STATE, LOCAL EXPENDITURES—1916-1948



*STATE EXPENDITURES EXCLUDE CONTRIBUTIONS TO TRUST FUNDS.
**1948 FIGURES ESTIMATED
SOURCE: TREASURY DEPARTMENT, DEPARTMENT OF COMMERCE

State and local expenditures are classified by the Bureau of the Census under five major headings: operations, capital outlays, aid paid to other governments, interest, and contributions to trust funds and to enterprises. Oper-

[1] Except where otherwise noted, data refer to fiscal years July 1 to June 30.

ating costs include pay rolls, purchases of supplies, maintenance and other running expenses, the major purposes being for highways, schools, health, public welfare, and general control. Capital outlays represent expenditures for improvements such as construction of highways and buildings and facilities for schools and other public institutions. Contributions to trust funds consist largely of unemployment compensation tax receipts which are placed in a fund to be used for benefit payments to the unemployed.

Local Expenditures

Local units of government—counties, cities, townships, and other minor subdivisions—were spending less than $1 billion annually at the turn of the century. In 1948, however, it is estimated they were spending a total of $10 billion. The cost of local government experienced its sharpest rise during the post-World War I boom of 1919 and 1920. From then until 1946 it remained within a range of $4½ billion to $6½ billion.

Most of the services rendered by local government have become concentrated in a relatively few areas. Education is most important from the standpoint of cost, accounting for more than one-third of the total. Public welfare, including public assistance to the needy and institutional care, public safety, and highways account for most of the remainder. Public welfare costs have become more important and highway construction less important as an increasing portion of this expense has been taken over by the states and the Federal Government.

There has been some tendency toward specialization in government services among governmental units. Many local units such as townships and school districts are now little more than administrative organizations for financing schools, education accounting for over four-fifths of their total expenditures. In the early part of the century, however, local units spent relatively large sums for highways and general operations. Schools and public safety are the major costs of our cities, taking about one-half of their total expenditures. Counties which formerly used most of their funds for schools, highways, and general operations now put over two-fifths into public welfare, hospitals, prisons and other institutions for correction. Education and general operations are taking a considerably smaller percentage of county expenditures than formerly.

State Expenditures

State expenditures showed a much larger increase than those of local units during the period 1916 to 1948, reflecting the tendency for the states to assume a larger share of the burden. In 1916, the states spent about $500 million but by 1948 they were spending $10.4 billion. The cost of state services more than doubled during the decade of the 'twenties and rose by about two-thirds during the 'thirties. During the war period there was little change, but from 1945 to 1948 the upward trend was resumed.

An expansion of social welfare services has been a major reason for the rise in state expenditures. Public welfare—public assistance to the needy and institutional care—which accounted for only 7 per cent in 1915, rose to 18 per cent in 1948.

The cost of state government has climbed rapidly in the post-war period and is still increasing. In the fiscal year 1948, states spent $10.2 billion (exclusive of provisions for debt retirement which totaled less than $200 million) as compared to less than $6 billion in 1945, $5 billion in 1939, and an average of less than $2 billion during the 'twenties. The rise since the end of the war is mainly because of mounting costs of operation, a rapid increase in construction activity, and an increase in aid to local governments.

State operating costs have jumped from $2.3 billion in fiscal 1945 to $4.4 billion in 1948—an increase of nearly 100 per cent. Because of record enrollments, schools have been an important reason for the recent rise in costs of operation. Higher wages and an increase in the number of employees have resulted in larger costs for personal services. For example, from 1942 to 1947 the number of state employees, exclusive of schools, rose 20 per cent—from over 500,000 to over 600,000—and the total pay roll went up 81 per cent. Rising prices swelled the cost of materials and supplies, and veterans' bonuses and larger payments to the aged and needy also contributed to higher operating costs.

The end of the war and the easing of labor and material shortages made possible the resumption of delayed capital improvement programs. In 1945, states spent less than $300 million for capital improvements but by 1948 the total exceeded $1.4 billion and is still rising. The major part of this increase is accounted for by highway construction, which constitutes around two-thirds of state capital outlays. Other factors raising capital outlays are the costs of expanding educational facilities to help take

care of a larger number of students. Long-range needs indicate there is still a substantial backlog of public construction.

State aid to local government has also played an important part in the sharp rise in state expenditures. Such aid rose from slightly less than $2 billion in 1945 to over $3 billion in 1948. Schools received the largest part of this aid, about $1.5 billion in 1948, and public welfare and streets and highways account for most of the remainder.

FINANCING EXPENDITURES

Spending by government is not restricted as much by current income as is usually the case with individuals. There is a much greater tendency to make spending decisions independently of available revenue because governments can more easily get additional funds. Once the amount of expenditures has been fixed, governments, just as individuals, must meet their expenditures either out of income or by borrowing.

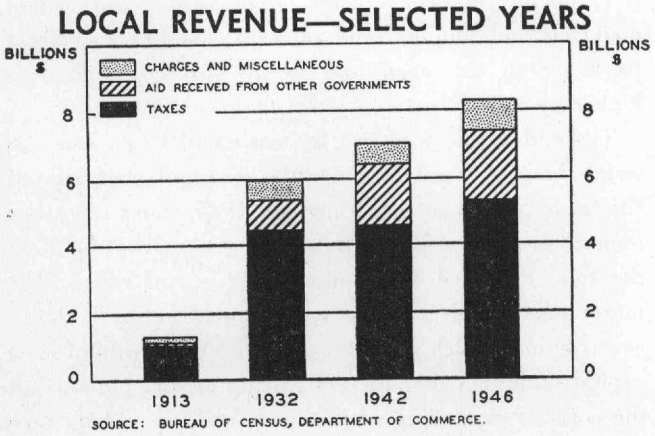
The war resulted in an improved financial position for state and local governments. Most capital improvements were deferred and revenues were large because of the high volume of business. The result was a net surplus and a decrease in indebtedness during the war years. Since the war, however, expenditures have increased faster than income and this squeeze has resulted in attempts to find new sources of revenue and in increased borrowing.

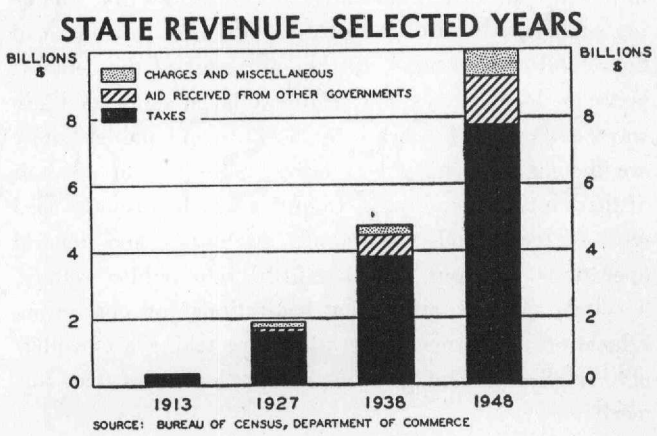
Sources of Revenue

Taxes have consistently supplied about 84 per cent of total state and local revenue, although this source is of diminishing importance for local units as aid received from the states and Federal Government increases. Charges and miscellaneous revenue, mostly fees, special assessments and charges for other current services, are accounting for a declining proportion of the total. On the other hand, aid received from the Federal Government increased from less than 1 per cent of the total in 1913 to 12 per cent in 1948.

The major sources of tax revenue vary considerably as between state and local units. Taxes are still the major source of funds for local governments. In 1913, taxes provided 79 per cent of local revenue, but by 1948 the percentage was down to 59. Practically all of local tax income has been and continues to be derived from property. Aid from the states and Federal Government amounted to 32 per cent of the total in 1948 as compared to only 6 per cent in 1913. This indicates a tendency to shift some costs from small local units of government to the states and the national Government.

Some important shifts in sources of state revenue have also occurred. The percentage obtained from taxes has remained about the same but within the tax structure there have been some significant changes. The most marked shift is from property taxes to excise taxes on selected commodities. In 1913, property taxes provided 41 per cent of state revenue but by 1948 they supplied only 2.8 per cent. The states have practically withdrawn from the field of property taxation leaving it to local units. The decline in the property tax has been offset by an increase in other types of taxes. The major part of state tax revenue is now derived from personal and corporate income; selected excises such as those on gasoline, liquor, and tobacco; unemployment compensation taxes on pay rolls; and general sales taxes.





Rising revenues from a high post-war level of business have enabled many states to meet the rise in expenditures out of current income and war-accumulated reserves. Rising costs, however, have forced some to search for new sources of revenue. Not since the depression has there been such a rash of new tax legislation as in the last two years. One of the favorite hunting grounds has been taxes on consumption, mainly because of their relatively large and stable yield and the ease of their collection. Several states enacted general sales taxes, even more have imposed new tobacco taxes, and Pennsylvania entered a rather new field with a tax on bottled soft drinks. In addition, a number of states have increased the rates on alcoholic beverages, cigarettes, motor fuels, and a few increased their income tax rates. Some states have gone back to tolls; at least eight states enacted toll highway legislation in 1947, and more have such legislation under consideration. Moreover, state turnpike commissions and state roads commissions have been set up to administer and help finance toll bridges and highways. Despite the increase in taxes and other sources of revenue, many state and local units have had to resort to borrowing.

State and Local Debt

It is a common thing for governments to supplement their revenue by borrowing, especially for emergencies and public improvements. State and local debt increased nearly every year from 1916 to 1940, decreased from 1941 to 1946, and then resumed the upward trend.

By far the largest part of this debt is owed by local units of government. In 1916, of the net public debt outstanding (gross debt less provisions for debt retirement), local governments owed 71 per cent, the states 7 per cent, and the Federal Government, 22 per cent. World War I brought a sharp rise in the Federal debt and consequently a drop in the proportion of the total owed by state and local governments. In 1919, for example, state and local debt was only 17 per cent of the total but this percentage rose rapidly in the 'twenties as the Federal debt was reduced, and state and local debt more than doubled. Highway construction to accommodate the rapid increase in the number of cars was the major factor pushing state and local debt constantly upward. The severe depression in the 'thirties did little more than arrest the upward trend. Deficit financing in the thirties and particularly in World War II expanded the Federal debt, and as a result state and local governments accounted for only 5 per cent of the total in 1945 as compared to 46 per cent in 1930.

The resumption of capital improvements after the end of the war brought a sharp rise in state and local bond issues. From a total of less than $500 million in 1945, the volume of new issues rose to $2.2 billion in 1947 and to $2.6 billion in 1948. Highway construction and veterans' bonuses have been mainly responsible for this sharp rise in state and local borrowing.

Burden of State and Local Governments

The tremendous dollar increase in the cost of government during the first half of this century exaggerates the real burden of supporting government services. Ability to pay has not stood still; income has risen substantially. Per capita cost of state and local governments has increased from $18 in 1913 to $84 in 1947. A better indication of the burden of state and local expenditures is afforded by a comparison with income. In 1948 such expenditures took about 9.5 per cent of national income as compared to 10.5 per cent in 1929.

THIRD DISTRICT STATES

The preceding analysis indicates the expenditure and revenue trends for all state and local units of government combined. These data, however, do not reflect the actual experience of any state. There is considerable variation from region to region and state to state.

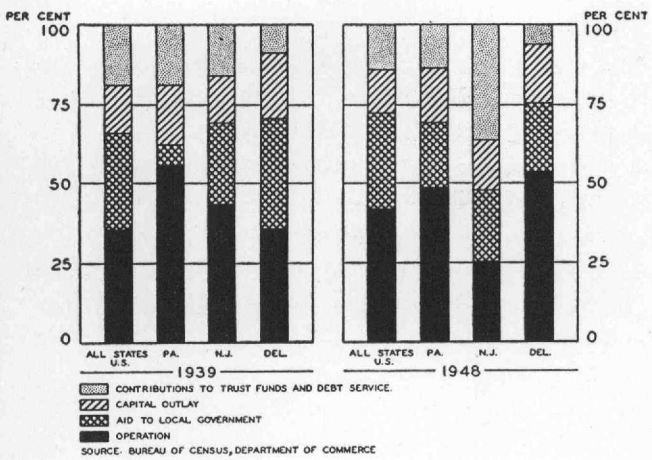
Expenditures

Total expenditures of all states, including contributions to trust funds and provisions for debt retirement, rose from over $5 billion in 1939 to $10.4 billion in 1948, an increase of about 100 per cent. During the same period, total expenditures in Pennsylvania rose 30 per cent; New Jersey, 131 per cent; and Delaware, 82 per cent.

Pennsylvania. The major reason for the below-average increase in Pennsylvania was the relatively small rise in the cost of current operations. Contributions to trust funds actually decreased because of a revision in the law in 1944. Operating costs rose from $248 million in 1939 to $277 million in 1948, an increase of about 12 per cent in contrast to a 144 per cent rise for all states. Capital outlays were also only slightly higher in Pennsylvania, while for all states they were nearly double the 1939 rate. Public assistance and institutional care, which is

a major part of operating costs, actually declined in contrast to an increase of nearly 80 per cent for all states. Highway expenditures both for maintenance and new construction also rose less in Pennsylvania than for all states.

PERCENT DISTRIBUTION OF EXPENDITURES ALL STATES, PA., N. J., AND DEL.



Pennsylvania is just getting under way, however, a program of improvements which will result in a substantial increase in capital outlays. The General State Authority, recently revived, has the power to issue up to $175 million of bonds for public improvements, including mental hospitals and other public construction. A Highway and Bridge Authority has the power to issue $40 million in bonds, which together with the one-cent-a-gallon increase in the gasoline tax is to provide funds for a large road-building program. Another Authority was formed to finance a public school building construction program, and the Turnpike Commission was authorized to float another $50 million of bonds to finance an extension of this well-known highway.

The pattern of expenditures in Pennsylvania is similar to that of all states combined. Out of total expenditures of $575 million in 1948, nearly one-half went for operations. Aid to local governments was the next largest item, accounting for $122 million. This represented 21 per cent of the total and was somewhat below the 30 per cent average for all states. Contributions to trust funds, largely unemployment compensation taxes, totaled $68 million, or 12 per cent, as compared to 10 per cent for all states.

A functional break-down shows that public welfare, schools, and highways, account for over four-fifths of state expenditures. In 1948, Pennsylvania spent $120 million for its schools, $132 million on highways, and $105 million for welfare, exclusive of aid to local governments for this purpose. These items accounted for 71 per cent of total expenditures, exclusive of contributions to trust funds and interest payments.

New Jersey. The relatively large increase in total expenditures in New Jersey—from $111 million in 1939 to $291 million in 1948—reflects primarily a sharp rise in contributions to trust funds, largely unemployment compensation taxes. Expenditures exclusive of contributions to trust funds and interest payments showed about the same percent increase as for all states. There have been substantial increases in capital outlays since the end of the war, and projects planned and under way indicate a further rise in expenditures for capital improvements.

The general pattern of expenditures in New Jersey reveals important differences from that for all states. Costs of operation in 1948 were 25 per cent of the total, as compared to 42 per cent for all states. The proportion of spending going for operations has dropped considerably since 1939, primarily because of the sharp rise in contributions to trust funds. In 1948 these contributions represented 34 per cent of total expenditures in New Jersey, in contrast to 11 per cent for all states. New Jersey was allotting a smaller percentage in aid to local governments and a slightly larger percentage for capital improvements in 1948 than for states as a whole.

By function, New Jersey conforms more closely to the national pattern of state expenditures. Public welfare and schools cost the people somewhat less and highways more than the average for all states.

Delaware. The cost of state government in Delaware has risen somewhat less than that for all states. Operating costs, however, rose sharply from $5 million in 1939 to $13 million in 1948, and capital outlays increased from $2.8 million to $4.6 million. On the basis of purpose of expenditure, schools, public assistance, and highways accounted for a major part of the increase in operating costs.

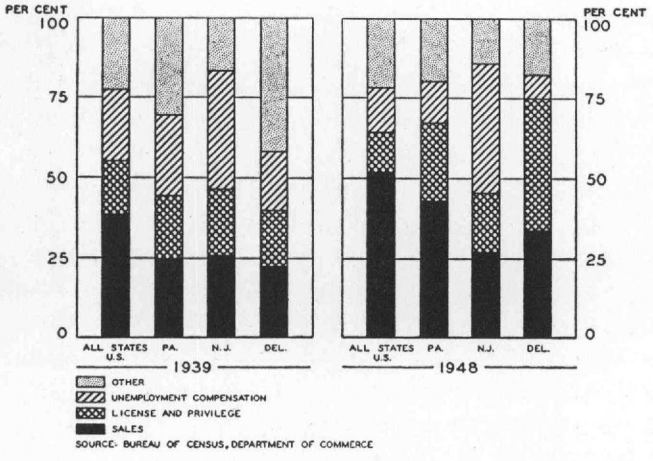
Delaware pays out a larger percentage of its funds for operations than states as a whole—in 1948, 54 per cent as compared to 42 per cent. Costs of operations are taking a larger percent than in 1939, while aid to local govern-

ments dropped from 35 per cent of total expenditures in 1939 to 22 per cent in 1948. This indicates that the state has been assuming a larger share and local governments a smaller share of the costs of public services. Delaware ranks high in its support of education, schools taking 40 per cent of the expenditures in 1948 as compared to 26 per cent for all states.

Sources of Revenue

The rise in the cost of providing government services has put state legislatures under pressure to find additional sources of income. Major sources of revenue have naturally varied among the states, one reason being a rather wide variation in the nature of their economic activities.

PERCENT DISTRIBUTION OF TAX REVENUE ALL STATES, PA., N.J., AND DEL.



Pennsylvania. State revenue in Pennsylvania reached an all-time peak of $578 million in 1948. This represented a rise of 48 per cent over 1939 as compared to an increase of 30 per cent in total expenditure. Tax income rose from $301 million in 1939 to $433 million in 1948, aid received from governments rose from $42 million to $78 million, and charges and miscellaneous sources from $47 million to $66 million. The major part of this increase in revenue came in the last two years, tax receipts jumping $110 million from 1946 to 1948.

During the period 1939-1948, Pennsylvania obtained, on the average, 79 per cent of its income from taxes, 11 per cent in aid from other governments, and 10 per cent from charges and miscellaneous sources. Selected sales taxes and taxes on corporations provide the bulk of Pennsylvania's tax revenue. In 1948, if unemployment compensation taxes are excluded, 50 per cent of the tax receipts came from sales and gross receipt taxes, 27 per cent from corporate income and capital stock taxes, 13 per cent from motor vehicle licenses, and the remainder from miscellaneous sources. Taxes on gasoline, cigarettes, and liquor provide the bulk of the income from sales and gross receipt taxes. Pennsylvania relies less heavily on sales and gross receipt taxes and more heavily on corporate taxes than states as a whole. There is no state income tax on individuals, but this source provided 7.4 per cent of the tax revenue of all states in 1948.

The major part of the increase in revenue from 1946 to 1948 came from cigarette, alcoholic beverages, soft drinks, and the corporate income tax. The cigarette tax was raised from 2 to 4 cents per 20 cigarettes, the tax on gasoline was increased 1 cent a gallon, and the rate on malt beverages was doubled. A somewhat unique type of tax—1 cent per 12 fluid ounces—was levied on soft drinks in 1947 and provided over $13 million in 1948. There was a revision of the corporate income tax which brought in additional revenue.

New Jersey. In New Jersey State revenue rose from $155 million in 1939 to $267 million in 1948. Practically all of this increase came from taxation. New Jersey derives an unusually large percentage of its revenue from taxation. During the period 1939-1948, taxes provided an average of 86 per cent; aid from other governments, 8 per cent; and charges and miscellaneous sources, 6 per cent. The tax structure is heavily concentrated on a relatively few sources. The property tax, which is rapidly being relinquished by most states, supplied about one-fourth of New Jersey's total tax receipts in 1948, a sharp contrast to the 2.8 per cent for states as a whole. Sales taxes on motor fuel, alcoholic beverages, and public utility gross receipts provide another 30 per cent; and license and privilege taxes on motor vehicles and corporations, 15 per cent. There is no tax on either individual or corporate income.

Delaware. During the period 1939 to 1948, Delaware received 80 per cent of its revenue from taxes, 12 per cent in aid from other governments, and 8 per cent from charges and miscellaneous sources. About one-third of the tax revenue comes from license and privilege taxes, nearly another third from selected sales taxes, and most of the remainder from inheritance and individual income taxes. The major part of sales tax receipts is derived from motor fuel and alcoholic beverages.

Borrowing

The war period with its restrictions on construction and its stimulus to state revenues enabled most states to reduce their indebtedness. Pennsylvania's net long-term debt (gross long-term debt less provision for debt retirement) reached a peak of $181 million in 1941 and then declined gradually to $87 million in 1947. The debt turned upward again in 1948 and the prospects are for a further rise because of the new construction programs planned and under way. New Jersey also effected a substantial reduction in its net long-term debt during the war period from $84 million in 1940 to $46 million in 1946. Capital improvements, however, brought an increase, and in 1948 it had reached $81 million. Delaware reduced its net long-term debt from $5.2 million in 1942 to $4.2 million in 1946. In 1948 there was a $3 million increase.

SOME PROBLEMS IN STATE AND LOCAL FINANCE

Government is an institution created by the people to enable them to provide certain services collectively which they either can not render or can not render as well individually. It is simply another tool which has been developed to help us get the things we want. If government—local, state, and national—is to make the contribution to our progress and welfare which it is capable of making, its role must be carefully charted without fear and without prejudice. What the government does is important to everyone of us. As citizens, we get the benefits of services rendered; as taxpayers, we foot the bill; and as voters, we make the decisions—whether we realize it or not. It behooves each and every one of us to consider some of the problems confronting us—problems which are being intensified by our demands for an ever increasing number of services. This is much too broad a subject to be handled adequately here, but the nature of some of the basic difficulties can be indicated.

Legal Limitations

Rising costs and an expansion in services provided have put considerable pressure on governments to get additional revenue. State statutes and local charters, however, place numerous limitations upon the taxing power of local units. Tax limitations placed on real estate are the most keenly felt by local units because the property tax is their major source of revenue. One result of these restrictions is that local units have frequently been forced to borrow, thus increasing their long-term debt. In some cases, however, restrictions imposed by the state have limited this source of funds. These restrictions were designed to protect the people against excessive tax and debt burdens. But sometimes they make for too much inflexibility, and local authorities are unable to obtain funds for services the people would like to have. Grants-in-aid from the Federal and state governments are sometimes helpful in relieving these situations.

Better Coordination

With more than 150,000 governmental units in the United States, there is a great deal of overlapping in taxation. In the earlier days, this was not a serious problem because separate fields of taxation were fairly well marked out. State and local units relied almost exclusively on property taxes, while the Federal Government depended mainly on customs' duties. But as the cost of government rose, more revenue was required and the search for new sources resulted in more crossing of each other's paths. The income tax, which is the backbone of the modern Federal tax structure, is being resorted to increasingly by states and more recently by local units. Taxes on selected commodities such as motor fuels, liquor and tobacco, are being used more and more by local, state, and Federal governments.

An inevitable result of this tax system which has developed under the administration of a multitude of governmental units is conflicting objectives and duplicate taxation. At the same time that some units of government are trying to mold their tax structures according to ability to pay, other units are building tax structures which fall more heavily on those with lower incomes. Instances of taxes levied on identical items by local, state, and Federal governments are multiplying as rising expenditures force an expansion of the tax base. Moreover, with so many taxing units, uniform rates are impossible and the amount of taxes paid varies substantially among localities.

The solution of these difficulties calls for better coordination and the allocation of services to that unit—local, state, or Federal—which can administer them most efficiently. These problems will not be solved overnight. The ideal tax system has never been constructed and probably never will be. Several suggestions for improvement have been made. One is the segregation and allo-

cation of revenue sources to Federal, state, and local governments. Whether complete segregation of sources would be feasible or possible seems very doubtful. Certainly, considerable improvement could be gained through greater cooperation among taxing authorities in reducing the amount of duplication and in ironing out conflicts. Another suggestion is for greater centralization of the tax-levying function with a certain proportion of the revenue being remitted to state and local authorities. Grants-in-aid to state and local governments are a step in this direction. They are also a means of helping provide a more uniform level of public services among governmental units and, at the same time, leaving much of the administrative responsibility in the hands of state and local authorities. These and similar proposals have both advantages and disadvantages which space does not permit us to analyze here. Some progress toward greater cooperation is being made and it is apparent that more progress along this line is needed.

Inequity in Taxation

Considerable variation in the tax burden exists, both geographically and among types of economic activity. There are various reasons for inequities but two of the major ones are the multiplicity of taxing units and the fact that tax structures have grown piecemeal, largely in response to urgent needs for more revenue.

The multiplicity of taxing units results in great variation in both tax rates and types of taxes employed. A resident of one city may pay a local and a state tax on his income while his neighbor across the line may not. In one locality the rate may be 2 per cent on taxable income while in another it may be twice that much. An important reason for this type of variation is that poorer communities must have either more taxes or higher rates to support the same level of government services. Much of this disparity in types and rates of taxation is due to the great decentralization of tax administration.

There is a considerable amount of tax discrimination among types of economic activity. A hasty examination of the sources of state and local taxes is sufficient to convince one of the great variation which exists. The rapid growth of special taxes in the last few years has greatly aggravated this problem. Special taxes have usually been justified on the basis of special benefits, regulating the consumption of commodities deemed "harmful," and as a means of placing the burden on those able to pay, such as in the taxation of luxuries. The need for more revenue, however, has led officials to gradually drift away from the careful application of such principles. Today there seems to be a definite tendency to select taxes which afford a good yield, are cheap and easy to collect, and call forth the least "squawk" from taxpayers. Cigarettes afford a good illustration of a type of discrimination which often results. In 1921, one state imposed a tax on cigarettes largely on the ground of getting revenue but at the same time to discourage the use of a "harmful" commodity. A recent survey shows that 39 states now tax cigarettes, but only a few tax cigars, smoking tobacco, chewing tobacco, or snuff. In other words, if one prefers to smoke tobacco wrapped in paper instead of in a genuine briar, he must pay rather heavily for the privilege. This is only one of many illustrations of how our tax system discriminates against certain uses of a commodity and against certain types of economic activity.

Smoothing Out Business Fluctuations

Another problem is to so time public expenditures that they will help smooth out instead of aggravate business fluctuations, a policy which has frequently been proposed. In the past, state, local, and Federal expenditures have increased in good times, thus competing with private industry for labor and materials and tending to intensify the boom. On the other hand, when business slows up and unemployment increases, government authorities have reduced expenditures, thus tending to aggravate the depression.

Public authorities could contribute to a more stable level of business activity and employment if they could achieve a better time distribution of their expenditures. A part of government expenditures, especially new construction, should be deferred in good times and executed when business slows down. Moreover, in periods of active business, government should take more from the people via taxes than it pays back through expenditures, the surplus being used to reduce the debt. On the other hand, when business slows down, just the reverse is needed. Public expenditures should be increased even in excess of revenues if the business situation warrants, so that the excess of public expenditures will tend to increase income, production, and employment.

There are many difficulties involved in the application of this type of financial policy by local, state, and Federal authorities. Many construction projects are urgently

needed and can not be postponed, and the time required to get a project actually under way makes it difficult to time the flow of expenditures properly. No matter how sincere the attempt, actual results will fall far short of what would be an "ideal" timing of public expenditures, budget deficits, and budget surpluses. However, a better timing could be achieved if local, state, and Federal authorities would cooperate in working toward this common objective.

CONCLUSIONS

Public expenditures reveal two significant long-term trends. One is the almost continuous increase in the cost of local, state, and Federal units; the other is the tendency to shift more and more responsibility to the state and particularly to the national Government. The rise in the cost of government is not necessarily something to be avoided; neither does it always indicate inefficiency and waste. In general, the welfare of any individual is determined by what he does himself and what he receives as a result of collective action, such as through government. The more responsibility the individual accepts for his own welfare, the greater his freedom and the less the cost of government. But the more responsibility we shift to government, the less individual freedom we will have and the more of our income we will have to pay out in taxes to defray the cost.

Government is being subjected to two-way pressure. We want the government to supply more and more services, but on the other hand we demand economy and reduced taxation. Both of these demands are impossible of fulfillment. One helpful step, however, is to consider services and costs together. We must make Joe, the pleader for more social benefits, always conscious of his counterpart, Joe the taxpayer, who must pay the cost. The significance of passing on benefits and costs together is illustrated by recent experience with the veterans' bonus. Every bonus measure submitted to the people last November, which included specific tax measures to finance it, was defeated. The growth in the cost of government makes efficient administration more and more important. The piecemeal building of our Federal, state, and local tax structures in response to growing needs has resulted in defects and weaknesses which should be eliminated. It is much easier to raise the rate or add a new tax here and there as the need arises than to have a thorough-going revision on the basis of carefully selected principles. But a good tax structure, efficiently administered, would be a significant step toward financing our expanding services in the most equitable and least expensive manner.

Good government has many aspects and it cannot be appraised in terms of a few simple standards. In the economic sphere, low costs in relation to the amount of services rendered and government's contribution to economic stability are important criteria.

INVESTING IN MUNICIPALS*

Banks and other investors may be looking more and more to municipal bonds as a place to put their funds, for the supply of these securities has been growing rapidly and will increase further. The high tax rates now in effect make municipals more attractive to banks and other investors in the upper brackets. The likelihood of rising risks entailed in investing in these securities, however, calls for careful investment analysis.

SUPPLY OF MUNICIPALS

As dealers in debt, the pattern of bank investments follows the pattern of outstanding debt. Although state and local government debt is now much less important than before the war, primarily because of the huge increase in the Federal Government debt, it has been increasing since the war. The dollar volume of new municipal security issues has been very large, amounting to $7 billion since mid-1945. States have made large payments for veterans' bonuses, and together with local governments have been taking advantage of the availability of materials to undertake new construction and to revive projects postponed during the war. While their financial condition has generally been excellent, inflation and heavy spending have combined to make large-scale financing necessary. The supply of municipal bonds coming on to the market is expected to continue at a high

* The term "municipals" as used here includes obligations of states, local governments, and minor subdivisions.

level. At the same time, other outlets such as corporate securities and mortgages may not be as large as last year.

IMPORTANCE OF MUNICIPALS

Thus, while the obligations of state and local governments constitute only 3.6 per cent of the assets of all insured commercial banks, 1.3 per cent of the assets of life insurance companies and .3 per cent of the assets of mutual savings banks, they are likely to become more important to these institutions. Since the war, municipals have increased from 2.6 to 3.6 per cent of the assets of all insured commercial banks, but are still not as important to them as before the war. Nevertheless, they are of considerable importance to some. In the United States as a whole they are a larger proportion of the earning assets of country banks than of the bigger city banks. In the Third Federal Reserve District, however, the reverse is true, municipals constituting a larger proportion of the earning assets of reserve city banks than of country banks. While they comprise almost 6 per cent of the earning assets of the largest member banks in the district, they are held in negligible amount by the very small banks, perhaps because there are few "home-town" issues available to rural institutions. Also, the tax-exemption feature is of less attraction to these banks because their small volume of earnings puts them in the lower income tax brackets. Between the very small and the very large member banks is the more or less typical situation with municipals constituting about 4 to 5 per cent of total earning assets.

IMPORTANCE OF MUNICIPALS
TO COMMERCIAL BANKS

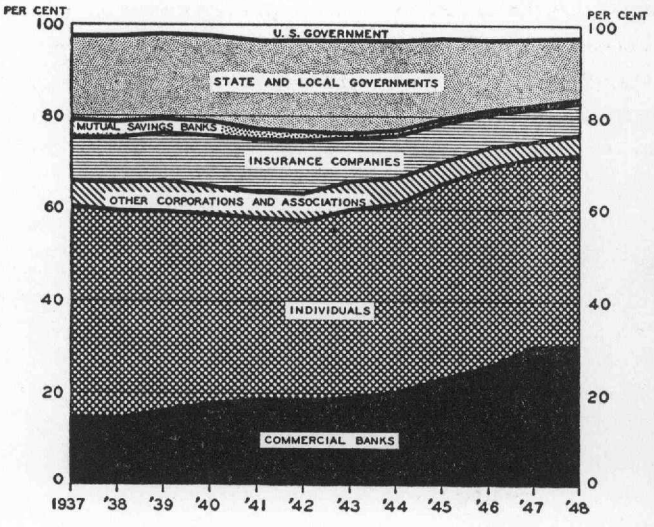
December 31, 1948

	Percentage distribution	Per cent of earning assets
United States		
Country member banks	41.5%	6.2%
Reserve city member banks	25.8	4.0
Central reserve city	14.0	3.3
Insured nonmember	18.7	6.2
All insured banks	100.0%	4.9%
Third Federal Reserve District		
Country member banks	60.0%	4.9%
Reserve city member banks	40.0	5.9
All member banks	100.0%	5.3%
Member banks with deposits of		
$ 1 million and less	.1%	1.1%
1 million to $ 2 million	1.2	1.9
2 million to 5 million	10.7	4.3
5 million to 10 million	14.2	5.5
10 million to 20 million	12.6	5.3
20 million to 50 million	15.5	5.7
50 million to 100 million	4.4	4.5
over $100 million	41.3	5.9
All member banks, Third District	100.0%	5.3%

OWNERSHIP OF MUNICIPALS

As indicated in the chart, commercial banks hold almost one-third of state and local government debt, being the largest single type of institutional holder. Ten years ago they held only one-sixth of the debt, but their share increased constantly during the war and continued to rise

WHO OWNS THE MUNICIPALS?



at an accelerated rate until 1948. In contrast, the proportion held by insurance companies and mutual savings banks has been declining. Nation-wide, the most rapid expansion during the past five years has been experienced by country banks, and the least rapid by banks in central reserve cities. One reason for this may be that a large part of the obligations of state and local governments has been issued by small municipalities, and these issues are apt to be bought up by the local banks. Moreover, these banks probably have less competition from other institutional investors for such issues. The fact that country banks have a somewhat greater proportion of their assets in Federal Government securities than do reserve city or central reserve city banks may make them more willing to undertake the risks involved in investing in municipals. A more fundamental explanation of shifts in the holdings of state and local government debt among various types of investors, however, has to do with other aspects of demand.

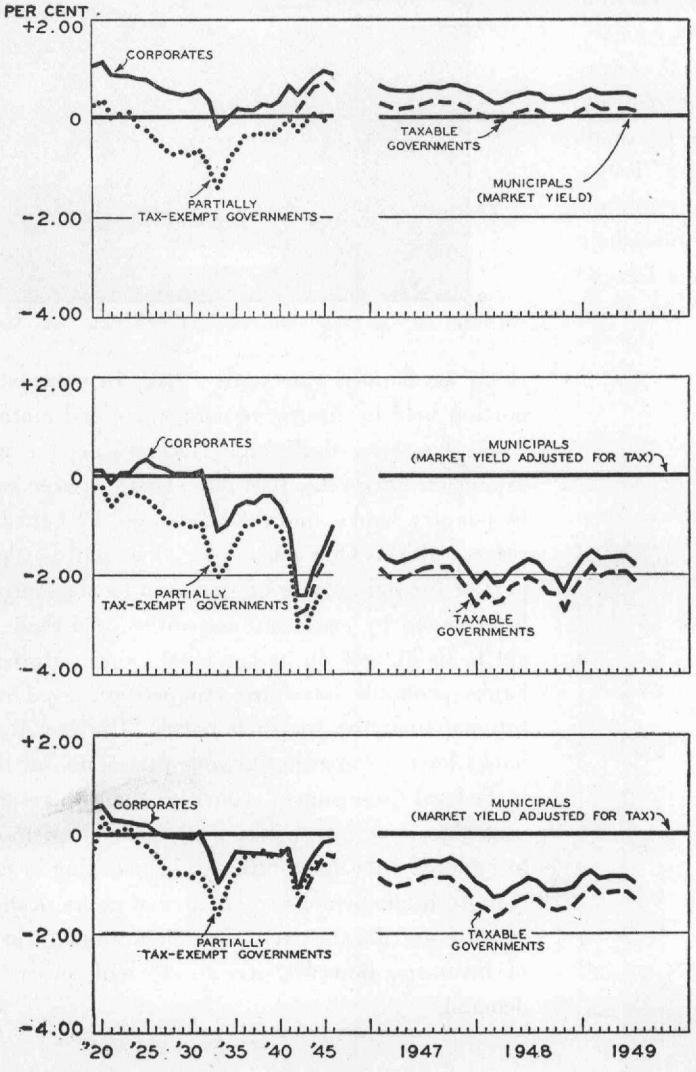
DEMAND FOR MUNICIPALS

The two main factors influencing demand are earnings and risks. Whether or not the yield on municipal securities is attractive from an earnings standpoint depends, to a great extent, on the tax status of the investor. As the table on the next page shows, the higher the individual's or corporation's taxable income, the more advantageous it usually is to hold municipals rather than taxable Governments or corporates. Thus, to an individual in the $2,000 tax bracket the net yield on municipals is equivalent to that of a taxable issue yielding only 2.7 per cent; but to someone with an income of $150,000 to $200,000 the yield is equivalent to 12 per cent on a taxable issue. Banks and other investors with fairly large taxable incomes find it advantageous to buy municipals. On the other hand, for mutual savings banks, life insurance companies, and non-profit institutions, which are not subject to corporate income taxation, these issues are much less attractive.

The importance of taxation over a period of years is shown in the chart. The first panel is drawn from the viewpoint of a life insurance company, a mutual savings bank, or an individual not concerned with tax exemption. The zero line represents the net market yield on municipals without adjustment for tax. The fact that corporates and Governments are both above the zero line indicates that, other things being equal, it is advantageous from the standpoint of yield for such an investor to buy these securities in preference to municipals. The second panel

THREE VIEWS OF MUNICIPAL BOND YIELDS

(The distance from the zero line, which represents the yield of municipals, indicates the spread between the yield of such issues compared with corporate and Government bonds.)



Investor with no tax consideration can obtain ½% more yield by buying high-grade corporates, and slightly more by buying long-term Governments than he obtains on high-grade municipals.

Investor with individual taxable income of $20,000 can get about 2% better yield on municipals than corporates or Governments.

Corporation with taxable income of $60,000 can get about 1% better yield.

TAXES AND MUNICIPAL BOND YIELDS

An individual or corporation with a taxable income of . . .	. . . is taxed** at . . .	. . . and to provide the same net yield obtained on municipals, the gross yield on a taxable issue would have to be . . .	. . . which is this much above the current* yield of—	
			long-term taxable Governments	high-grade taxable corporates
Individual				
Under $2,000.....	16.60%	2.71%	+ .45%	+ .06%
$ 6,000 to $ 8,000	26.40	3.07	+ .81	+ .42
14,000 to 16,000	41.36	3.85	+1.59	+1.20
60,000 to 70,000	68.64	7.21	+4.95	+4.56
150,000 to 200,000	81.225	12.04	+9.78	+9.39
Corporation				
Under $5,000.....	21%	2.86%	+ .60%	+ .21%
$ 5,000 to $20,000	23	2.94	+ .68	+ .29
20,000 to 25,000	25	3.01	+ .75	+ .36
25,000 to 50,000	53	4.81	+2.55	+2.16
Over $50,000.....	38	3.65	+1.39	+1.00

* Yields as of week ended July 23, 1949. Long-term taxable Governments, 2.26%; Aaa corporate bonds, 2.65%; High-grade municipals, 2.26%.
** Tax rates shown are combined normal and surtax rates on *additional* income within the bracket. An individual, with a taxable income of $15,000, for example, pays $41.36 tax on the next $100 of taxable income.

is drawn from the point of view of an individual with taxable income of $20,000. As far as yield is concerned, it is obviously advantageous for him to buy municipals in preference either to corporates or Government securities. The third panel is drawn from the point of view of a corporation with taxable income of $60,000.* Here again, municipals are to be preferred to corporates and Governments. The second and third charts both show that the increasing severity of taxes over the years has made municipals more attractive to those concerned about heavy taxes. This is a basic explanation for the shift of banks into municipals and of insurance companies and mutual savings banks out of municipals. It also explains why two-fifths of state and local obligations outstanding are held by individuals, most of them no doubt wealthy.

During 1949, prices of corporates and some other types of securities may rise as their supply declines. This is less likely to take place in municipal bonds where the supply is expected to remain quite large. For this reason, yields on municipals are likely to remain attractive compared with alternative investments. On the other hand, while tax rates are not likely to be lowered, any substantial declines in taxable income would make municipals less attractive relative to other investments.

Thus far the discussion of yields has not taken into consideration differences in the degree of risk among municipals, corporates, and Governments or among various issues of municipals. The low market yield on municipals, however, is to some extent due to the fairly high quality of these issues. The index used for the yield charts is made up of a group of high-grade issues and is most nearly comparable with the index on long-term Governments and high-grade corporates. Considerably better yields are available to investors, but risks are greater.

The yield spreads among issues of different quality vary depending on the outlook. When investors are optimistic about the general business outlook the yields of speculative issues fall more rapidly than those of high-grade issues and the spread narrows. Conversely, when investors are pessimistic the spread widens. The recent tendency has been toward somewhat widening yield spreads as investors recognize increasing risks.

The risks involved in investing in municipals seem likely to increase if business activity slumps, because state and local governments will experience increasing financial difficulty. Fixed costs, declining revenues, and expanding debt are likely to bring many of the same troubles as in the past. Because some communities have greater difficulties than others, investing in municipals requires careful investigation and analysis. The community's basic trends, such as population, must be evaluated, and the financial record, management, and prospects must be appraised. Each issue must be analyzed in the light of the needs and characteristics of each individual investor.

* The profits before taxes of country member banks in the Third Federal Reserve District in 1948 averaged about $53,000.

THE MONTH'S STATISTICS

Third District department store sales declined slightly again in June. For the first six months of 1949 they were 4 per cent below last year's level. The weekly reports in July indicate a slowly widening gap between 1948 records and current performance. Still, in view of the continued decline in manufacturing pay rolls—10 per cent below a year ago in June—retail trade is holding up fairly well. The effect of extensive mid-summer furniture sales was not yet clear at the beginning of August.

While manufacturing employment in Pennsylvania factories moved downward during June, this was again mainly the result of lower durable goods output. Total nondurable industry employment showed no change in June. Output was up in foods, textiles, and several other lines. Thus far, last month's indications of increasing stability in nondurables remain firm. The sharp drop in output and employment in the paper industry was due, in some measure, to labor disputes leading to work stoppages. Construction contract awards in the Third District continue upward, but at a much lower level than last year and, apparently, at a slower rate than the rest of the nation.

In recent weeks, business loans by Third District banks have shown little change. Coming after a long period of rather steady decline, this may be an indication that a seasonal upturn in bank lending has finally begun. In July, following a reduction in reserve requirements, member banks increased their earning assets through the purchase of securities. Latest reports showed no material change in the money supply.

Wholesale prices continued their decline in June but, according to preliminary reports, leveled off in July. Firming of nonferrous metals and certain other prices sent "sensitive" commodity price indexes up during the past month. Prices of consumers' goods, several steps advanced from the commodities measured by the wholesale price index, again showed no appreciable change in June. The July results will show a fractional increase, due mainly to advances in food prices.

SUMMARY	Third Federal Reserve District — Per cent change			United States — Per cent change		
	June 1949 from		6 mos. 1949 from year ago	June 1949 from		6 mos. 1949 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	− 3*	−14*	− 8*	− 2	−12	− 5
Construction contracts	+ 4	−30	−13	+ 4	− 3	− 5
Coal mining	−27	−28	−25	−27	−33	−12
EMPLOYMENT AND INCOME						
Factory employment	− 2*	−11*	− 7*	0	− 8	− 6
Factory wage income	− 3*	−10*	− 3*	.....	.....	.....
TRADE**						
Department store sales	− 1	− 5	− 4	− 7	− 8	− 5
Department store stocks	− 3	− 7	.....	− 3	− 8	.....
BANKING (All member banks)						
Deposits	+ 1	− 2	0	0	− 1	− 1
Loans	0	+ 4	+ 7	+	+ 3	+ 6
Investments	+ 1	− 2	− 3	0	− 2	− 5
U. S. Govt. Securities	+ 1	− 3	− 5	0	− 2	− 6
Other	− 1	+ 1	+ 3	+ 2	+ 4	+ 2
PRICES						
Wholesale	.....	.....	.....	− 1	− 7	− 4
Consumers	0†	− 2†	0†	0	− 1	0
OTHER						
Check payments	+ 8	− 5	− 2	+10	0	0
Output of electricity	+ 4	− 5	− 3	.....	.....	.....

* Pennsylvania. ** Adjusted for seasonal variation. † Philadelphia.

LOCAL CONDITIONS	Factory* — Employment — Per cent change June 1949 from		Factory* — Payrolls — Per cent change June 1949 from		Department Store — Sales — Per cent change June 1949 from		Department Store — Stocks — Per cent change June 1949 from		Check Payments — Per cent change June 1949 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	− 2	−10	− 6	− 7	.....	.....	.....	.....	+ 2	− 5
Altoona	− 3	−11	+ 2	− 4	.....	.....	.....	.....	+ 3	+ 2
Harrisburg	− 2	− 8	− 3	− 4	.....	.....	.....	.....	+ 7	− 1
Johnstown	0	− 5	− 7	0	.....	.....	.....	.....	+ 2	− 4
Lancaster	− 1	− 9	− 2	−10	− 5	− 4	− 7	− 6	− 8	− 3
Philadelphia	− 2	−10	− 1	− 7	− 9	− 4	−13	− 8	+ 9	− 4
Reading	− 1	− 8	− 2	−12	−10	− 5	− 9	− 6	+ 9	+ 4
Scranton	+ 1	−10	+ 2	−12	.....	.....	.....	.....	+ 7	− 6
Trenton	.....	.....	.....	.....	− 1	+ 4	− 7	− 6	− 2	− 2
Wilkes-Barre	− 6	−10	− 3	−11	− 7	− 9	− 7	−12	+11	−11
Williamsport	− 7	−19	− 7	−18	.....	.....	.....	.....	+ 5	− 4
Wilmington	+ 1	− 5	+ 3	− 2	.....	.....	.....	.....	+20	−18
York	+ 4	−17	+ 4	−23	− 3	− 3	− 7	− 5	− 1	−16

* Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change: June 1949 from month ago	Per cent change: June 1949 from year ago	Per cent change: 6 mos. 1949 from year ago
MANUFACTURING (Pa.)*.	− 3	−14	− 8
Durable goods industries	− 6	−17	− 9
Nondurable goods industries	0	−10	− 8
Foods	+ 7	− 3	− 4
Tobacco	+ 7	−10	−12
Textiles	+ 1	−22	−19
Apparel	0	− 2	− 8
Lumber	+ 3	−11	− 7
Furniture and lumber products	− 4	−26	−21
Paper	−14	−25	−13
Printing and publishing	− 4	− 3	− 2
Chemicals	− 5	−12	− 3
Petroleum and coal products	− 2	− 6	− 1
Rubber	+ 1	−14	−18
Leather	+ 5	− 5	−11
Stone, clay and glass	− 4	−16	−10
Iron and steel	− 7	−15	− 5
Nonferrous metals	− 2	−19	−14
Machinery (excl. electrical)	−10	−27	−14
Electrical machinery	− 1	−14	− 9
Transportation equipment (excl. auto)	− 2	+ 5	+ 6
Automobiles and equipment	+11	−20	−31
Other manufacturing	− 1	−22	−15
COAL MINING (3rd F. R. Dist.)†	−27	−28	−25
Anthracite	−26	−26	−27
Bituminous	−36	−41	−10
CRUDE OIL (3rd F. R. Dist.)††	− 1	−12	−10
CONSTRUCTION—CONTRACT AWARDS (3rd F. R. Dist.)**	+ 4	−30	−13
Residential	+21	−10	−11
Nonresidential	+ 5	−48	−30
Public works and utilities	−12	−19	+13

* Temporary series—not comparable with former production indexes.
** Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.
† U. S. Bureau of Mines. †† American Petroleum Inst. Bradford field.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg. =100)	Employment: June 1949 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: June 1949 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: June 1949	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: June 1949	Average Hourly Earnings: % chg. from year ago
All manufacturing	114	− 2	−11	259	− 3	−10	$50.93	+ 1	$1.338	+ 6
Durable goods industries	135	− 4	−12	290	− 5	−11	55.60	+ 1	1.465	+ 7
Nondurable goods industries	95	0	− 9	223	0	− 8	45.01	+ 1	1.179	+ 4
Foods	120	+ 4	− 2	256	+ 7	+ 2	47.54	+ 4	1.151	+ 7
Tobacco	87	0	−11	196	+ 7	− 9	29.63	+ 3	.765	+ 1
Textiles	71	0	−17	177	0	−20	44.38	− 3	1.198	+ 3
Apparel	89	+ 1	− 6	224	0	− 6	35.63	0	.926	− 3
Lumber	82	− 7	−14	207	+ 5	− 4	47.26	+12	1.113	+ 8
Furniture and lumber products	74	− 4	−23	170	− 3	−26	42.39	− 4	1.016	0
Paper	108	− 6	−10	220	−11	−19	43.93	−10	1.171	+ 6
Printing and publishing	134	− 2	− 2	284	− 3	+ 5	60.00	+ 7	1.619	+10
Chemicals	107	− 6	−10	229	− 5	− 8	50.63	+ 2	1.299	+ 8
Petroleum and coal products	151	0	− 2	319	− 2	+ 1	64.13	+ 4	1.642	+ 7
Rubber	124	+ 1	−15	249	+ 2	−11	50.04	+ 5	1.398	+ 6
Leather	86	+ 1	− 3	186	+ 5	+ 3	37.16	+ 6	1.038	+ 8
Stone, clay and glass	116	− 3	−14	253	− 5	−13	49.92	+ 1	1.262	+ 4
Iron and steel	125	− 4	−10	263	− 7	−10	56.44	0	1.525	+ 7
Nonferrous metals	117	− 1	−17	251	− 2	−13	56.69	+ 7	1.437	+ 8
Machinery (excl. electrical)	169	− 8	−20	353	− 9	−20	52.86	− 1	1.415	+ 7
Electrical machinery	197	− 3	−12	416	− 1	−10	59.15	+ 3	1.532	+ 6
Transportation equipment (excl. auto)	243	− 3	+ 6	490	− 2	+12	61.51	+ 6	1.578	+ 7
Automobiles and equipment	122	+11	−19	274	+15	−13	61.58	+ 7	1.516	+ 9
Other manufacturing	108	0	−18	211	0	−20	40.87	− 3	1.150	+ 4

* Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. =100 Adjusted for seasonal variation	June 1949 (Index)	Per cent change: June 1949 from month ago	Per cent change: June 1949 from year ago	Per cent change: 6 mos. 1949 from year ago
SALES				
Department stores	269	− 1	− 5	− 4
Women's apparel stores	255	+ 5	0	− 2
Furniture stores	.....	− 5*	− 3*	− 5*
STOCKS				
Department stores	232p	− 3	− 7	.....
Women's apparel stores	201	+ 2	− 9	.....
Furniture stores	.....	− 8*	−15*	.....

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended July 2	−13
Week ended July 9	− 8
Week ended July 16	− 6
Week ended July 23	− 5
Week ended July 30	−15

* Not adjusted for seasonal variation. p—Preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. June 1949 from year ago	Sales: % chg. 6 mos. 1949 from year ago	Stocks (end of month): % chg. June 1949 from year ago	Stocks (end of month): Ratio to sales (month's supply) June 1949	Stocks (end of month): Ratio to sales (month's supply) June 1948
Total — All departments	− 5	− 4	− 8	2.5	2.6
Main store total	− 4	− 5	− 8	2.8	2.9
Piece goods and household textiles	− 7	− 4	−15	3.0	3.3
Small wares	− 4	− 2	− 6	3.3	3.4
Women's and misses' accessories	− 2	− 3	− 5	2.6	2.7
Women's and misses' apparel	0	0	+ 3	1.6	1.6
Men's and boys' wear	+ 2	− 2	− 7	2.5	2.8
Housefurnishings	−11	−12	−13	3.7	3.8
Other main store	− 5	− 8	−12	2.5	2.7
Basement store total	− 6	− 2	− 7	1.5	1.5
Small wares	−18	− 3	− 4	1.8	1.5
Women's and misses' wear	− 4	+ 1	0	1.1	1.1
Men's and boys' wear	+ 2	− 2	−16	1.4	1.7
Housefurnishings	−15	− 5	−15	2.5	2.5
Nonmerchandise total	− 3	− 1	.....	.....	.....

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales: % chg. June 1949 from year ago	Sales: % chg. 6 mos. 1949 from year ago	Receivables (end of month): % chg. June 1949 from year ago
Department stores			
Cash	− 6	− 4	.....
Charge account	− 2	0	+ 4
Instalment account	− 2	− 5	+ 9
Furniture stores			
Cash	+ 6	+ 2	.....
Charge account	−15	−12	.....
Instalment account	−10	−14	+ 8

Loan Credit Third F. R. District	Loans made: % chg. June 1949 from year ago	Loans made: % chg. 6 mos. 1949 from year ago	Loan balances outstanding (end of month): % chg. June 1949 from year ago
Consumer instalment loans			
Commercial banks	− 4	− 1	+25
Industrial banks and loan companies	− 8	− 7	+ 2
Small loan companies	+19	+12	+ 8
Credit unions	+14	+13	+23

PRICES

Index: 1935-39 average =100	June 1949 (Index)	Per cent change from: month ago	Per cent change from: year ago
Wholesale prices — United States	192	− 1	− 7
Farm products	222	− 2	−14
Foods	205	− 1	−11
Other	179	− 1	− 3
Consumer prices			
United States	170	0	− 1
Philadelphia	169	0	− 2
Food	199	0	− 5
Clothing	188	0	− 3
Fuel	142	0	+ 5
Housefurnishings	191	− 1	− 3
Other	153	− 2	+ 4

Weekly Wholesale Prices—U. S. (Index: 1935-39 average =100)	All commodities	Farm products	Foods	Other
Week ended July 5	189	218	204	178
Week ended July 12	191	222	208	179
Week ended July 19	191	222	208	179
Week ended July 26	190	216	204	179

Source: U. S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	June 29, 1949	Changes in — 5 weeks	Changes in — year
Money supply, privately owned	165.6	− .1	− .1
Demand deposits, adjusted	82.2	− .4	− .5
Time deposits	58.4	+ .2	+1.0
Currency outside banks	25.0	0	− .6
Turnover of demand deposits	18.7*	+1.1*	−2.1*
Commercial bank earning assets	113.7	+ .2	− .2
Loans	41.2	+ .3	+1.3
U. S. Government securities	63.0	− .2	−1.8
Other securities	9.5	+ .1	+ .3
Member bank reserves held	18.0	0	+ .6
Required reserves (estimated)	17.4	+ .1	+ .7
Excess reserves (estimated)	.6	− .1	0

Changes in reserves during 5 weeks ended June 29 reflected the following:

	Effect on reserves
Decline in Reserve Bank holdings of Governments	− .2
Net payments by Treasury	+ .2
Return of currency from circulation	+ .1
Other transactions	− .1
Change in reserves	0

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	July 27, 1949	Changes in — 4 weeks	Changes in — year
Weekly reporting banks — leading cities United States (*billions* $):			
Loans —			
Commercial, industrial and agricultural	12.9	− .3	−1.6
Security	2.0	− .6	+ .3
Real estate	4.1	0	+ .2
To banks	.3	0	0
All other	4.0	0	+ .3
Total loans — gross	23.3	− .9	− .8
Investments	40.4	+1.7	+1.2
Deposits	72.7	+ .4	− .4
Third Federal Reserve District (*millions* $):			
Loans —			
Commercial, industrial and agricultural	457	− 3	− 62
Security	34	− 6	+ 3
Real estate	94	+ 1	+ 8
To banks	8	− 11	+ 6
All other	281	+ 3	+ 20
Total loans — gross	874	− 16	− 25
Investments	1,713	+ 48	+ 80
Deposits	2,873	− 25	+ 18
Member bank reserves and related items United States (*billions* $):			
Member bank reserves held	17.5	− .5	0
Reserve Bank holdings of Governments	18.5	−1.0	−2.7
Gold stock	24.5	+ .1	+ .9
Money in circulation	27.3	− .1	− .5
Treasury deposits at Reserve Banks	.1	− .1	−1.4
Federal Reserve Bank of Phila. (*millions* $):			
Loans and securities	1,271	− 64	−266
Federal Reserve notes	1,608	− 7	− 20
Member bank reserve deposits	804	− 59	− 3
Gold certificate reserves	1,227	− 20	+126
Reserve ratio (%)	49.5%	+ .9%	+7.7%