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Federal Tax Impact Greater Than Collections

Postwar Tax Collections in 9th District Are 9 Times Pre-War; Indirectly Over 2½ Times More Is Taken from District

WITH attention focused on the high level of federal taxation by tax reduction measures recently advocated, an analysis of Ninth District tax collections reveals a number of interesting findings.

● Federal tax collections constitute a much smaller than average proportion of the region's total income, but some of the federal taxes collected elsewhere are shifted to this region through higher prices on finished products.

● Federal taxes directly or indirectly now absorb well over 15 percent of the district's total income as compared with better than 6 percent prior to the war, and 22 and 7 percent respectively for the nation.

These conclusions emerge from an analysis of such factors as the amount of money collected in federal taxes from this district as compared with the amount collected prior to the war; the burden of these taxes on the district's economy; the proportion of the district's total income now absorbed by these taxes; and the measure of stability afforded the district's economy by the large postwar tax collections.

The magnitude of postwar federal tax collections is brought into clear relief by a comparison of collections in the fiscal year 1946 with those in the fiscal year 1940. In the four states wholly within this district—Minnesota, Montana, North Dakota, and South Dakota—collections aggregated $751,540,000 during 1946 as compared with $83,407,000 during 1940.

In the two states, Michigan and Wisconsin, which are only partly in this district, federal tax collections in each state exceeded the combined collections in the other four states.

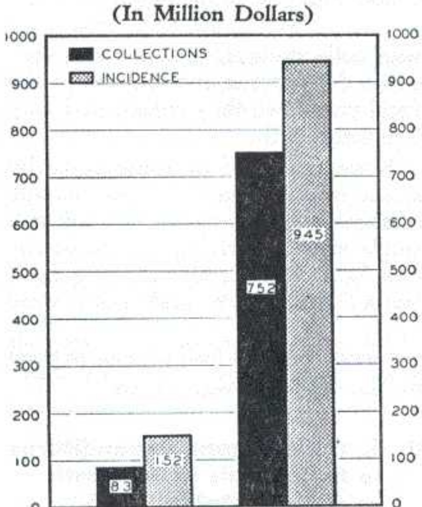
In the fiscal year 1946, $1,990,850,000 were collected in Michigan and $840,353,000 in Wisconsin as compared with $296,538,000 and $87,948,000 respectively in these two states during fiscal year 1940.

The rise in federal tax collections among the states in this district since the pre-war period has varied markedly. For each dollar collected in the fiscal year 1940, $18.29 and $21.61 respectively were collected in North and South Dakota in the fiscal year 1946 as compared with $8.36 and $8.62 respectively in Minnesota and in Montana. In Michigan and Wisconsin, the increase was $6.71 and $9.56 respectively.

A comparison of these figures indicates that federal tax collections in the states primarily agricultural rose decidedly more during the war than in the states predominantly industrial.

FEDERAL TAX COLLECTIONS AND INCIDENCE IN FOUR STATES WHOLLY IN 9th DISTRICT

(In Million Dollars)



Source: The collections and incidence for fiscal year 1940 were taken from **Federal, State, and Local Government Fiscal Relations.** 78th Congress, 1st Session, Senate Document No. 69 pp. 213-220; collections for fiscal year 1946 were secured from the U. S. Treasury Department, **Annual Report of the Commissioner of Internal Revenue,** fiscal year ended June 30, 1946, pp. 60-100, and the incidence for fiscal year 1946 was computed by the Research department of the Minneapolis Federal Reserve Bank.

PERSONAL, CORPORATION INCOME TAXES CHIEF SOURCE OF FEDERAL REVENUE

Nearly one-half of the total federal revenue is now collected from the personal income tax. In the fiscal year 1946, 46 percent of the total revenue was collected from this source as compared with 18 percent in the fiscal year 1940. The sharp rise in personal income tax collections is due to higher tax rates and lower personal exemptions as well as larger personal incomes.

As may be observed from the accompanying table, personal income tax collections in some states of this district increased phenomenally. In North and South Dakota, $100.00 and $69.66 were collected respectively in the fiscal year 1946 for each dollar collected in the fiscal year 1940. In the other states the increase was less pronounced, ranging from $30.09 in Montana to $21.19 in Michigan.

Corporation taxes are another important source of federal revenue. Approximately one-third of the federal revenue collected during the fiscal year 1946 came from such taxes as compared with 22 percent in the fiscal year 1940.

The rise in corporation tax collections among the states varied significantly, although decidedly less than personal income tax collections. For each dollar collected in the fiscal year 1940, $18.52 was collected in Wisconsin in 1946 and $11.10 in North Dakota. On the other hand, only $4.80 was collected in Montana.

Federal Tax Collections and Incidence for Fiscal Years 1940 and 1946 in the States of the Ninth District

(In Thousands of Dollars)

	1940 Collect.	1940 Incid.	1946 Collect.	1946 Incid.	1940 Collect.	1940 Incid.	1946 Collect.	1946 Incid.
	*Michigan				Minnesota			
Personal Taxes	$ 42,623	$ 42,623	$903,108	$903,108	$ 11,308	$ 11,308	$285,824	$285,824
Corporation Income, Excess Profits, Capital Stock and Unjust Enrichment Taxes	93,521	38,894	759,070	428,537	18,626	17,436	196,737	185,311
Liquor Taxes	16,230	29,430	51,160	141,258	14,341	21,387	25,612	48,431
Estate and Gift Taxes	16,488	16,488	20,324	20,324	3,911	3,911	7,414	7,414
All Excise Taxes	84,180	79,601	167,995	203,534	6,807	36,736	50,636	99,079
Employment Taxes	43,496	37,804	89,193	78,110	16,909	14,560	34,470	33,101
Total	$296,538	$244,840	$1,990,850	$1,774,871	$ 71,902	$105,338	$600,693	$659,160
	Montana				North Dakota			
Personal Taxes	$ 1,360	$ 1,360	$ 40,921	$ 40,921	$ 346	$ 346	$ 34,600	$ 34,600
Corporation Income, Excess Profits, Capital Stock and Unjust Enrichment Taxes	2,024	2,751	9,631	33,459	442	1,489	4,820	29,598
Liquor Taxes	990	6,609	2,135	9,106	62	3,616	302	6,937
Estate and Gift Taxes	230	230	523	523	97	97	255	255
All Excise Taxes	922	7,027	4,254	15,437	947	6,338	4,793	16,798
Employment Taxes	1,363	2,552	1,958	4,076	614	1,569	1,100	2,968
Total	$ 6,889	$ 20,529	$ 59,422	$103,522	$ 2,508	$ 13,455	$ 45,870	$ 91,156
	South Dakota				*Wisconsin			
Personal Taxes	$ 471	$ 471	$ 32,810	$ 32,810	$ 11,824	$ 11,824	$318,518	$318,518
Corporation Income, Excess Profits, Capital Stock and Unjust Enrichment Taxes	614	1,713	5,015	30,885	20,254	21,610	373,718	283,116
Liquor Taxes	67	3,180	1,938	6,987	28,553	28,121	70,629	83,241
Estate and Gift Taxes	79	79	247	247	4,965	4,965	8,237	8,237
All Excise Taxes	199	5,732	4,217	16,898	8,062	35,898	39,972	97,354
Employment Taxes	678	1,726	1,328	3,294	14,290	17,386	29,279	34,578
Total	$ 2,108	$ 12,901	$ 45,555	$ 91,121	$ 87,948	$119,804	$840,353	$825,044

* These figures are for the entire state.

Liquor taxes constitute a third important source of federal revenue. The amount of revenue collected from these taxes increased substantially during the war due to higher rates as well as to a larger consumption, but as a percent of the total collections they decreased from 12 percent in the fiscal year 1940 to 2 percent in the fiscal year 1946.

As was observed with some of the other federal taxes, the percentage rise in liquor tax collections between the two fiscal years was much greater in the two Dakotas than in the other states of this district.

The federal estate and gift taxes were raised through higher tax rates and lower exemptions. Furthermore, higher values of properties passed from one generation to another have raised the revenue collected from these taxes. Collections, however, increased decidedly less than from income taxes. Whereas, prior to the war, collections from these taxes constituted 7 percent of the total, in the fiscal year 1946 they constituted only 2 percent of the total.

Since the yield of these taxes by states is quite sporadic, an average of three years was used instead of a single year to arrive at a representative figure.[1] Collections during fiscal years 1938, 1939, and 1940 were compared with collections during fiscal years 1944, 1945, and 1946. In South Dakota, collections in the latter period were 213 percent of the amount collected in the former period. In the other states the increase was much less; in Wisconsin it was as small as 66 percent.

Excise taxes other than on alcoholic beverages complete the list of the general federal taxes. Prior to the war these taxes yielded approximately one-third of the total federal revenue, while in the fiscal year 1946 the amount from these taxes represented only 13 percent of the total.

In South Dakota federal excise tax collections in 1946 were 21 times the pre-war amount, while in Montana they were only 4½ times the former amount. Of the states in this district, by far the largest collections were made in Michigan, but the increase between the two fiscal years was the

Continued on Page 497

[1] This procedure was adopted from the study on Federal, State, and Local Government Fiscal Relations, 78th Congress, 1st Session, Senate Document No. 69, footnote 3, p. 218.

U. S. Government Expenditures to Individuals in the Ninth District States, 1946

(In Thousands of Dollars)

Michigan	$215,467
Minnesota	53,627
Montana	2,609
North Dakota	2,309
South Dakota	2,692
Wisconsin	64,651

Source: U. S. Department of Commerce.

BUSINESS

Lagging Construction Shows Improvement

ALTHOUGH the outlook for the construction industry has brightened considerably over the last few months, it still looks as if the building boom which was predicted around the first of the year is not going to materialize entirely this year.

Last year the U. S. Department of Commerce estimated that total new construction would amount to $15 billion and that the number of new permanent homes built during the year would come to around one million. These estimates were revised in the second quarter of this year and the present expectations are that construction will perhaps slightly exceed $12 billion and the number of dwelling units built will approximate 775,000.[1]

A mid-year review of the figures on contracts awarded, published by the F. W. Dodge Corporation, showed that the value of awards in the first six months was below that of the first half of last year—down 24 percent in the Ninth District[2] and 11 percent in the 37 eastern states covered.

The dollar volume of contracts awarded in the Ninth District was especially low for residential building, as shown in the accompanying chart. The half-year valuation for residential building in this district was 36 percent below the valuation for the first six months of 1946.

It must be kept in mind, however, that data on the dollar volume of contracts awarded and permits issued are affected by price changes and are a measure only of projects to be started. These indicators, therefore, are not an accurate measure of the physical volume of construction and they would not reveal the large amount of construction activity centered on the completion of units begun last year. (See chart)

In this district the valuation of contracts awarded in July was 2 percent higher for total construction (which also includes such activities as highway and street construction) than in the corresponding month a year ago and 14 percent higher for total building construction, reversing the trend of the first half of the year.

The valuation of building permits issued in selected cities in the Ninth District declined from $67,840,240 in the first six months of 1946 to $50,586,200 in the first six months of 1947, a decrease of 25 percent.[3] July saw a reversal of this trend. The valuation of permits for the district was 22 percent higher in that month than a year ago and 33 percent higher in August than a year ago.

Apparently the dollar volume of contracts awarded and permits issued is picking up after a disappointing record for the first half of the year, both nationally and in this district.

EXPECTATIONS NATIONALLY NOT FULLY REALIZED

On the national level the physical volume, as measured in constant prices, of all new construction put in place (as contrasted with the value of awards and of building permits) increased by about 14 percent over the first half of last year. Thus, while construction activity is at a fairly high level, the increase in physical terms over last year has been discouraging to those who had looked for a rapid upsurge in 1947.

However, the value of new construction put in place during June, July and August showed increases which are more than the usual seasonal gains, and the starting of residential units has gained impetus in the last few months. Houses and apartments were being started in July at the rate of more than 80,000 units a month, which is the highest starting rate since 1927, and in August the figure rose to 83,000.

The present spurt in building activity is partly due to the removal of nearly all building restrictions on June 30. At that time all building controls were removed except for the restrictions on building places of amusement and the 30-day veteran's preference on sales of new homes.

The removal of rent ceilings on new houses and apartments has undoubtedly acted as a stimulus to residential building, and commercial building is expected to enjoy the greatest benefits from the relaxation of the controls designed to direct materials into housing.

MID-YEAR building down 24% in district; residential was 36% below first six months of 1946.

June and July construction increased more than usual seasonal gains.

●

Department store sales in August continued at about July level and were equal to 1946 volume.

Declines were registered in stocks, orders outstanding; manufacturers' new orders and shipments show increase.

●

1947 rise in per capita income in the Dakotas led the nation.

RESISTANCE TO HIGH COSTS CUTS BUILDING

The failure of the construction industry to expand during the first half of the year as much as was expected a year ago has been attributed partly to resistance to the high construction costs prevailing during this period. This belief that construction costs would decline materially later in the year may also have had something to do with the decline in industrial and commercial construction which occurred in the first half of the year, although it was apparently caused in part by the tightening of government controls on nonresidential building.

The Bureau of Labor Statistics' weekly index of wholesale prices registered a decline of 2 percent for building materials from 178.6 on May 10 to 174.8 on July 26. By August 2 the index had climbed back to 176.6, which was still below the high point in May.

Except for a few critical items the supply of construction materials is now somewhat ahead of demand.

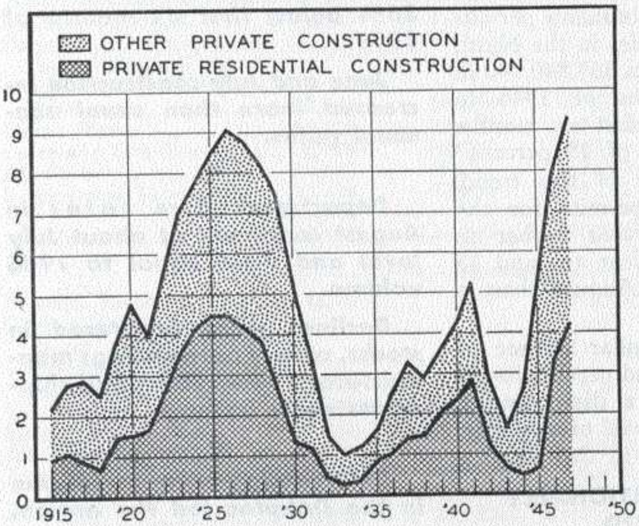
[1] Industry Report, Construction Division, U. S. Department of Commerce, July 1947.
[2] Excludes Montana.

[3] Includes permits issued for new building and for repair work.

VOLUME OF NEW CONSTRUCTION

NEW PRIVATE CONSTRUCTION ACTIVITY IN THE U. S., 1915-1947

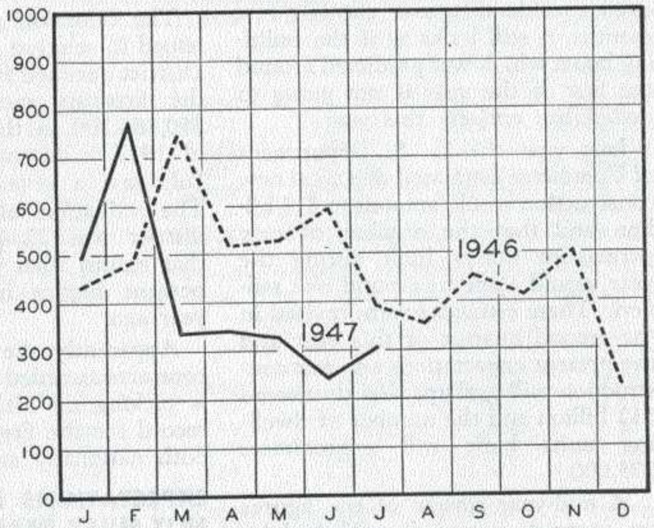
(In Billion Dollars)



Source: U. S. Department of Commerce.

INDEX OF VALUATION OF CONTRACTS AWARDED, RESIDENTIAL BUILDING, NINTH DISTRICT, MONTHLY

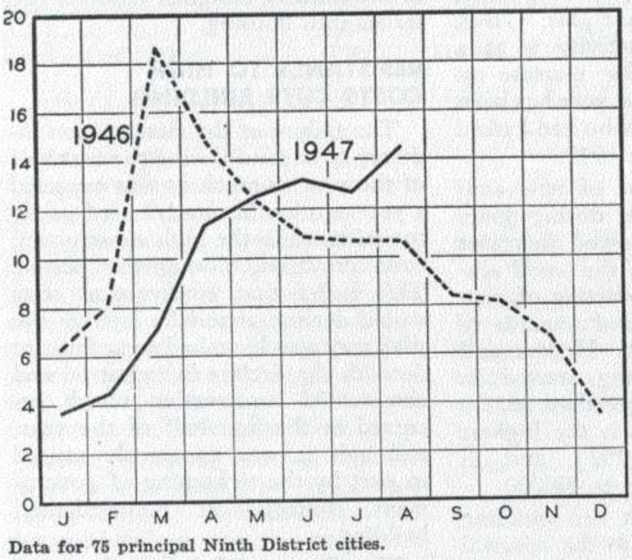
1935-39=100



Source: F. W. Dodge Corporation.

VALUE OF BUILDING PERMITS ISSUED MONTHLY IN NINTH DISTRICT

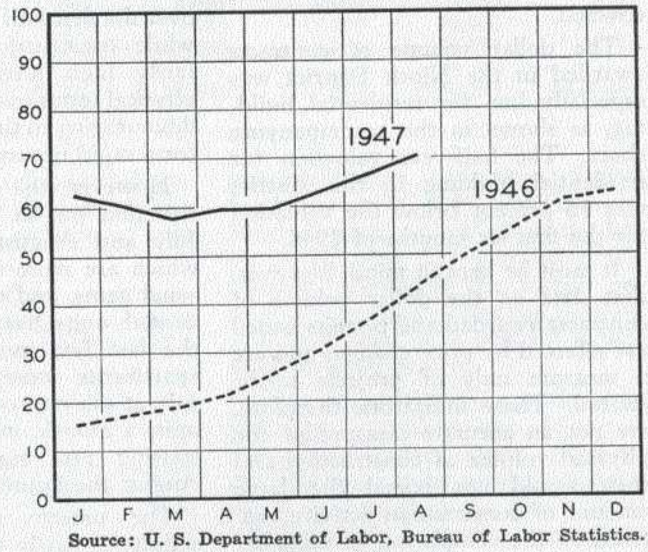
(In Million Dollars)



Data for 75 principal Ninth District cities.

ESTIMATED NUMBER OF PERMANENT NON-FARM DWELLING UNITS COMPLETED IN U. S. MONTHLY

(In Thousands)



Source: U. S. Department of Labor, Bureau of Labor Statistics.

Construction costs, although still mounting, are not increasing as rapidly as during the early part of the year. The Department of Commerce Composite Construction Cost index was 0.8 percent higher for June than for May. A substantial decline in construction costs during the remainder of the year is not apparently expected now. Costs appear to be leveling off at roughly 90 percent above those of the pre-war period.

The dollar value of all new construction for the year as a whole will probably exceed the dollar value of any other year in history with the exception of 1942. This high dollar volume, however, is largely accounted for by the high levels of construction costs at the present time. When allowance is made for higher costs, it appears that the physical volume of construction in 1947 will be only slightly higher than in 1946 and only 5 to 10 percent above the level of 1939.

DEPARTMENT STORE SALES LEVEL OFF FROM JUNE PEAK

AUGUST department store sales in the district continued at about the July level and were roughly equal to the dollar volume a year earlier. The city department store sales index exhibited a modest decline in August, but this decline was offset by the rise at country stores.

In many trading areas in the district, sales were either less than or approximately equal to the dollar volume of a year ago. However, in Wisconsin the dollar volume was 6 percent larger and in Michigan it was as much as 17 percent larger.

Preliminary figures for September indicate that the dollar volume continues below the same month last year. In September 1946, department store sales in this district reached a peak. The polio epidemic had postponed many purchases until that month. Price controls were revived on July 25 but did not become effective on such items as livestock, grain, dairy products, tobacco, petroleum, and some other commodities until August 20. Realizing that the prevailing prices were the lowest that consumers could anticipate for some time, the public bought more freely.

Consequently, the smaller August and September department store sales, as compared with a year ago, do not necessarily reflect a turning point in their trend.

The growing supply of commodities which were scarce in the past continues to shift the relative volume of sales among the numerous items. The sale of sporting goods, luggage, house furnishings — especially mechanical refrigerators—and men's and boys' wear have increased decidedly more since a year ago than the sale of other commodities. These shifts may continue for some time.

Department store stocks at the end of August were 144 percent above the 1935-1939 average with an adjustment made for the usual seasonal variation. Stocks in this district reached a peak at the end of April of 187 percent above the former average. In subsequent months the dollar volume of stocks has declined steadily. Although the decline has occurred throughout the district, it has been noticeably greater among the stores in the larger cities.

In comparison with the level of sales, stocks held by department stores are not out of line. However, there are instances where the stocks are still unbalanced. The ratio of stocks to sales is actually lower than previous to the war.

Index of Department Store Sales by Cities

(Unadjusted 1935-39 = 100)

	August[1]	Percent Change[2] from a Year Ago August	Percent Change[2] from a Year Ago Jan.-Aug.
Minneapolis	243	— 3	+ 6
St. Paul	233	— 1	+13
Duluth-Superior		+ 1	+11
La Crosse	228	— 1	+15
Mankato	228	—14	+ 6
St. Cloud	272	—17	0

[1] Based on daily average sales.
[2] Based on total dollar volume of sales.

Sales at Ninth District Department Stores[1]

	% Aug. 1947 of Aug. 1946	% Jan.-Aug. 1947 of Jan.-Aug. 1946	Number of Stores[2] Showing Increase	Number of Stores[2] Showing Decrease
Total District	99	110	138	145
Mpls., St. Paul, Dul.-Sup.	98	109	7	15
Country Stores	100	112	131	130
Minnesota	95	108	32	43
Central	84	101	1	8
Northeastern	103	107	6	1
Red River Valley	90	107	4	0
South Central	97	112	8	9
Southeastern	94	110	4	9
Southwestern	97	108	9	16
Montana	99	111	15	19
Mountains	96	112	5	6
Plains	101	111	10	13
North Dakota	99	114	25	23
North Central	85	108	3	5
Northwestern	98	110	2	3
Red River Valley	103	121	11	7
Southeastern	99	108	8	6
Southwestern	84	101	1	2
Red River Valley-Minn. & N. D.	101	119	15	7
South Dakota	100	110	23	24
Southeastern	100	112	5	10
Other Eastern	103	110	15	10
Western	89	105	3	4
Wisconsin and Michigan	108	117	36	21
Northern Wisconsin	105	113	11	8
West Central Wisconsin	106	118	17	12
Upper Peninsula Michigan	117	116	8	1

[1] Percentages are based on dollar volume of sales.
[2] August 1947 compared with August 1946.
Note: These data are based on a larger but less technically representative sample of stores than the regular department store sales indexes published elsewhere. Since this table includes many stores that are not strictly department stores, the trends here may diverge slightly from those indicated by the indexes. The larger sample for this table is necessary in order to obtain data by geographic areas.

INCREASE IN OUTSTANDING ORDERS ONLY SEASONAL

Orders outstanding at department stores in this district are approximately one-half the dollar volume of a year ago. Whereas at the end of July 1946 the volume reached a peak of 10 times the 1940 average, at the end of July of this year it was only about 5½ times the former average. During August the volume of orders outstanding increased 5 percent.

A low point in outstanding orders occurred in May, and since that time the volume has risen steadily. This increase undoubtedly reflects only a seasonal trend, for executives continue to be very cautious in their commitments on future merchandise.

MANUFACTURERS' NEW ORDERS AND SHIPMENTS INCREASE

According to figures compiled by the U. S. Department of Commerce, new orders in the hands of manufacturers in the nation reached a peak in February of this year after an almost steady increase since August 1945. In the following three months the volume of orders fell off noticeably but began to rise again in June. The volume was 3 percent larger than in the preceding month. This rise was in large part traced to the seasonal upturn in the food and textile industries.

The shipments of manufacturers since February 1946 have risen faster than the volume of new orders but, like new orders, a peak was reached in February of this year followed by a slight decline through May. Shipments in June were 3 percent larger than in May.

A larger percent of the finished manufactured goods is exported. In

June $722 million of finished goods was exported as compared with $445 million in June 1946—an increase of 62 percent. Imports of finished manufactured goods, on the other hand, have increased only 26 percent over the same period of time to $82 million in June of this year. Thus, the volume of merchandise moving into the retail channels has declined since the first of the year.

Northwest Business Indexes

Adjusted for Seasonal Variations—1935-1939 = 100

	August 1947	July 1947	August 1946	August 1945
Bank Debits—93 Cities	288	273	253	185
Bank Debits—Farming Centers	351	327	300	210
Ninth District Department Store Sales	271	268	259	179
City Department Store Sales	267	277	259	185
Country Department Store Sales	275	259	260	172
Ninth District Department Store Stocks	244 p	254	219	166
City Department Store Stocks	218 p	230	229	170
Country Department Store Stocks	266 p	274	214	171
Country Lumber Sales	137	146	125	110
Miscellaneous Carloadings	125	123	124	109
Total Carloadings (excl. Misc.)	128	138	116	119
Farm Prices (Minn. unadj.)	296	268	241	183

p—Preliminary.

PER CAPITA INCOME RISE IN DAKOTAS LED NATION

WHERE total income payments for the country as a whole advanced 9 percent, official estimates released by the United States Department of Commerce indicate an average of 17 percent over 1945 by the four full states of the Ninth District.

Total 1946 income payments are given as $3,082 million in Minnesota, $669 million in Montana, $624 million in North Dakota, and $673 million in South Dakota. Broadly speaking, the data represent total personal incomes for each state.

Ninth District per capita income payments, which represent total income payments divided by population, reached new highs in 1946. North and South Dakota percentage increases over 1940 led the entire country. Gains of 227 percent in South Dakota, 216 percent in North Dakota, 152 percent in Montana, and 114 percent in Minnesota surpassed the national average of 109 percent. These marked increases in the Ninth District were the result of relatively large gains in income accompanied by some decline in population.

From 1940 to 1946, population in the United States as a whole increased by more than 6 percent. In the Ninth District, however, wartime population shifts resulted in average declines of about 6 percent.

From 1945 to 1946, however, increases in per capita income payments in the Ninth District were the result primarily of continued expansion of total income. During this period the percentage increase in civilian population in the Ninth District equalled the average national growth of 6 percent.

Thus from 1945 to 1946 the combined effect of changes in population and in total income payments in the Ninth District was an increase in per capita payments of 10 percent in Minnesota, 14 percent in Montana, 6 percent in North Dakota, and 10 percent in South Dakota. The relatively smaller gains in North Dakota indicates that the major expansion of per capita income payments there took place prior to 1946.

Relative to the country as a whole, however, percentage increases in each of the four full states of the Ninth District surpassed the national average rise of 2 percent.

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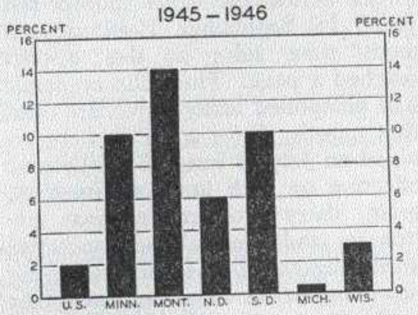
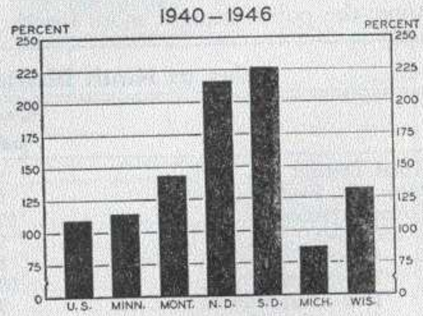
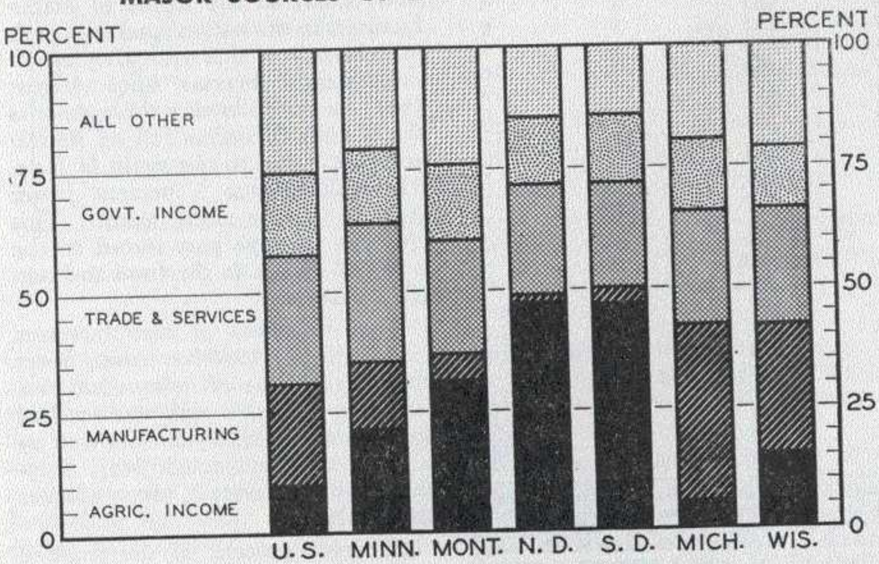
PERCENT INCREASE IN PER CAPITA INCOME PAYMENTS





Source: U. S. Department of Commerce.

MAJOR SOURCES OF INCOME PAYMENTS, 1946



Source: U. S. Department of Commerce.

AGRICULTURE

1947 Crop Production Down Slightly from '46

TOTAL wheat production in the Ninth District this year will approach 300 million bushels. This, a new high record, is about 19 million bushels larger than last year's crop. District wheat production during the 5-year period 1935-39 totaled about half this year's record production.

With wheat prices averaging well over $2.00 a bushel the new wealth created by the 1947 wheat crop exceeds all previous records.

Corn production is the only real laggard in this year's district crop picture. It may be all of one-third smaller than last year's production, possibly the smallest crop since 1940. At that, the corn crop may very well be about one-third larger than the pre-war 5-year average, 1935-39. The date of the first killing frost this fall will determine to a large extent the quality of the crop this year.

Production of barley, rye, and flax in the district is estimated at substantially higher levels compared with 1946. Flax production may be nearly double last year's small crop.

Production this year of the six grains—wheat, corn, oats, barley, rye, and flax—may total approximately 1.1 billion in the Dakotas, Minnesota, and Montana. This would be about 5 percent less than last year's grain production but about 50 percent above the pre-war average.

In spite of tremendous total grain production in the Ninth District and for the U. S. as a whole a serious grain crisis looms ahead. Above average grain production here comes nowhere near making up for the short Canadian wheat crop and the disastrously small European grain harvests.

Canadian wheat crop estimates are around 320 million bushels—about 100 million below last year's production. This is barely enough to meet commitments to England.

European crops have suffered from almost every imaginable disaster this year — winter killing, floods, and drouth.

Before the war, western Europe normally received large quantities of grain from southeastern Europe. Russia now exercises considerable control over this "bread basket" of Europe. As a result, western European countries must look elsewhere for much of their food grains. This further intensifies the need for American grain.

About 563 million bushels of grain were exported for the year ending last July 1. This included about 400 million bushels of wheat. The balance was largely made up of corn. The short corn crop this year is expected to put a double squeeze on wheat. More wheat will be needed for feeding, and wheat will have to be substituted for corn in grain exports.

Last year about 180 million bushels of wheat were fed to livestock. At present price relationships, the amount fed to livestock may easily double last year's amount. Thus about 450 to 500 million bushels will be available for export if the carryover next July 1 is at the comparatively low level that it was this July 1.

DISTRICT wheat production reaches a new high.

Corn production is down one-third.

Farm incomes in first half of 1947 were up 43%.

Prices of farm products are holding at near record levels.

LIVESTOCK NUMBERS DOWN

Livestock numbers on Ninth District farms as well as for the U. S. as a whole have been declining for several years. The poor corn crop and current high prices for feed grains may further discourage livestock production during this feeding year.

There were nearly 85.5 million cattle on U. S. farms at the peak January 1, 1945. Since then, cattle numbers declined to 81 million head last January 1. On the basis of present heavy cattle slaughter, cattle numbers by January 1, 1948, may be reduced another 4 or 5 million head.

Much breeding stock is reported going to market. This temporarily increases the meat supply, but by the summer of 1948 and later the reduction in breeding herds would indicate that less meat may be produced. Especially would this be true if farmers start holding back breeding stock to increase livestock production.

Scarcity of feed or unfavorable feeding ratios also encourages farmers to shorten the feeding period or to market stock at lighter weights. This trend is becoming increasingly evident in livestock markets.

Sheepmen have drastically reduced their breeding herds. There was a 17 million (34%) reduction from 1942 to the end of 1946. Sheep numbers are the lowest since 1923, and the lamb crop this year is reported as the smallest since 1867.

Hog numbers were at peak levels January 1, 1944, at 84 million head. On January 1, 1947, only 57 million hogs were on farms. In view of poor corn prospects and high feed prices it is difficult to imagine any substantial increase in hog numbers before 1948 feed prospects become known.

It should be realized that prospects for continued heavy livestock slaughter this fall and early winter, with declining slaughter supplies by next summer, does not necessarily mean

Grain Production — Four Northwest States*
(Thousands of Bushels)

	Wheat	Corn	Oats	Barley	Rye	Flax	Total
1934-43 Avg.	178,613	232,509	237,977	111,309	20,747	16,678	797,833
1942	292,071	323,771	373,211	189,475	34,019	31,579	1,244,126
1943	278,556	323,751	302,975	137,648	11,207	39,778	1,093,915
1944	295,050	433,249	346,148	117,684	8,123	18,427	1,218,681
1945	293,694	364,876	482,573	113,132	9,025	31,599	1,294,899
1946	278,802	395,025	357,209	112,093	7,531	17,447	1,168,107
1947 (Est.)	298,447	287,193	339,457	138,298	11,856	33,403	1,108,654

* Minnesota, Montana, North and South Dakota—Data from Crop Production Reports, USDA.

lower prices this fall followed by advancing prices next summer.

Livestock prices are high now in response to unusual demand conditions and in spite of current relatively large meat supplies. Next summer meat supplies may be less, but offsetting changes may occur by that time in the demand for meats. The future is heavily clouded with uncertainty, since the weather, our foreign economic policy, and domestic demand will all have important influences on cattle prices during 1948.

January-June Cash Farm Income[1]

(Thousands of Dollars)

State	1935-1939 Average	1946	1947	1947 in Percent of 1946
Minnesota	$ 154,557	$ 418,633	$ 574,071	137%
North Dakota	37,444	142,191	215,417	151
South Dakota	45,700	175,907	276,942	157
Montana	26,447	72,032	102,315	142
Ninth District[2]	301,082	910,446	1,300,555	143
United States	3,416,392	8,802,274	11,875,206	135

[1] Data from "The Farm Income Situation."
[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

FARM INCOMES CONTINUE TO INCREASE

District cash farm income for the first half of 1947 was 43 percent larger than the first half of 1946. This substantial gain is largely due to the sharp advance in agricultural prices that occurred after OPA restrictions were removed in mid-1946. Agricultural prices are now approximately one-third higher than the level that prevailed in early 1946.

It is doubtful if cash farm income during the last half of 1947 will continue to register the same percentage gain over 1946 as occurred during the first half. When OPA restrictions were lifted in mid-1946, farm prices immediately advanced and for the last half of 1946 averaged about 10 percent below the present agricultural price level.

If current agricultural prices are maintained during the last quarter of 1947, cash farm income during the last half of this year may be only 10-15% larger than the last half of 1946.

On the basis of these estimates, total 1947 cash farm income in the district may total approximately 25% above 1946 or a total of $3.3 billion. This would be more than 4 times the $744 million cash farm income for the 5-year average, 1935-39.

Cash income per farm in Montana during 1939 averaged only $1,873. In 1946 average income per farm was $8,364. This year it may be about $10,000.

In the two Dakotas the average cash income per farm was slightly less than $1,400 in 1939. In 1946 it was almost $7,500 and farm income in these two states for the first half of 1947 was more than 50 percent larger compared with the first half of 1946.

Average Prices Received by Farmers, Ninth District[1]

COMMODITY AND UNIT	August 15, 1937-1941 Avg.	August 15, 1946	August 15, 1947	Parity Prices 2/ United States August 15, 1947
Crops				
Wheat, bushel	$0.69	$ 1.76	$ 2.13	$ 2.08
Corn, bushel	.56	1.67	2.13	1.51
Oats, bushel	.24	.66	.90	.938
Potatoes, bushel	.63	1.73	1.70	1.75
Livestock and Livestock Products				
Hogs, 100 lbs.	8.04	20.33	23.81	17.10
Beef Cattle, 100 lbs.	7.44	17.61	20.48	12.70
Veal Calves, 100 lbs.	8.70	16.55	21.71	15.90
Lambs, 100 lbs.	7.94	15.76	20.19	13.80
Wool, lb.	.26	.42	.43	.43
Milk, wholesale, 100 lbs.	1.47	3.42	3.30	3.68
Butterfat, lb.	.29	.75	.77	.588
Chickens, live, lb.	.129	.244	.217	.268
Eggs, dozen	.171	.324	.401	.510

[1] Data compiled from "Agricultural Prices," United States Department of Agriculture.
[2] The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-1914.

In Minnesota, Wisconsin, and Michigan, agriculture is less influenced by changes in weather and crop conditions. Fluctuations in cash farm income have been less pronounced in this area since 1939.

Both the percent increase in farm incomes and the amount of income per farm in the Ninth District is substantially larger than it has been for the U. S. as a whole.

Total U. S. farm income increased a little more than three times since 1939. The U. S. income per farm was $1,282 in 1939 and $4,213 in 1946.

PRICES RECEIVED BY FARMERS REMAIN AT NEAR RECORD LEVELS

In spite of near-record production of agricultural commodities in 1947, the general farm price level continues at a level only a few points below the all-time high set last March.

The index of prices received by farmers in mid-August stayed at the July level of 276. Last March the peak was at 280% of the 1910-14 base period.

Higher prices paid for feed and a general rise in living costs increased the farmers' cost of production and living to a new record high of 235% of the 1910-14 base.

The parity ratio in agriculture is still extremely favorable at 117 (276 divided by 235). Before the war, in 1939, this ratio was only 74 and at the bottom of the depression, 52.

In recent years the growth in consumer incomes plus the tremendous expansion in food exports and decline in food imports, have much more than offset increased agricultural production. In the future, therefore, the level of domestic activity and the extent that food exports are continued will be important factors in determining the level of farm prices. END.

BANKING

Crop Revenue Swelling Deposits

THE large grain crops in the western part of the district are beginning to be reflected in the swelling volume of bank deposits. Deposits at all member banks during August rose by $79 million to a total of $3,290 million on August 27, the latest date for which complete data are available.

The deposit increase was split about evenly between deposits due to other banks, which rose $42 million, and other demand deposits, which went up by $33 million. The former presumably reflects the rising deposits of country banks, a substantial part of which has been left in correspondent balances.

Time deposits continued their steady and modest upward march, rising by $4 million during the month.

There is no evidence yet of any material leveling out in the demand for bank loans. These loans, which have been rising rapidly since June 1946, increased $21 million more in August to a total of $697 million. By comparison, loans at Ninth District member banks are now approximately double the volume outstanding in 1940, and they are about 20 percent above the peak volume in 1929 of $597 million.

Thus, while loans are still a smaller proportion of earning assets, their total dollar volume compares rather impressively with that of the peak years in the late Twenties.

The influx of funds has materially eased the reserve position of member banks. Reserve balances at the Federal Reserve Bank were increasing at a much more rapid rate during August than required reserves, with the result that excess reserves were rising all during the month, averaging $35 million for the last two weeks. Country banks again accounted for the bulk of these excess balances ($27 million). The corollary result of this easier reserve position, of course, was the complete elimination of member bank borrowing from the Federal Reserve Bank.

Data for the 20 weekly reporting city banks during the first half of September indicate that both the loan and the deposit expansions have con-

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	July 30, 1947	August 27, 1947	Change
Assets			
Loans and Discounts	$ 676	$ 697	+ 21
U. S. Government Obligations	1,761	1,760	— 1
Other Securities	160	161	+ 1
Cash and Due from Banks	793	853	+ 60
Other Assets	27	28	+ 1
Total Assets	$3,417	$3,499	+ 82
Liabilities and Capital			
Due to Banks	$ 323	$ 365	+ 42
Other Demand Deposits	1,980	2,013	+ 33
Total	$2,303	$2,378	+ 75
Time Deposits	908	912	+ 4
Total Deposits	$3,211	$3,290	+ 79
Borrowings	0	0	0
Other Liabilities	15	17	+ 2
Capital Funds	191	192	+ 1
Total Liabilities and Capital	$3,417	$3,499	+ 82

* This table is in part estimated. Data on loans and discounts, U. S. Government obligations, and other securities are obtained by reports directly from the member banks. Balances with domestic banks, cash items, and data on deposits are largely taken from the semi-monthly report which member banks make to the Federal Reserve Bank for the purpose of computing reserves. Reserve balances and data on borrowings from the Federal Reserve Banks are taken directly from the books of the Federal Reserve Bank. Data on other borrowings are estimated. Capital funds, other assets, and other liabilities are extrapolated from call report data.

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	July 30, 1947	Aug. 27, 1947	Sept. 17, 1947	Change July 30-Aug. 27
Assets				
Comm., Ind. & Ag. Loans	$ 200	$ 214	$ 249	+ 14
Real Estate Loans	48	49	50	+ 1
Loans on Securities	23	23	23	....
Other Loans	91	93	97	+ 2
Total Loans	$ 362	$ 379	$ 419	+ 17
Total U. S. Government Securities	697	692	714	— 5
Other Investments	62	60	59	— 2
Cash and due from banks	402	428	477	+ 26
Miscellaneous Assets	15	16	14	+ 1
Total Assets	$1,538	$1,575	$1,683	+ 37
Liabilities				
Demand Deposits, Ind., Part. Corp.	$ 733	$ 740	$ 782	+ 7
Demand Deposits, U. S. Government	11	15	17	+ 4
Due to Other Banks	286	325	397	+ 39
Other Deposits	400	386	378	— 14
Total Deposits	$1,430	$1,466	$1,574	+ 36
Borrowings	0	0	0	....
Miscellaneous Liabilities	12	13	12	+ 1
Capital Funds	96	96	97	....
Total Liabilities and Capital	$1,538	$1,575	$1,683	+ 37
Excess Reserves	4	7	3	+ 3

HEAVY demand for bank credit resumed.

Early September loan expansion at weekly banks more than double monthly average for the year.

tinued at full force. Total deposits of these weekly reporting banks, which account for about 45 percent of total member bank deposits, during the first half of September rose a further $108 million, about three times the August expansion.

Correspondent balances due to country banks accounted for $72 million of this expansion, suggesting an acceleration in the August swelling of country bank deposits.

Loans at the weekly reporting banks rose considerably in early September to a total of $419 million. This is $40 million above the volume at the end of August, and represents a rate of expansion very considerably stronger than in recent months. Commercial, industrial, and agricultural loans accounted for $35 million of this expansion, with most of the remainder accounted for by consumer borrowing. END

FEDERAL TAX IMPACT GREATER THAN COLLECTIONS

Continued from Page 489

smallest; collections in the latter year were only twice the amount in the former year.

Employment taxes have some unique characteristics. The receipts from these taxes are designated for specific use. Moreover, the individual receives benefits which are closely related to the amount paid in such taxes. As employment and payrolls increased during the war, collections from these taxes also increased but decidedly less than from other taxes. During the fiscal year 1940, employment tax collections constituted 15 percent of the total federal receipts and in the fiscal year 1946 only 4 percent of the total.

Federal employment tax collections in all states of this district, with the exception of Montana and North Dakota, approximately doubled between the two fiscal years. In Montana the increase was 44 percent and in North Dakota 79 percent.

TAX COLLECTIONS AS A PERCENT OF TOTAL INCOME VARY AMONG STATES

The importance of federal tax collections in the Ninth District economy may be gauged by the proportion of the total income absorbed by such taxes. A figure on the total income derived from the economic activity in this district was calculated by adding to state income payments the amount of federal taxes paid by business establishments in these states.[1]

Federal tax collections in the fiscal year 1940 constituted 7.4 percent of the total national income. The proportion of total income in this district absorbed by these taxes was significantly below the national figure.

Federal tax collections in Minnesota were 4.9 percent of the total income. In Montana, North and South Dakota, these taxes were a much smaller percent of the total income—2.2, 1.1, and 0.9 percent respectively. In the states of Michigan and Wisconsin, the percent was noticeably greater—8.6 and 5.3 percent respectively.

Postwar federal tax collections absorb a much larger proportion of a greatly expanded total income. Total collections in the fiscal year 1946 amounted to 22.2 percent of the national income.

In Minnesota, 19.1 percent of the total income was absorbed by these taxes. In the states of Michigan and Wisconsin, the collections rose to 24.5 and 20.4 percent respectively of the total income. In Montana, North and South Dakota, a much smaller proportion of the total income was absorbed by federal tax collections—9.4, 7.1, and 7.0 percent respectively.

ACTUAL TAXES GREATER THAN COLLECTIONS INDICATE

An examination of the incidence or final impact of federal taxes among the four full states in the district indicates that federal taxes absorb more of the Ninth District income than appears from the figures mentioned above. In addition to the taxes collected from the states in this district, some taxes levied elsewhere are added to the price of commodities consumed in this region.

For example, manufacturers tend to shift the excise taxes levied on them to the ultimate consumers by raising the price of their finished products by the amount of the tax. In this manner, federal excise taxes are shifted partly from states predominantly industrial to those primarily agricultural.

Corporation taxes are not necessarily borne by the corporations themselves. All taxes are eventually borne by individuals, for taxes in the final analysis are paid out of the income or capital (actual or potential) of individuals. If the corporation income, excess profits, and capital stock taxes in the last analysis are not shifted, they are borne by the stockholders in the form of smaller dividends. In this case, such taxes are borne by the various states in proportion to the corporate stock held by the individuals in a state.

If these taxes are shifted, they are borne either by the consumers of corporate products in the form of higher prices or by labor and producers of raw materials in the form of lower prices for their services and products. In either case, the tax burden is likely to be distributed differently among the states than if the burden is on the stockholders.

In computing the incidents of corporation income, excess profits, and capital stock taxes, it was assumed that these taxes fall on the stockholders. The total collections from these taxes were distributed among the states in proportion to the income received from dividends and interest.[1]

On this basis, in the state of Michigan, the incidence of corporation taxes was decidedly smaller than collections for the fiscal years 1940 and 1946, as one would anticipate, for a large proportion of the stockholders of Michigan corporations reside in other states. In Minnesota the incidence of corporation taxes for these

[1] More specifically, the income payments for each state were increased by the amount of federal tax collections in the particular state exclusive of the collections from the personal income tax, estate and gift taxes, and one-half of the payroll tax paid by employees. The latter taxes are either withheld by the employer for the employee or are paid directly by the individual and consequently are a part of income payments. An average of the 1939 and 1940 income payments was used to compare with federal tax collections in the fiscal year 1940 and the average of the 1945 and 1946 income payments was used to compare with federal tax collections in the fiscal year 1946. This procedure was adopted from the study on **Federal, State, and Local Government Fiscal Relations**, 78th Congress, 1st Session, Senate Document No. 69, footnote 1, p. 219.

[1] The incidence or burden of federal taxes by states for the fiscal year 1940 was calculated by the Committee on Federal, State, and Local Government Fiscal Relations. Similar calculations were made for the fiscal year 1946. The details of the method employed in computing the incidence may be found in the **Federal, State, and Local Government Fiscal Relations**, 78th Congress, 1st Session, Senate Document No. 69, pp. 207-220, or may be obtained by writing to the Research department of the Minneapolis Federal Reserve Bank.

years was slightly less than the collections.

In the other states, as may be observed in the accompanying table, the incidence exceeded the collections—in the fiscal year 1946 by a significantly larger amount than in the fiscal year 1940.

In a seller's market such as has been witnessed during the past years, a part of the corporation taxes very likely was shifted to consumers in the form of higher prices. Since the proportion of total corporation products consumed in this district is greater than the proportion of total dividends and interest received, estimated incidence of these taxes for the latter year is, no doubt, a very conservative figure.

The burden of the numerous excise taxes was distributed among the states primarily on the basis of the consumption of specific commodities. Since a large share of the commodities consumed in the Ninth District are manufactured outside of the district and manufacturers tend to pass to consumers the excise taxes levied on them, the incidence of these taxes in this district greatly exceeds the collections.

For example, in the fiscal year 1946 the federal government collected only $90,000 in the four states wholly in this district from taxes levied on tobacco, while, according to the proportion of the tobacco consumed in these states, the incidence of the taxes levied on tobacco amounted to $29 million.

Collections from all excise taxes totalled $89 million, while the incidence of these taxes aggregated $196 million. In the fiscal year 1940, the difference between collections and incidence was even greater. Whereas the collections totalled $21 million, the incidence was $76 million.

In the state of Michigan, which is predominantly industrial, collections of excise taxes in the fiscal year 1940 exceeded the incidence by 5 percent, but in 1946 the incidence exceeded collections by 55 percent. In the state of Wisconsin, the incidence exceeded collections substantially in both fiscal years.

FEDERAL TAXES ABSORB GREATER PROPORTION OF DISTRICT'S POSTWAR INCOME

Prior to the war, federal taxes directly and indirectly absorbed over 6 percent of total income. The burden among the states was quite uniform. In the fiscal year 1940 the percent of total income taken by federal taxes ranged from 5.5 percent in South Dakota to 7.3 percent in Wisconsin. The federal tax burden in this region was somewhat lighter than in other areas of the nation. Aggregate federal taxes constituted 7.4 percent of the total national income.

While in the entire nation federal taxes constitute 22.2 percent of the total income, these taxes directly and indirectly now take well over 15 percent of the district's total income.

In the fiscal year 1946 the total income taken by federal taxes ranged from 14.1 percent in South Dakota to 21.8 percent in Michigan. Minnesota was next to Michigan with 21.0 percent.

Since taxes reduce the amount of income individuals have at their disposal, the amount of purchasing power available to the consumer is reduced correspondingly. During and following the war, the aggregate amount of purchasing power has exceeded the physical quantity of merchandise in the domestic markets. Consequently, the high federal taxes, through the reduction of purchasing power, have reduced the inflationary pressure on prices.

U. S. EXPENDITURES ADD TO DISTRICT'S PURCHASING POWER

Governmental expenditures, on the other hand, add to the aggregate volume of purchasing power. Of the total 1946 federal governmental expenditures of $44,111 million, $19,989 million, or approximately 45 percent, represented payments made to individuals. These payments comprise payrolls, payments to veterans or to their dependents, interest paid on government bonds, etc.[1]

The total amount received by individuals through federal government expenditures in the states of this district is listed in the accompanying table. In the four states wholly within this district these payments aggregated $61 million. In the two states only partly in the district, they totalled $280 million.

In addition to the payments made to individuals, substantial sums were paid to business concerns for products delivered to the government. Thus, federal governmental expenditures, although less than in other regions of the nation, add significantly to the purchasing power in this district.

[1] These payments "comprise pay of civilian employees, net pay of armed forces, family-allowance payments to dependents of enlisted military personnel, voluntary allotments of military pay to individuals, mustering-out payments to discharged servicemen, enlisted men's cash terminal leave payments, interest payments to individuals, public assistance and other direct relief (including grants to States for special types of public assistance), work relief, veterans' pensions and benefits, and Government payments to farmers."

Source: U. S. Department of Commerce, **Survey of Current Business**, August 1947, p. 19.

TREASURY POLICY REDUCES INFLATIONARY PRESSURE

The cash income and the cash outgo for current expenditures indicates the effect federal government fiscal policy has on the national economy. In 1946 the cash income exceeded the outgo by $826 million. During the first five months of this year this net balance totalled $4,459 million.[1]

These balances represent the drawing of funds out of the national economy, which decreases the aggregate purchasing power. The smaller purchasing power tends to reduce somewhat the inflationary pressure on prices. —Oscar F. Litterer.

[1] U. S. Treasury Department, **Treasury Bulletin**, March 1947, p. 15, and July 1947, p. 15.

BUSINESS Continued from Page 493

AGRICULTURE ACCOUNTS FOR 30% OF INCOME PAYMENTS

The prosperity of Ninth District farmers is the major factor explaining increases in this district's income payments. The relatively large share of total income accounted for by agriculture compared to other sources of income and compared to the United States are shown in the chart. In recent years net farm income in the Ninth District represented over 30 percent of total income payments as compared with 8 percent for the United States. In 1946 North and South Dakota agricultural income was over 45 percent of total income payments, while in Minnesota and Montana it was 21 percent and 31 percent respectively.

On the other hand, income payments from manufacturing contributed far less to total income in the Ninth District than is the average for the nation as a whole, playing an important role only in Minnesota, where such income amounted to 15 percent. In the Dakotas it was less than 4 percent. In the United States on the average 21 percent of total income payments originate from manufacturing.

Trade and services income payments account for about one-fourth of total income payments in the Ninth District. Approximately the same relationship holds nationally. In like manner, the role of government income payments in 1946 tended toward uniformity throughout the Nation with little variation around the United States average of 17 percent. In the Ninth District, however, such payments were slightly lower.

Income Payments in U. S. and Ninth District States

(In Million Dollars)

TOTAL INCOME PAYMENTS

State	1929	1933	1940	1945	1946
United States	$82,617	$46,273	$75,852	$155,201	$169,373
Minnesota	1,443	812	1,424	2,614	3,082
Montana	325	158	321	555	669
North Dakota	264	126	237	566	624
South Dakota	288	118	242	598	673
Michigan*	3,543	1,641	3,425	6,799	7,379
Wisconsin*	1,849	938	1,622	3,418	3,803

PER CAPITA INCOME PAYMENTS

State	1929	1933	1940	1945	1946
United States	$ 680	$ 368	$ 575	$ 1,177	$ 1,200
Minnesota	566	307	509	995	1,090
Montana	602	290	574	1,228	1,394
North Daokta	389	190	368	1,097	1,162
South Dakota	417	172	376	1,112	1,228
Michigan*	745	348	649	1,218	1,215
Wisconsin*	634	312	516	1,159	1,198

* Entire state.

Source: U. S. Department of Commerce.

DISTRICT PAYMENTS REFLECT STATE OF AGRICULTURE

The varying fortunes of Northwest agriculture are reflected in this region's changing share of the nation's total income payments. Cash farm income[1] in the Ninth District plunged disproportionately from 1929 to 1933. Similarly it rose faster than in the nation as a whole during the late Thirties, but by 1939 had only partially recovered from depression and drought.

From 1939 to 1941, however, cash farm income in this area increased by 50 percent as compared with 35 percent nationally. This rise more than offset the Ninth District's lag in non-agricultural income behind the nation-wide upturn. From 1941 to 1943 the volume of cash farm income in the Northwest almost doubled. This marked advance was the main impetus to an expansion in total income payments of nearly 50 percent—an increase which paralleled the unprecedented rise in national income.

In 1944 cash farm income in the Ninth District actually declined. However, continued expansion of non-agricultural income payments offset this drop and the District's 1944 rise in total income again paralleled the national increase of 8 percent. This advance—the smallest since 1941—reflected the relative stability of the economy as war production levelled off at peak rates. The Ninth District increase in total income payments from 1944 to 1945, although only 7 percent, was greater than the national advance of 3 percent. This was directly the product of the 13 percent increase in cash farm income.

In 1946 total income payments in the four full states of the Ninth District equalled $5,048 million, an increase of 17 percent over 1945. In the country as a whole the average rise from 1945 to 1946 was about 9 percent. Again the Ninth District's relatively favorable increase was closely associated with cash farm income which in this period rose 18 percent. END

[1] Cash farm income equals gross cash receipts from farm marketings plus government payments.