

State and local government finances

State and local governments have been afflicted in recent decades by a peculiar atmospheric condition—a condition which has been called a “low level of visibility.” For a variety of reasons, especially the importance which wars, national defense and foreign affairs have assumed in our national life, the lower levels of government have not claimed the public attention which might normally be expected. Post World War II developments in the state and local sector of the economy, however, have refocused attention on this important area. Population growth, high levels of income, heavy wartime backlog demands and numerous other developments have contributed to pressures upon the lower levels of government for an extension and expansion of their traditional functions. The 1957 Census of Governments provides the opportunity for an intensive look at this myriad of governmental activities.

The results of just such an analysis, with interpretive flavoring provided here and there by the author, constitutes the substance of this article and a concluding one in this series, to be published in a subsequent issue of the *Monthly Review*. After a

brief review of revenue developments, this article will concentrate on the problems arising out of the multiplicity and differential responsibility of local governments, together with a comparison of revenues and income in the various states. The second article will develop particular aspects of revenue and expenditure patterns.

A cursory view of the changing importance which state and local government expenditures have had in our economy in this century is portrayed in Chart 1. As can be seen, state and local purchases of goods and services have increased more than the total output of goods and services in nearly every year since World War II. This trend is partly the result of the low level of expenditures which occurred during the war years. The post-war pressures for goods and services soon altered the wartime pattern. It is also apparent that part of the explanation for the sharper rise in state and local expenditures is the result of a faster increase in the purchase prices paid by these governments—mainly in construction expenditures—than the price increase for all goods.

During this century significant changes have

TABLE 1—PER CAPITA STATE AND LOCAL REVENUES, SELECTED YEARS, 1902-1957.

	1902		1934		1944		1957	
	\$	%	\$	%	\$	%	\$	%
Total general revenue	12.46	100.0	60.76	100.0	78.81	100.0	224.11	100.0
Federal intergovernmental revenue	0.09	0.7	8.04	13.2	6.89	8.7	22.57	10.1
Taxes	10.86	87.2	46.78	77.0	63.40	80.4	169.22	75.5
Individual income	.....	.....	0.63	1.0	2.47	3.1	10.30	4.6
Corporation income	.....	.....	0.39	0.6	3.26	4.1	5.78	2.6
Sales and gross receipts	0.35	2.8	7.98	13.1	16.54	21.0	55.59	24.8
Property	8.92	71.6	32.25	53.1	33.27	42.2	75.54	33.7
Other taxes, including licenses	1.59	12.8	5.53	9.1	7.87	10.0	22.00	9.8
Charges and miscellaneous general revenue	1.50	12.0	5.93	9.8	8.53	10.8	32.31	14.4

also been occurring within the state and local government sector of the economy. Several developments call for attention. On the revenue side of the ledger, there has been (1) a significant rise in federal payments to state and local governments, especially as a result of various grants-in-aid, and (2) a shift in the internal composition of state and local revenues from "own revenue" producing sources—"own revenues" being taxes and other revenues obtained directly from taxpayers as distinguished from grants-in-aid or shared revenues received from the national government. Accompanying these revenue developments and partly as a result of them, there has been a change in the content and emphasis in the types of expenditures made by the lower levels of government.

A half century of revenues

Federal intergovernmental payments to state and local governments comprised less than one percent (\$7 million in 1902) of total state and local revenues at the beginning of this century. They remained at a low level until the onset of the depression. Various relief and other programs jumped the federal payments to a record high. Such payments were, for example, 13 percent in 1934 (\$1,016 million). After a decline during the later 1930s and the war years, both in absolute dollar terms and in comparison with other revenues, these payments again rose and maintained a nearly constant rate of 10 percent in the postwar period, reaching \$3,843 million in 1957.

During the same period important developments were also occurring in other state and local government revenues. The harried revenue seekers of the depression period substituted two comparatively unused revenue sources for declining property tax revenue. Property taxes were the traditional mainstay of state and local revenues, comprising more than 70 percent of this revenue in 1902. The major substitution was in the form of general and special

Tabulations presented in this article are based on data from the Bureau of the Census and Office of Business Economics, U. S. Department of Commerce.

sales and gross receipts taxes and, to a considerably lesser extent, of individual and corporate income taxes.

Various forms of the property tax continue as the largest revenue yielder for these governments (34 percent in 1957), but the sales and gross receipts taxes have risen to a challenging position (25 percent in 1957). Some stopping points on the way of these half-century developments are shown in Table 1.

Layer cake or marble cake?

An analysis of the revenue and expenditure patterns (or lack of patterns) of state and local governments presents particularly sticky problems.

Chart 1—State and local government purchases of goods and services compared to GNP

(1929 = 100)

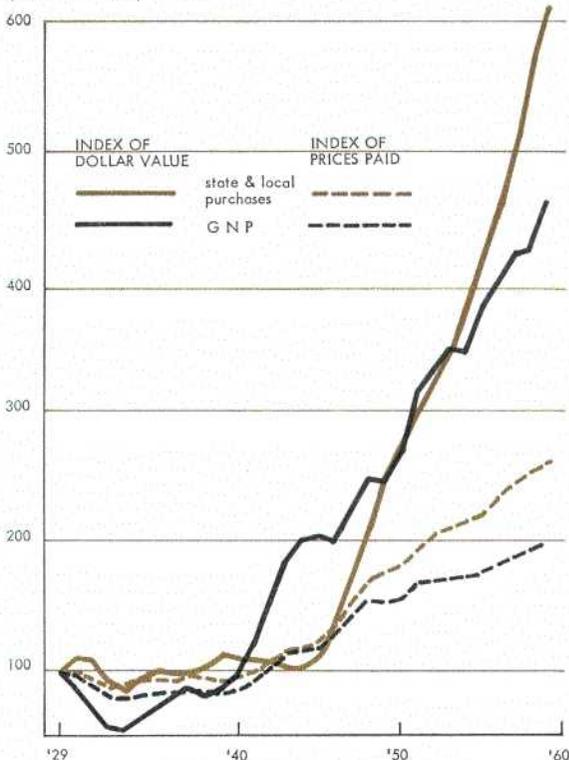


TABLE 2—NUMBER OF GOVERNMENTS IN THE UNITED STATES, BY TYPE, 1957.

Type of government	Number of Governments	Percent of Total
Total	102,328	100
U. S. Government	1	—
States	48	—
Counties	3,047	3
Municipalities	17,183	17
Townships and towns	17,198	17
School districts	50,446	49
Special districts	14,405	14

Such an analysis requires, even if imperfectly, a breakdown of the aggregate complex into its component parts. It is, however, difficult to isolate these components, in part because of the noncomparability of responsibility between governments in our system. The American system is usually discussed in terms of "levels" of government. This terminology is unfortunate; it conjures up an image similar to a layer cake. It has rightly been said that a more valid picture would be that of a marble cake. The validity of this comparison should become more clear in the subsequent discussion.

In 1957 there were more than 100,000 governments within the continental United States. Table 2 shows a breakdown of this total by type of government.

The number of governments has declined sharply in recent decades, the largest reduction occurring in school districts. In 1942, for example, 109,000 separate school districts accounted for 70 percent of all governments in the United States. Even though the number of school districts decreased by nearly 60,000 from 1942 to 1957, at the time of the governments census, they still accounted for nearly half of all governments. The category of special districts in the table includes governments created for a variety of purposes, such as fire protection, soil conservation, drainage, cemeteries, water supply, and transportation.

The number of governments in the separate states varies widely. There were 6,658 governmental units in Nebraska in 1957, but only 91 in

Rhode Island. On a per county basis, the number of governments ranged from three in Virginia to eighty-one in Wisconsin.

Ninth district states are among those with the greatest number of governments, as is apparent from Table 3. It is obvious from the table that much of the reason for the large number of governments in these states is the result of a larger number of school districts, although the size of the county areas is also important.

Most of the states with a high per county average are in the north central region. The southern states, with a comparatively small number of school districts, generally have the lowest per county average. Surprising differences occur within particular states. Cook county, Minnesota, has only 3 local governments, but Otter Tail County has 268 and Stearns County has 262. Walsh County in North Dakota has 173 local governments, whereas Sioux County has only 20.

TABLE 3—NUMBER OF GOVERNMENTS IN NINTH DISTRICT STATES, 1957.

	Number of Government Units	Average Number Per County	School Districts as Percent of Total
U. S.	102,328	33	49
Mich.	5,160	62	62
Minn.	6,298	72	55
Montana	1,503	26	76
N. D.	3,968	75	50
S. D.	4,808	72	68
Wis.	5,731	81	66

Some problems of analysis

The responsibilities for revenue collection and for the various functional expenditures differ widely among the governments within the states. For example, one state government may administer and control the entire school system of the state, whereas another may leave it in the hands of local governments—counties, townships, municipalities, school districts, special districts, or some combination of these. Any function may present this complex pattern. As a further complication, these gov-

ernments may collect revenues which they do not spend, and spend revenues which they do not collect.

As a result of this complexity most analyses of state and local government revenues and expenditures use the entire state as a unit for analysis. Thus Montana's local and state governments are summed into a single government. Such a technique eliminates a multitude of problems, though not all of them. There is still the fact that intergovernmental federal payments disrupt the symmetry of similar governments undertaking similar functions. As a consequence, it should be emphasized that it is possible to make valid comparisons for aggregates or in particulars only after the contribution and responsibility of all governments have been assessed.

In addition to the problems connected with the complexity of governmental responsibilities, the three problems of efficiency, values and "politics" require mention.

The efficiency problem. Apart from any conscious policy of income redistribution, revenues are expected to come from the beneficiaries of the government programs. However, the benefits of governmental activities are often estimated by a very crude calculus — an informed or not-so-well-informed guess. Under the circumstances we would expect a fairly sizable degree of error in estimation. The existence of this error and the difficulties of the estimation involved should be considered in any examination of the efficient utilization of resources by governments. Furthermore, once it has been decided that governments will provide for a particular function—for reasons lost in tradition or because of the inapplicability of the market principle—the "needs" or "demands" will differ between communities. In practical terms, if government undertakes to regulate law and order through the existence of a police force, this force must be accommodated, for example, to the level of crime and vehicular traffic in the community. New York City's problems in this regard will differ from those of Minneapolis, and not, necessarily,

just in proportion to population.

The value judgment problem. Even if all governments were operating at the most efficient possible level, differences in revenue and expenditure patterns would still be expected to exist because of the relative valuation placed on particular services by the different communities.

The political problem. It must be recognized that political institutions may imperfectly represent the public. The actual operation of these institutions will approximate the ideal democracy in varying degrees. These differences must also be considered, for the influence of particular sections of the community will differ in various communities—and will have their effect on revenue and expenditure patterns. This influence may arise out of the ubiquitous "pressure groups" or from the social structure of the community at its very depths.

The point which these reflections emphasize is that the resulting revenue and expenditure patterns have multiple origins. A comparison of efficiency, or of "reasons" or "causes" of differential levels of activity may yield only inconclusive answers and can only be judged in the light of the possible alternatives in a given community.

Revenues and fiscal resources

The level of government services depends on two factors: (1) the fiscal resources of the community, and (2) the willingness to use these resources. In the case of state and local governments, the level of services also depends on revenues received from the federal government.

In discussions of state and local "own" revenues, a widely-used measure of state fiscal capacity is the personal income received by residents of the state. Perhaps the greatest flaws in this measure are the exclusion of corporate profits, which a number of states tax, and the inclusion of transfer payments, which are not taxed. Unfortunately, corporate profits by states have never been amenable to satisfactory estimation. The available evidence indicates, however, that the personal income series closely approximates the more correct series. Any

TABLE 4—PER CAPITA STATE AND LOCAL GENERAL REVENUE COMPARED WITH PERSONAL INCOME, 1957.

States ranked in order of per capita income	Per capita income 1956-57	Per capita gen. rev. from own sources	% of U.S.	Revenue as % of income ¹	Per capita total gen. rev.	% of U.S.
U. S.	\$2009	\$203	100	10.1	\$226	100
12 highest income	2364	229	113	9.7	248	110
12 medium-high income	1948	202	100	10.4	228	101
12 medium-low income	1729	187	92	10.8	214	95
12 lowest income	1340	149	73	11.1	176	78
Ninth District						
Michigan	2192	218	107	9.9	237	105
Wisconsin	1911	214	105	11.2	230	102
Montana	1891	230	113	12.2	280	124
Minnesota	1812	222	109	12.3	247	109
South Dakota ²	1462	201	99	13.7	241	107
North Dakota ²	1445	228	112	15.8	260	115

¹ Column 2 divided by column 1.

² If revenues from North Dakota and South Dakota commercial enterprises are excluded, the revenues in columns 2 and 5 would be reduced by \$10 per capita in S. D. and \$25 in N. D. The adjusted revenues-to-income percentages in column 4 would be 13.1 percent in S. D. and 14.1 in N. D.

conclusions drawn here would not be materially distorted as a result of the use of the personal income measure as the basic measure of fiscal capacity. A further difficulty is that any income measure of fiscal sources is subject to greater variation from year to year than are government expenditures. In order to mitigate this problem, a two-year personal income average has been used. Such an average reduces the variation between the states, especially variations caused by fluctuations in farm inventories.

With these qualifications, Table 4 presents data which approximate the fiscal resources and "will-iness" factor. For ease of comparison, per capita measures are shown. It should be emphasized that all per capita calculations are based on the average total population in 1956 and 1957. Several comments based on this table deserve mention.

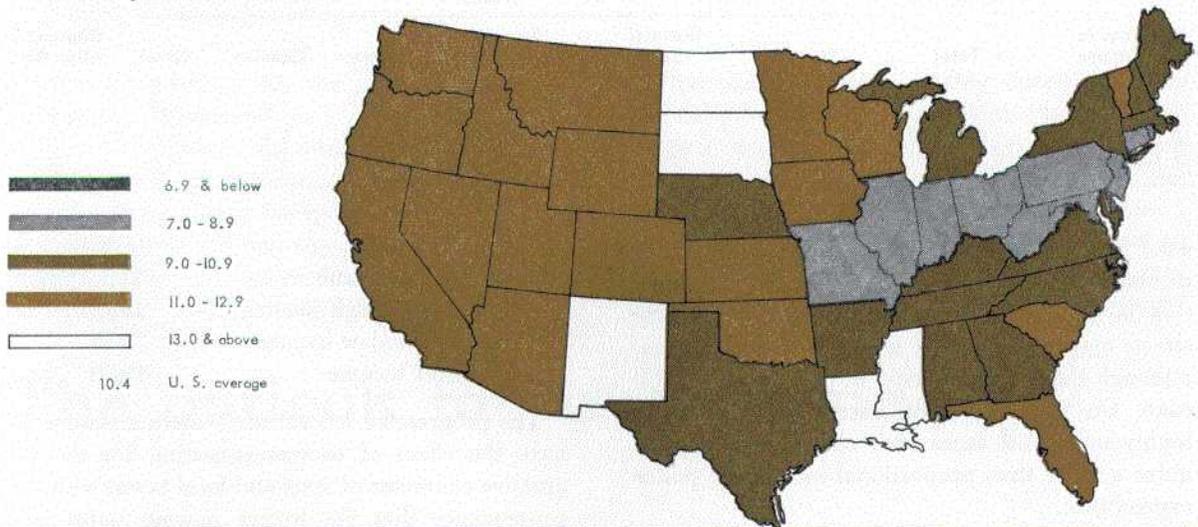
The states with greater personal income resources tend to extract larger dollar amounts from their residents (and from nonresidents who may be taxed), and by the same token provide a higher level of services. The range of per capita revenues derived from "home" sources extended from \$301

in Nevada to \$124 in Arkansas. The range in their incomes is also roughly comparable. Some states, however, do not fit this pattern. For example, New Mexico, had a relatively low income (\$1,660) but comparatively high revenue (\$233). The opposite is true of Ohio.

In 1957 all of the states in the Ninth district extracted revenues about equal to or exceeding the national average. Compared to the differences between all states, the variation of yields of the states within the Ninth district was small, ranging from \$201 in South Dakota to \$230 in Montana.

Per capita total general revenues in the table includes both "own revenues" and revenues received from the federal government. It will be noted that federal government payments to state and local governments have the effect of reducing the variation in general revenue among states. This reduction is primarily the result of two factors: (a) some federal grants-in-aid include distribution formulas which contain equalization factors intended to help provide national minimum standards, and (b) federal payments to some states are made in lieu of taxes—taxes which would have ap-

Chart 2—1957 state and local total general revenue from own sources as percent of 1956-57 personal income



peared as revenues from own sources, if states were allowed to tax federal holdings and activities. The larger federal holdings are located in generally lower-income states, especially in the western half of the country.

Federal payments to the higher-income states were about \$19 per person, whereas payments to the lower-income group amounted to \$27. Those states receiving the largest federal payments on a per capita basis were those with large federal holdings. For example, Wyoming received 370 percent and New Mexico 296 percent of the national average per capita payment. Federal payments to Ninth district states ranged from \$16 per capita in Wisconsin to \$50 in Montana. After these intergovernmental payments are taken into account, per capita total general revenues in all Ninth district states are seen to exceed the national average, ranging from \$4 in Wisconsin to \$54 in Montana.

When revenues are compared with fiscal resources, it will be noted that the lower-income states generally obtain revenues from their citizens at a higher rate than in the higher-income states. There is, however, considerable variation within

these groups. The geographical pattern of the ratio of revenues to income is presented in Chart 2. It can be seen that the states with a lower use of fiscal capacity are concentrated in the northeast quarter of the country. It will be noted that North and South Dakota, Louisiana, Mississippi, and New Mexico have a higher revenue-to-income ratio than the other states. It will be noted also that the western states have a generally similar rate of use of fiscal capacity which is somewhat above the average. The southeastern states also tend to maintain a regional pattern, and at a level close to the national average.

A wide variety of factors other than differences in income appear to contribute to the state differences in the level of services. Differing proportions of school-age population, the relative importance of public and private education, the policy of segregation in some states, variations in population density, and the desire for nationwide minimum standards of service appear to be contributing factors.¹ Some governmental functions have the char-

¹Cf. A. Manvel, "Regional Differences in the Scale of State and Local Government," *National Tax Journal*, June 1954.

TABLE 5—STATE AND LOCAL GOVERNMENT GENERAL REVENUES FROM OWN SOURCES ACCORDING TO USE OF FISCAL CAPACITY, 1957.

Revenues as % of Income	Total	TAXES						Charges & Misc. Rev.
		Property	General Sales	Selective Sales	Income	Licenses	Other	
12 highest	100.0	41.0	12.5	13.7	8.4	7.8	2.4	14.2
12 medium high	100.0	40.0	10.4	14.4	9.3	7.5	1.9	16.6
12 medium low	100.0	35.2	6.8	19.4	4.7	9.4	5.6	19.0
12 lowest	100.0	22.8	15.9	22.2	8.4	8.0	3.0	19.7

acter of high fixed costs, and are subject to decreasing average cost when the factor of population is included. For example, sidewalks on city streets may cost the same in Chicago as in Helena, although the per capita cost will be lower in Chicago. On the other hand, traffic congestion in highly urbanized areas such as Chicago may require a more than proportional increase in police expenditure.

An interesting aspect of this differential use of fiscal capacity is that there are different revenue patterns in these groups of states. Table 5 presents a percentage distribution of state and local revenues from their own sources for 1957, classified into four groups of states according to the proportion of income which these revenues represent. It is apparent from the tabulation that the states with a low revenue-to-income ratio use selective taxes and "charges and miscellaneous revenues" to a greater extent than the other states. On the other hand, they use the property tax to a lesser degree.

While considering state and local tax burdens it may be pertinent to take a brief look at the overall burden of both federal and state and local taxes. The 1955 report of the Commission on Intergovernmental Relations included an estimate of the total tax burden of states from both federal and state and local governments as percents of income payments to individuals. Although the conceptual framework of these data is not identical with the data cited earlier in this article, the broad conclusions are valid. Total tax burdens as percents of income payments for the fiscal year 1953 for four groups of states, ranked in order of per capita income, were estimated as follows:

United States	34.47%
12 higher income	35.98
12 medium-high income	33.75
12 medium-low income	33.25
12 lower income	30.30

The progressive federal tax structure is seen to have the effect of overcompensating for the regressive character of state and local taxes, with the consequence that the higher income states pay more of their incomes in total taxes than the lower income states. However, this conclusion does not deny the fact that lower state and local revenues result in lower benefits from state and local expenditures, nor that a more proportional tax "take" at the state and local level would show an even more favorable position in terms of tax burden for the lower-income states.

Conclusions

Important changes have occurred in state and local government revenues during this century. These changes have been an increase in federal intergovernmental payments and a shift in the types of revenues by the lower governments. Both of these developments were largely begun during the depression of the 1930s or had their roots in the economic developments of that period.

States with lower incomes generally provide a lower level of governmental goods and services than the higher income states, although they provide this lower level at a higher sacrifice to themselves. The equalization effects of federal intergovernmental payments have mitigated the disparities between state potentials to some extent.

—CHARLES J. LIBERA

Lake shipments of iron ore from the mines of Minnesota, Wisconsin and Upper Michigan, reached 65.9 million tons during the 1960 season, yet fell short of expectations. Steel production sagged sharply during the spring months of 1960, and with it, ore demand. As a result, the earlier brisk pace of ore shipments trailed off, with the season finally tallying its earliest closing date of

the postwar era. Many mining operations were cut back unseasonably, and mining employment dropped to low levels in December, creating more than usual interest in the outlook for the 1961 season in this region.

But the outlook is clouded. Ore inventories at steel plants are extremely high and, at the rate they are currently being used, will still be "excessive"

The outlook for iron mining



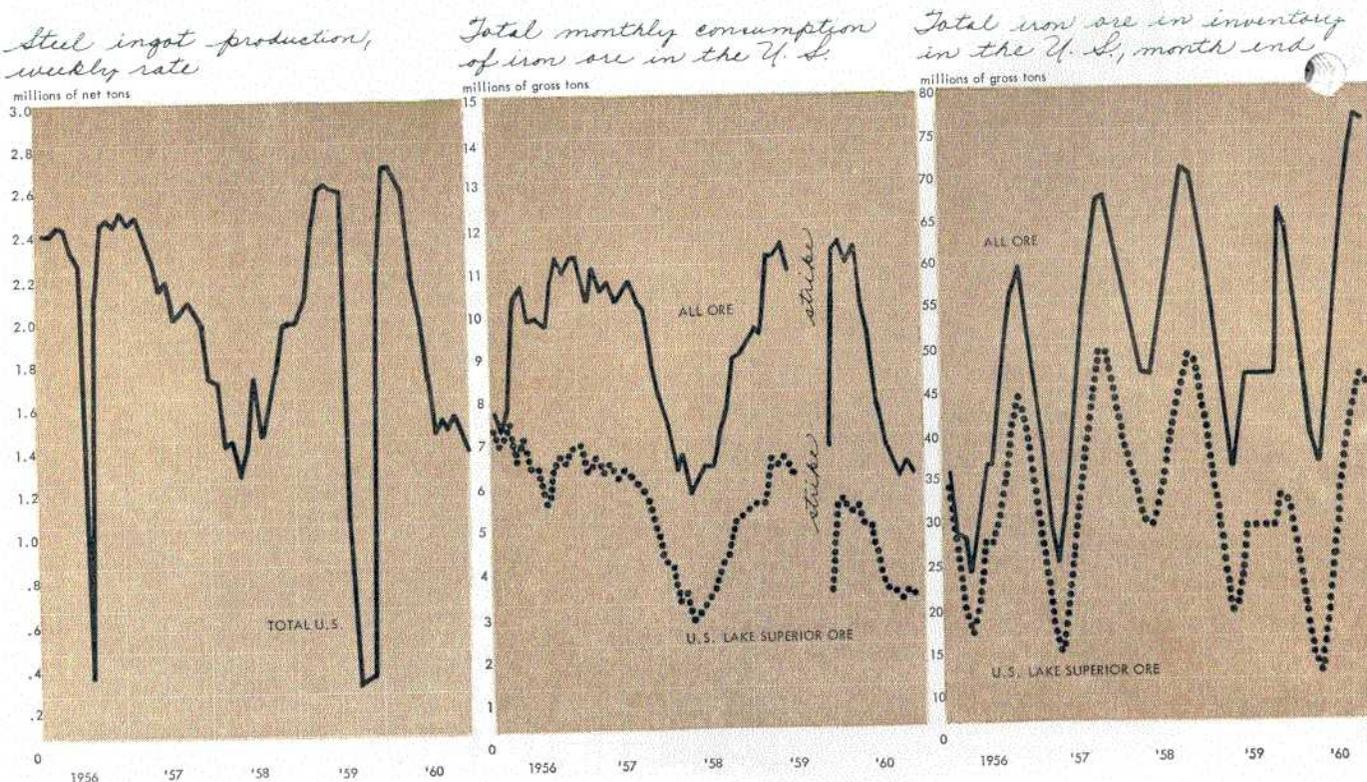
in April when shipments from the mines normally begin for the new season.

To illustrate this, U. S. total monthly consumption of ore and month-end inventories are plotted in Chart 1. Total inventories in December reached a record 75 million tons. Ore consumption on the other hand has in recent months held at a rate of 6.5 million tons per month—almost half the rate of early 1960. If consumption continues on the current scale, there could be over 55 million tons of ore in inventories when lake shipping opens, compared with a more “normal” level of 30 to 40

million tons. Even if ore consumption should return to “normal” in the ensuing months, the season’s shipments would be expected to be reduced by the amount of excess ore inventory to be “worked off.”

Some early estimates that have been reported place the expectations for Lake Superior district shipments this year at not much more than 45 to 50 million tons. If so, the outlook for mining activity in the districts iron ranges is relatively poor, as comparison with the postwar shipment record shown in Chart 2 would indicate. However, a

Chart 1—Steel production, iron ore consumption and iron ore inventories in the U.S. by months, 1956 to 1960



strong upsurge in steel production over the next several months would do much to improve the present unfavorable prospects.

Implications for iron range employment

Actually two currents are at play in the outlook for district mining activity. One — presumably short run and temporary — is the recession impact of reduced steel output. This is without doubt the key factor in the outlook for the 1961 season.

But a more fundamental trend is also at work. Briefly it's this: the economics of the iron ore/steel production relation has changed rapidly in the last few years. Changing concepts in blast furnace practice have placed increasing emphasis on higher quality ores (higher iron/silica ratios, controlled structure, more chemical uniformity) than past practice has demanded. In fact, the point appears to have been reached where some of the "stock" output of Lake Superior mines is no longer competitive. Poorer quality ores are rapidly losing out to the higher quality imported ores and pelletized taconite and jasper-jaspilite concentrates. This, incidentally, suggests that the impact of recession is apt to be selective in range areas—hitting most at localities with high cost underground mines, and other mines producing only the stock ores of the past. In fact the district's own taconite plants, selling on the market in larger quantities this season than formerly will, by their competitive advantage, accentuate the shrinking market for the region's lower quality ores.

Longer term outlook

Divorced from effects of the current demand doldrums, overall prospects for the district's mining region are not unfavorable. Looking at employment experience in iron mining in Minnesota, shown for the years 1948 to 1960 in Chart 3, the general level of employment appears to have been reasonably sustained during this period even though foreign ore imports have grown from about 10 million tons annually to more than 35

Chart 2—Lake shipments of iron ore from mines in Minnesota, Wisconsin and Michigan

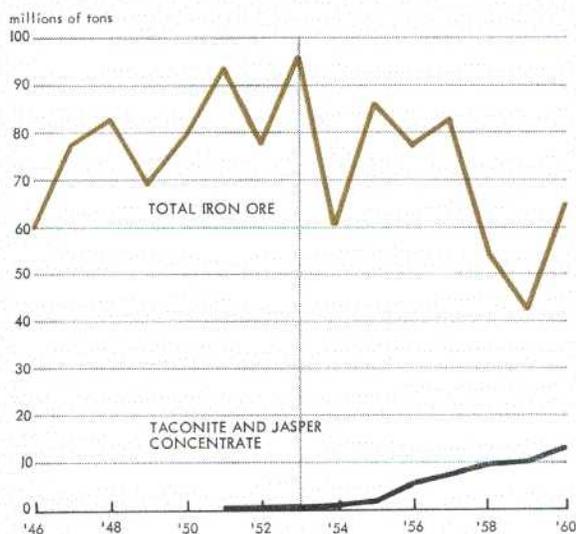


Chart 3—Employment in iron mining in Minnesota, annual average

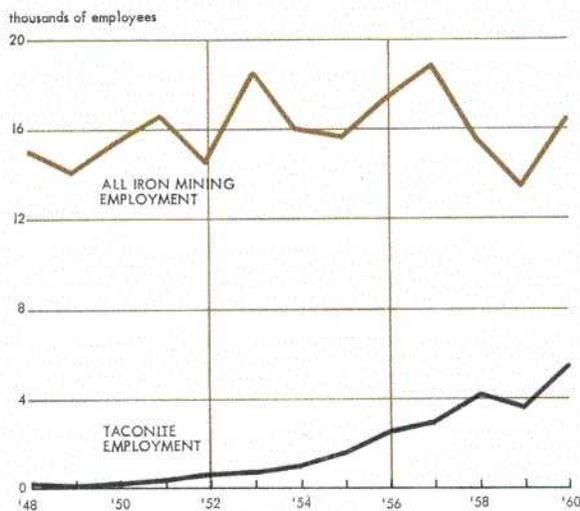
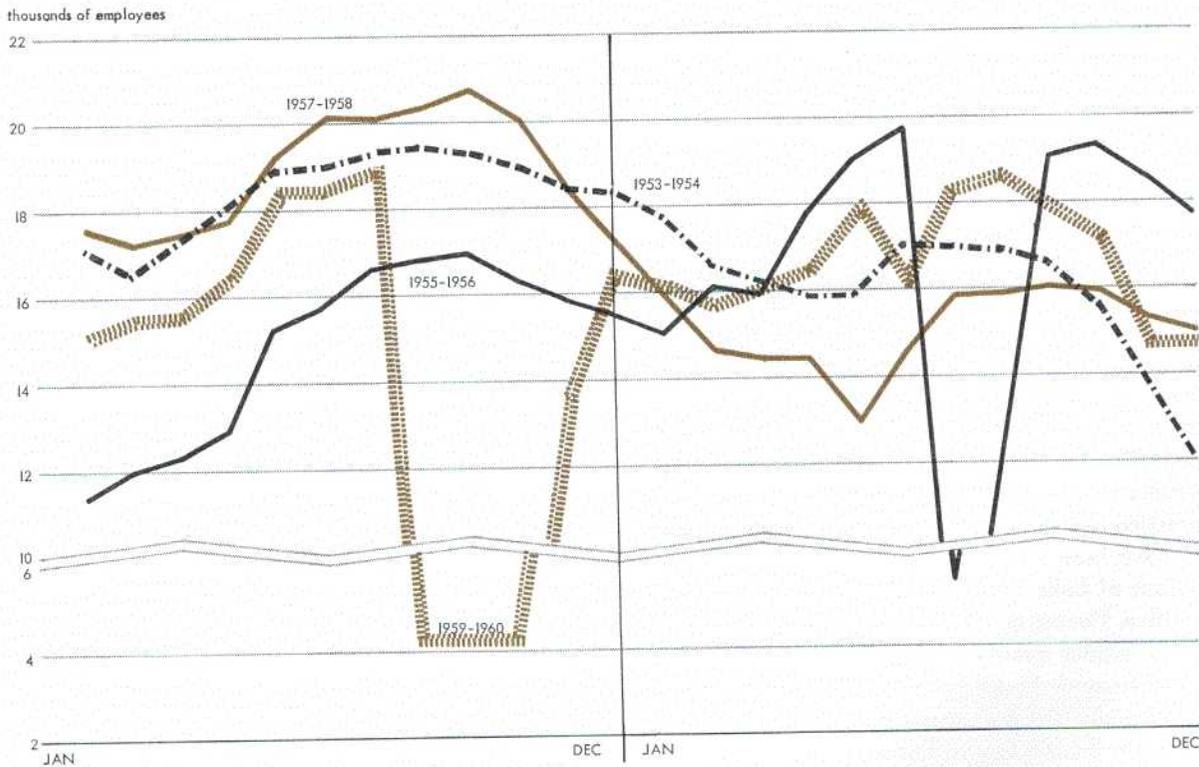


Chart 4—Employment in iron mining in Minnesota, monthly average, 1953-1960



million tons annually. The general level of employment during the past season was still well above the war time and early postwar periods. Average monthly mining employment in the period 1941 to 1945 was, for example, 13,000 while during the period 1946-1950 it was 14,200. Thus the 1960 average level of 16,500 seems comparatively strong, despite the fact that it does not match recent record-setting years, such as 1953 and 1957.

As Chart 3 shows, the most important source of strength in Minnesota mining employment has been the dynamic introduction of the taconite industry, which has grown from virtually nothing in 1950 to account for more than 30 percent of Minnesota's iron mining employment last year. And herein lies a substantial source of optimism for the future of iron range activity.

Thus, even if total ore shipments from this district persistently decline coincident with expanding imports, total mining employment may fare rather well. The production of taconite concentrates, it has been estimated, requires from 2.0 to 2.5 times more manhours per ton than direct shipping ores, and some authorities have projected a 35 million ton taconite concentrate output by 1975. Based on current apparent productivity, then, taconite operations alone may require 15,000 employees.

To be sure there will be many difficult adjustments in particular mining communities and particular sectors of the district's iron mining industry, but overall, the changed environment of iron ore/steel making economics is likely to support a long run gain rather than loss to this district.

—C. NELSON

Current conditions . . .

Because the current recession seems to be concentrated in inventory shifts and in reduction of industrial production, the impact of these adjustments is less noticeable in the district than in the nation. The district economy is heavily influenced by agriculture and by industries closely associated with agriculture, such as food processing; and 1960 was a near record, if not a record, for overall district agricultural production. Together with a higher level of farm prices, this stimulated a sharp increase in farm incomes during the second half of 1960 from year-earlier levels. It is this fact that has modified the impact of national economic hesitation on the region's economy.

Total Minnesota nonagricultural employment in the fourth quarter of 1960 increased 1.1 percent from the previous year's fourth quarter. Nationally the figure was 0.5 percent. Manufacturing employment was slightly on the plus side during the fourth quarter but off about 1.5 percent nationally. Employment in Minnesota agricultural machinery manufacturing was particularly strong during December, up 23 percent from a year ago. Offsetting to some extent employment gains in many of the important manufacturing industries of the region was continued weakness in some service industries such as transportation and retailing.

Total personal income gains in Minnesota during recent months continued to outpace those for the country as a whole. In December, Minnesota personal income registered a 5.1 percent increase from a year earlier. Nationally the advance was 3.2 percent.

District bank debits during December registered a plus 1.5 percent from December a year ago.

Nationally, the comparable statistic was a minus 1.1 percent. The use of electrical energy for industrial purposes stood at 107 in November (1957=100) in the district, compared with 98 a year earlier.

The liquidity situation of all district member banks improved steadily in recent months, reflecting the basic improvement in the area's agricultural situation. At the year's end, district gross demand deposits were 3.5 percent above a year earlier, whereas nationally a 0.9 percent increase was registered. Time deposits were up both nationally and at the district level, with the greater increase at the national level. Outstanding loans at member banks were up about 8 percent at the year's end, both nationally and in the district. Borrowings at the Federal Reserve Bank of Minneapolis by the year's end and in recent weeks have been almost nil, reflecting some improvement in bank liquidity positions. Nevertheless, loan-deposit ratios remain at relatively high levels both here and nationally.

At the national level, economic adjustments in 1960 were diffused to the extent that until late in the year a wide difference of opinion existed as to how business trends should be described.

Gross National Product leveled off at the year's end above the first quarter annual rate but slightly below the second quarter rate. Total personal incomes continued until late in the year to register advances. On the other hand, the unemployment situation has continued to deteriorate since last May. Industrial production declined in the second half and particularly so in the last quarter, after relative stability earlier in the year.

It is too early yet to get statistical evidence of

business trends since the beginning of 1961 but stock market action apparently reflects some improvement in business sentiment. Perhaps one reason for this is the spreading realization that much of the national economic adjustment to date can be traced to inventory changes and to shifts in capital goods outlays. Inventory spending at the manufacturing level has been cut back quite extensively and a shift from decumulation to accumulation could easily occur relatively soon. A look at the inventory situation at the retail level, however, is not so reassuring since inventories remain high. Large stocks of automobiles in dealer hands is an example.

The following selected topics describe particular aspects of the district's current economic scene:

RETAIL SALES TRENDS

In spite of a general slowdown in the economy, 1960 retail sales in the nation set a record high of \$219.8 billion, about 2 percent above the total for 1959, according to a U. S. Commerce Department release. All of the increase occurred in nondurable goods; in fact, the sale of durable goods fell off by nearly 1 percent.

Lower sales were reported in the lumber, building, hardware and farm equipment group and in the furniture and appliance group. The lower demand for these products is attributed mainly to the smaller number of houses built during the year. The sale of these products, on a seasonally adjusted basis, began to decline in May and continued on a low level through the rest of the year.

During the 1960 Christmas season, the type of merchandise which received greatest consumer acceptance showed little variation from former years. Toys, men's furnishings and sporting goods sold well. In the durable goods field, only sales of radios, phonographs and television sets were up slightly from a year ago in the four weeks immediately preceding Christmas. Major appliance sales in December showed no improvement over the low level of the preceding months.

The seasonally adjusted index for department

store sales in the nation for December was 146 percent of the 1947-49 base period, the same as for December a year ago. In comparing the trend of department store sales in the Ninth district and the nation, it is readily observed that district sales grew at a slower rate during the decade of the fifties than in the nation. The adjusted index in December 1960 for the Ninth district was 137 percent of the 1947-49 average, 9 index points below the national figure. The sales volume growth during the past decade was concentrated at the beginning of the Korean War and during periods of general economic prosperity. Following the turning point in the business cycle in April 1958, seasonally adjusted district sales rose significantly during the next 15 months, to mid-1959, and then leveled off and remained on a plateau through 1960.

Although department store sales have been on a plateau during 1960 for the district as a whole, there have been marked differences in trend among district states. In North Dakota, South Dakota and in some sections of Minnesota and Montana, sales were low at the beginning of 1960 due to a relatively low level of farm income, but sales improved in the latter half of the year.

December 1960 department store sales were up 3 percent in South Dakota and 1 percent in North Dakota from a year ago. In northwestern Wisconsin and Upper Michigan, sales were also up 3 percent from a year ago, when they were relatively low due to the steel strike. In both Minnesota and Montana, they just equaled those of a year earlier. In the district as a whole, sales were up about 1 percent.

During the first half of January 1961, department store sales in Minneapolis-St. Paul and Duluth-Superior fell below the year ago volume. About 60 percent of the department store volume in the district is concentrated in these two metropolitan centers. A greater than usual decline in nonagricultural employment during the winter has contributed to the more conservative buying of consumers.

LOANS DROP AT DISTRICT BANKS

In the final quarter of 1959, district city bank loans fell but \$12 million. In contrast, a decline of \$44 million was registered in the same quarter of 1960. In the first two weeks of the new year 1961 a further decline of \$14 million compared with minus \$9 million a year earlier. These figures largely reflect the behavior of commercial and industrial loans which were reduced by \$70 million from September 28, 1960 to January 11, 1961, in contrast to a reduction of \$31 million a year earlier. Other categories of city bank loans changed little in either period.

The city bank demand deposits increased by about \$200 million or twice as much in 1960 as in 1959, from the seasonal springtime low to the end of the year. Time deposits of the city banks rose by \$15 million in 1960 in contrast to a decline of \$4 million in 1959 and an increase of \$47 million in 1958.

The reserve city banks reduced their borrowings from the Federal Reserve during 1960 in every month after April when, at \$60 million, their borrowings amounted to 36 percent of required reserves in contrast to a national average for city banks of only 3.5 percent. By December district city banks were borrowing an average of less than 1 percent of required reserves as were all city banks in the nation. Moreover, our banks borrowed much less in the market for federal funds during December than in earlier months of 1960. On January 11, 1961, the weekly reporting banks held \$92 million of government securities maturing in less than a year; this was more than they held on any reporting date in 1960.

The story is much the same at the country banks where, as at the city banks, demand deposits rose by about \$200 million or twice as much in 1960 as in 1959, from the spring to the end of the year. The time deposits of country banks rose \$48 million in 1960 in contrast to gains of \$7 million and \$129 million in 1959 and 1958, respectively. Although country bank loans rose by \$20 million in

December 1960 as compared to an increase of only \$2 million a year earlier, the increase of loans for the previous eleven months of 1960 amounted to \$82 million or \$37 million less than the increase registered in comparable 1959 months. Country bank borrowings at the Federal Reserve averaged \$1.1 million in December (\$1.6 million in January through the sixteenth) in contrast to a high of \$13.1 million in June.

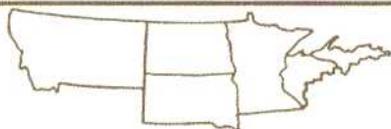
HOG NUMBERS RISE

The U. S. 1961 spring pig crop is expected to reach 49.5 million head, 5 percent more than last year's crop. This U. S. Department of Agriculture estimate is based on an intended 4 percent increase in sow farrowings during the December 1960-May 1961 spring farrowing season and an expected increase in the number of pigs saved per litter.

Hog producers in the Ninth district states of Minnesota, South Dakota, North Dakota and Montana are planning to increase farrowings this spring by 9, 12, 13 and 20 percent, respectively.

Hog numbers began turning upward last October after only 12 months of decline. The drop in hog numbers was of short duration, but very sharp; the 1960 spring pig crop was down 17 percent from the level of 1959. The 1960 spring pig crop was the smallest recorded in the last seven years. Thus, the 5 percent increase expected in the 1961 crop will not result in a large crop.

Hog prices in 1960 were below year-earlier levels until June, reflecting a heavy volume marketed from the large pig crop of 1959. During the last half of 1960 prices were well above 1959 levels, reflecting the decline in output which began in October 1959. The USDA expects hog prices to remain above year-earlier levels through the first half of 1961; on the basis of the 1961 spring pig crop estimate, hog prices during the fall of this year should not be much below the levels of last fall. The favorable outlook may, however, cause producers to re-evaluate and expand production in the late spring months. Also, a heavy liquidation of cattle next fall could adversely affect hog prices.



*Subscriptions available from
Monthly Review, Research Department,
Federal Reserve Bank of Minneapolis,
Minneapolis 2, Minnesota*