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NATIONAL ECONOMIC PROSPECTS AND POLICIES

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E. S. W.

I believe we can say with some assurance that the worst of the economic slump is past. The low points in output, profits and stock market prices are now behind us. And after several false dawns, we have at long last passed the peaks of inflation and interest rates.

It is wishful thinking, however, to speak of getting our sluggish economy back to full employment even by the end of 1971. That would call for a 9¼ percent growth in real GNP in 1971, which in turn would require force feeding of the economy and touch off a new wave of inflation. But the immediate outlook is for a slow laborious climb till sometime in the middle of 1971. It won't be rapid enough to absorb the additions to the labor force.

A target of full employment within two years makes much more economic sense. (When I say full employment, that's shorthand for full utilization of our resources consistent with a 4 percent rate of unemployment.) The two-year target would call for a more reasonable 6 percent rate of real growth, on the average, for the next two years. As it has on repeated occasions in the past, the U.S. economy could achieve this rate of growth while bringing and holding inflation within tolerable limits.

The present 5 percent rate of monetary expansion is not rapid enough, however, to pull our restrictively high interest rates down to more reasonable levels. Clearly, even if we assume that recent 6 percent rates of inflation are cut in half for the period in question, the combination of a 3 percent price rise and 6 percent real growth would require a 9 percent growth in money (total) GNP. A 5 percent growth in the supply of money is simply not enough to finance a 9 percent growth in money GNP.

It is clearly time to enter the third stage of the Administration's "Economic Game Plan" and shift overtly to vigorous monetary expansion and a somewhat less restrictive budget policy. This stage is now far behind schedule.

Stage 1 was the conscious engineering of an economic slowdown through brutally tight money and moderately tough fiscal policy. Stage 2 was the let-up stage, of considerable easing of the monetary and fiscal brakes during 1970. Since the economic traffic signal turned from red to amber early this year, the Federal Reserve has moved from a zero pace of monetary growth to 5 percent or so; the 10 percent surtax has been phased out; and Congress has boosted social security benefits by 15 percent.

The 1970-71 Outlook

The economy has not conformed fully to anyone's expectations. So far this year, it outperformed forecasts of the pessimistic minority—chiefly the monetarists of the Friedman school—who viewed the zero growth in money supply during the last half of 1969 as the inevitable precursor of severe recession and a 1970 GNP rise of as little as $30 billion. It disappointed the optimistic majority—including myself—who expected inflation to slow more promptly when demand fell and unemployment rose. Despite a decline in real GNP and industrial production coupled with a sharp rise in unemployment during the first six months of 1970, the consumer price index rose at a 6 percent annual rate.

The $53 billion GNP advance for 1970 I forecast earlier in the year now looks about $5 billion too high. A modest advance in real GNP in the second half will roughly offset the shrinkage in the first half, leaving little or no real growth in the economy for the year. The nominal $48 billion growth in total GNP will be a "grand illusion" as virtually all of it will represent a rise in the price deflator.

Looking ahead, one sees little likelihood of a quick snap-back in total demand. True, home building is perking up nicely. State-local spending always rises. New exports are rising. And inventory accumulation may now provide a modest stimulus. But the big guns of expansion are silent. The boom in plant and equipment has subsided. Government purchases are still declining. The consumer continues to show little zest. And the laborious road back to high employment and high growth is strewn with land mines marked "strike."

An inspection of the major sectors of private demand—consumer spending, housing, business investment—confirms the impression of sluggish recovery.

The high consumer saving rate of over 7 percent for 1970 that I projected in January seems to be in the making. Abrupt jumps in disposable income through tax reduction and retroactive social security and government pay increases—not to mention a tumbling stock market—have raised the saving rate sharply. With money GNP rising less than $20 billion in the first half of the year, disposable income rose by $33 billion. The saving rate, rising to a peak of 7½ percent in the second quarter, should gradually ease to perhaps 6½ percent by mid-1971. Retail sales should show gradual improvement after many months in the doldrums.

Although my forecast of 1.3 million housing starts of last January was considered too optimistic by many, it is being exceeded.

The rate of housing starts did not fall below 1.25 million in either the first or second quarters of the year. Helped by the high consumer saving rate, thrift institutions have experienced a huge inflow of funds—an inflow that reached an annual rate of $14 billion in the second quarter—which has put them in a strong position to support higher rates of housing starts for the remainder of the year. For 1970 as a whole, housing starts are likely to total 1.4 million and push on up to a rate of 1.7 million by mid-1971. This will be the major force behind the modest recovery of the coming months.

Business firms have been progressively marking down their capital outlay plans. The 9.7 percent rise in plant and equipment expenditures projected in last December's government survey has been cut to a 6.6 percent increase in a more recent survey. But actually business investment outlays as recorded in the GNP accounts have lagged well behind even the latest survey figures.

As expected, declining rates of business inventory accumulation pulled down production during the first half of the year. But because stock-sales ratios had not gotten badly out of line, little further inventory correction is expected. The very modesty of the inventory correction, however, suggests that—unlike our experience in many previous slowdowns or recessions—we should not expect a big lift to GNP in coming quarters from expanding rates of inventory accumulation.

Given the foregoing prospects, one can reasonably anticipate that GNP in the third quarter will be close to $985 billion and that it will cross the trillion-dollar mark in the fourth quarter. This advance during the second half of 1970 represents a real growth rate of about 2 percent, still less than half of the normal 4.3 percent annual growth of the U.S. economy's potential.

In other words, the production gap which must be filled either by private demand or stimulative public policy is not only large but growing. The U.S. economy's actual output began slipping below its full-employment potential about a year ago. By now, a $45 billion gap has opened up, output in manufacturing has fallen to 77 percent of capacity, and 1.25 million more people are out of work than a year ago, reflecting a rise in the unemployment rate from 3.5 percent to 5.1 percent. The gap between actual and potential production will widen to over $50 billion by year's end, i.e., roughly $1 billion a week of this country's capacity to produce will be running to waste. Thus there is abundant slack in the U.S. economy today to accommodate a more expansionary policy.

The Inflation Prospect

I would say with respect to current prospects for decline in inflation that they are reasonably good, even if the economy moves up. At long last the lags are now going to be working for us because of the slack that has been built into the economy. The slimming down of the excess labor force that many companies had, the increases in productivity that are coming along, will all continue to operate even in an economy that's beginning to move up again. Even with some spectacular wage settlements that are going to be very disturbing from the standpoint of stability, labor as a whole faces a slower rate of increase in average hourly compensation. Just as wages of unorganized and weakly organized workers go up faster in a boom, they come down faster, at least in terms of rate of increase, in a period of slack. Combined with the productivity pickup, that will mean significant help on the cost-push side.

To be more specific:

During much of the slowdown engineered by national economic policies since mid-1968, labor hoarding and the associated tight labor markets have been a major factor in the rapid rise in unit labor costs that has sustained inflation and undercut profits. Over the year ending with the first quarter of 1970—during which private output was virtually unchanged—hourly compensation rose 7.4 percent, productivity declined slightly, and unit labor costs rose 7.7 percent. Corporate profits, squeezed both by rising unit labor costs and the rise in overhead costs as output stagnated, fell nearly 12 percent, reaching the lowest ratio to output in memory.

In the second quarter of 1970, however, signs of relief from cost-push pressure began to appear. Productivity in the private sector rose at an annual rate of 3.1 percent at the same time that the growth in hourly compensation slowed down, thus dramatically cutting the rate of increase in unit labor costs to 1.9 percent. In the second half of 1970, it now appears that:

> Labor markets will continue to soften as the number of jobseekers expands faster than the number of job openings. Even in the face of some highly publicized "rich" settlements, this will continue to moderate the growth of average hourly compensation.
>
> At the same time, productivity should improve as output expands, thus holding down the rise in unit labor costs.
>
> The net result should be an improvement in profits (an improvement that will hold the year-over-year erosion of after-tax profits to about 7 or 8 percent, close to my forecast last January), as well as some slowdown in the wage-price spiral.

Interest Rates

Interest rates on the short end have already come down sharply. The Federal Reserve may have temporarily overshot its target. It is hard to believe that they expected short-term interest rates to drop so quickly to below 6 percent.

As to long-term rates, it is equally hard to believe that the Federal Reserve is satisfied with the modest declines in long-term rates. Triple-A corporate bonds are not down more than 50 basis points from their peaks and are still above their early-1970 levels. Mortgage rates, as usual, are very stubborn. In the face of these extremely high long-term rates—and given that the Fed's new emphasis on monetary aggregates and the *supply* side of the monetary equation *by no means* excludes concern over interest rates and the *demand* side—I believe they will continue to pursue a monetary policy that tries to pull those long-term interest rates down. Don't expect rates to go down to the levels of three or four years ago. The long-run outlook for the U.S. economy, especially for capital formation, is simply too strong for that, not to mention the prospects for inflation.

But given the softness and sluggishness of the U.S. economy in the short run I would expect long-term interest rates to give ground—perhaps before they settle on a high plateau sustained by the tremendous demand for capital in this country and the relatively limited supply of money. And I might add that the U.S. as a whole will be lucky if inflation simmers down to an average of about 3 percent in the next five years.

Policies for Expansion

Against this backdrop, the question of the moment is not whether to stimulate the economy, but how. This time, largely to make up for sins of the recent past—when we forced too much of the policy burden on savagely tight money and not enough on a tougher tax policy—our major reliance should be on monetary expansion.

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To satisfy the continuing hunger for liquidity, to bring long-term interest rates down from their still intolerable levels, and to nourish a respectable economic expansion, the Federal Reserve Board should now put the economy on a richer monetary diet. I do not favor far-out 9, 10, 12 percent increases in the money supply. But unless we push it up to at least 6 or 7 percent, it's hard to see how we can get this prodigiously productive U.S. economy back to its potential within two years.

I am not suggesting that fiscal policy should be shunted to the sidelines. Indeed, contrary to the impression created by the big budget deficits growing out of a soft economy, fiscal policies are actually getting a bit tighter, not looser. Even allowing for Congressional actions in boosting appropriations and refusing to enact certain revenue measures, one finds a gradual tightening of the fiscal reins:

> The deficit (on a National Income Accounts basis) very likely hit its peak at $14 billion in the April-June quarter and will taper off somewhat during the current fiscal year—even if spending rises to $210 billion for fiscal year 1971, as seems likely.
>
> Meanwhile, if we measure the budget's impact in the more meaningful terms of *where it would stand if the economy were operating at high employment* (taken to mean roughly 4 percent unemployment), the true picture of modest restriction emerges: from a position of rough balance in the April-June quarter, the "high-employment budget" is moving toward a surplus of $5 billion or more during the current fiscal year.

This is not an argument for a tax cut to stimulate the economy. Indeed, for the longer run, only by increasing taxes or cutting defense outlays sharply can the United States hope to meet its aching social needs, hold inflation at bay, and relieve the ferocious pressures on the money and capital markets.

But the economic and fiscal facts do argue that, even within President Nixon's own constraint—namely, that "expenditures must never be allowed to outrun the revenues that the tax system would produce at reasonably full employment"—there is no economic justification for vetoing health, education and housing bills. Good economics today does *not* call for budget largesse, but it *does* support a more generous approach to the funding of our vital social programs.

Prospects for Success

I don't underestimate the difficulties of economic policy today. After all, in the early 1960's we had so much slack and unemployment that it was no trouble calling the shots. The most expansionary fiscal-monetary policy we could hope to get would express itself in higher output, more jobs, and higher profits, not higher prices. For the four years 1961-65, we averaged only 1¼% a year price rise. Then, after the Vietnam escalation and its inflationary wallop, it was again fairly easy to prescribe policy—damp things down with tax boosts and tight money. (Not that the economists' prescriptions were promptly followed!) But now, we're in that tough and trying area where we must simultaneously stimulate production and keep prices from bursting forth in a new inflation.

Do we have a reasonably good chance to strike a tolerable bargain between jobs and prices? I believe we do. When you get discouraged about inflation in the U.S. as a whole, remember that it took a $25 billion Federal deficit at full employment and about an 8 percent growth in the money supply simultaneously to generate the inflation we have been through. I refuse to believe that we're foolish enough to repeat those mistakes (though we'll undoubtedly make others).

Finally, to work toward a better bargain—a more acceptable trade-off—between jobs and prices, President Nixon should now launch a true incomes policy, a full-fledged effort to induce self-restraint by big business and big labor in their wage and price decisions.

Merely publishing facts is not enough. Standards of non-inflationary wage and price behavior against which the public can measure actual price and wage decisions must be established. And if the effort is to be meaningful, the White House must not only define sin in the wage-price field, but identify the sinners and actively use the power of Presidential persuasion and public opinion to bring their wage and price behavior into line with the national interest.

Past experience suggests that such efforts will make only a marginal contribution to the problem of reconciling reasonably full employment with reasonable price stability. Yet these efforts —coupled with structural measures to improve labor markets, reduce internal and external trade restraints, cut price-propping subsidies and so forth—might well provide just the vital margin needed to achieve a solution that, while not economically ideal, may be politically acceptable and socially workable.

REVIEW

The Problem of Freight Car Supply, John Richard Felton, The Agricultural Experiment Station, University of Nebraska College of Agriculture, August, 1970, Paperback, 20 pp. Available from Department of Information, East Campus, Lincoln, Nebr.

This definitive study of a matter of long-time concern in Nebraska proposes a solution that merits serious consideration.

After grappling with all aspects of problems of both the short-run and the long-run supply of freight cars, Dr. Felton concludes that our present system of car allocation, at least during periods of heavy demand, is reminiscent of the decision-making process in a centrally planned socialist system. His research convinces him that if a freight car-rental exchange market were to be established, car-rental rates would be determined by competitive bidding. Then freight cars would move toward points of greatest shipper demand and the I.C.C. would find it unnecessary to issue arbitrary orders to influence car distribution.

The study outlines details of the proposal and delineates advantages that would be expected to accrue from adoption of the market system of freight car rentals. The author points out that one of the overall advantages would be that whenever, despite improvements in car utilization, anticipated proceeds from rentals rose above prospective ownership costs, railroads would be induced to add to the existing fleet. In this way the freight car-rental exchange system would contribute simultaneously to solution of the long-run, as well as the short-run, problem of freight car supply.

For what appears to offer a viable solution to a chronic problem, Dr. Felton's succinct study is commended to public attention. Research for the bulletin was performed while the author, a Professor of Economics at the University of Nebraska, (Lincoln), held a summer appointment in the Department of Agricultural Economics.

D. S.

Business Summary

In October Nebraska's general level of business activity declined to that of the same month last year. Despite a year-to-year 1.6 percent rise in the dollar volume index, physical volume slipped to 99.9 percent of last year's level. Construction, life insurance sales, and newspaper advertising were notably below last year. Cash farm marketings, although up about 3 percent, were not nearly as strong as in previous months. Reflecting the mixed impact of these developments, bank debits showed the lowest rise in about a year. The positive influence of a higher level of nonmanufacturing employment again offset the negative influence of a lower level of manufacturing employment, which fell below last year for the eighth consecutive month.

November's dollar volume of retail sales was nearly 4 percent above that of last November. Lower levels of sales in the hard goods categories of equipment and automotive were more than offset by higher levels in the soft goods categories of food, apparel, and variety goods. Markedly above last year's levels in dollar volume of retail sales were Beatrice, Chadron, Grand Island, Hastings, North Platte, and Sidney. Omaha, Lincoln, Fremont, South Sioux City, Alliance, and Kearney also showed gains over last year, but the other ten reporting cities were down.

All figures on this page are adjusted for seasonal changes, which means that the month-to-month ratios are relative to the normal or expected changes. Figures in Table 1 (except the first line) are adjusted where appropriate for price changes. Gasoline sales for Nebraska are for road use only; for the United States they are production in the previous month.

E. L. HAUSWALD

1. NEBRASKA and the UNITED STATES

OCT

Business Indicators	Percent of 1948 Average: Nebraska	U.S.	Percent of Same Month a Year Ago: Nebraska	U.S.	Percent of Preceding Month: Nebraska	U.S.
Dollar Volume of Business	343.1	430.8	101.6	104.7	95.4	99.5
Physical Volume of Business	214.4	243.5	99.9	100.2	95.2	98.9
Bank debits (checks, etc.)	253.7	456.5	101.9	107.7	90.6	99.7
Construction activity	179.7	161.1	84.4	94.1	95.1	99.8
Retail sales	158.8	182.4	99.7	98.7	98.7	98.3
Life insurance sales	423.5	466.3	97.6	92.6	101.0	98.7
Cash farm marketings	204.9	151.9	102.8	100.8	82.4	100.4
Electricity produced	454.5	537.2	107.9	102.9	95.4	95.1
Newspaper advertising	165.5	145.5	97.8	92.7	107.8	98.0
Manufacturing employment	166.2	122.2	94.8	92.8	97.6	97.0
Other employment	152.5	177.2	102.4	101.9	99.6	100.3
Gasoline sales	215.0	253.5	108.6	105.1	83.6	106.5

2. PHYSICAL VOLUME OF BUSINESS

Percentage of 1948 Average

Month	Nebraska 1969-70	U. S. 1969-70
October	214.6	243.1
November	206.4	238.1
December	220.9	241.7
January	224.1	246.8
February	231.7	247.3
March	222.6	243.7
April	226.3	248.0
May	208.3	243.9
June	229.2	248.3
July	222.5	249.3
August	243.8	219.7
September	225.2	246.2
October	214.4	243.5

3. RETAIL SALES for Selected Cities. Total, Hard Goods, and Soft Goods Stores. Hard Goods include automobile, building material, furniture, hardware, equipment. Soft Goods include food, gasoline, department, clothing, and miscellaneous stores.

NOV

City	No. of Reports	Percent of Same Month a Year Ago: Total	Hard Goods	Soft Goods	Percent of Preceding Month: Total
THE STATE	632	103.9	91.4	108.6	99.1
Omaha	48	106.6	102.1	110.3	99.7
Lincoln	60	103.2	106.2	100.8	105.9
Grand Island	27	109.7	105.8	113.2	100.9
Hastings	24	107.9	108.5	107.4	104.3
North Platte	16	108.4	107.7	109.0	91.4
Fremont	23	101.3	104.4	98.5	94.2
Fairbury	22	88.1	70.5	107.9	92.5
Norfolk	24	95.9	88.4	102.8	105.1
Scottsbluff	33	92.6	85.5	98.7	88.1
Columbus	26	88.4	81.1	97.3	96.4
McCook	14	87.2	75.7	106.1	88.6
York	21	92.1	81.1	99.1	92.5

4. RETAIL SALES, Other Cities and Rural Counties

NOV

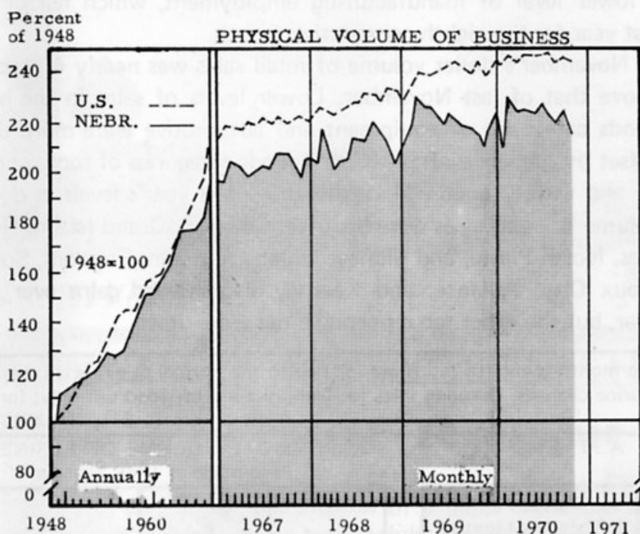
Locality	No. of Reports	Percent of Same Month A Year Ago	Percent of Preceding Month
Kearney	13	100.3	88.1
Alliance	25	102.1	94.9
Nebraska City	17	98.4	87.3
Broken Bow	13	94.2	96.2
Falls City	16	87.5	76.9
Holdrege	14	91.3	90.7
Chadron	17	112.1	89.8
Beatrice	17	109.7	94.0
Sidney	17	107.9	91.4
So. Sioux City	8	103.5	82.2
Antelope	8	95.1	84.5
Cass	16	114.4	94.3
Cuming	9	97.9	87.4
Sand Hills**	21	96.8	90.0
Dodge***	9	96.9	84.2
Franklin	7	105.9	100.4
Holt	11	93.2	86.7
Saunders	13	87.7	86.3
Thayer	8	94.8	86.4
Misc. Counties	35	115.9	90.3

5. RETAIL SALES, by Subgroups, for the State and Major Divisions

NOV

Type of Store	Percent of Same Month a Year Ago: Nebraska	Omaha and Lincoln	Other Cities	Rural Counties
ALL STORES****	103.9	102.2	101.8	107.8
Selected Services	110.2	118.4	110.7	101.4
Food Stores	100.9	98.4	104.4	99.8
Groceries and meats	102.8	97.6	109.6	101.2
Eating and drinking pl.	96.5	96.7	96.8	95.9
Daries and other foods	102.4	108.2	95.6	103.4
Equipment	89.7	83.4	99.2	86.5
Building material	91.6	94.1	96.4	84.2
Hardware dealers	110.9	100.3	116.5	115.8
Farm equipment	58.6	16.9	78.8	80.1
Home equipment	94.1	97.6	103.6	81.0
Automotive stores	98.3	109.4	90.4	95.1
Automotive dealers	94.7	111.1	86.3	86.7
Service stations	104.4	102.6	107.1	103.6
Miscellaneous stores	117.1	108.6	106.1	136.7
General merchandise	105.4	106.7	100.8	108.7
Variety stores	110.3	123.8	103.9	103.1
Apparel stores	155.6	119.8	117.9	229.2
Luxury goods stores	117.8	100.0	113.7	139.7
Drug stores	101.1	100.5	101.3	101.6
Other stores	97.3	93.4	97.4	101.1

**Hooker, Grant, Dawes, Cherry, and Sheridan Counties ***Outside Principal City ****Not including Selected Services



UNADJUSTED CITY INDEXES
Percentage Change, Nov. 1969 to Nov. 1970
-10 -5 0 +5 +10 +15 +20

SIDNEY
BEATRICE
BROKEN BOW
HASTINGS
NORTH PLATTE
KEARNEY
McCOOK
OMAHA
HOLDREGE
LINCOLN
SO. SIOUX CITY
FREMONT
YORK
SCOTTSBLUFF
NORFOLK
COLUMBUS
(STATE)
CHADRON
GRAND ISLAND
FAIRBURY
ALLIANCE
NEBRASKA CITY
FALLS CITY

Figures on this page are not adjusted for seasonal changes nor for price changes. Building activity includes the effects of past as well as present building permits, on the theory that not all building is completed in the month the permit is issued.

E. L. H.

6. CITY BUSINESS INDICATORS

Percent of Same Month a Year Ago

NOV

City	City Index	Bank Debits	Building Activity	Retail Sales	Electricity Consumed	Gas Consumed	Water Pumped	Postal Receipts	Newspaper Advertising
The State	103.7	112.8	86.9	103.9	106.2	107.7	101.5	102.4	102.4
Beatrice	113.3	108.9	123.4	109.7	67.5	111.4	139.0	69.9	140.1
Omaha	107.0	106.6	107.2	106.6	107.7	109.2	102.7	112.4	103.7
Lincoln	106.5	114.5	67.6	103.2	107.7	112.0	96.4	113.4	103.3
Grand Island	101.8	123.3	116.4	109.7	98.5	104.0	95.1	89.0	93.4
Hastings	111.0	114.1	44.9	107.9	NA	NA	108.2	126.8	114.0
Fremont	105.9	110.3	112.5	101.3	114.5	NA	96.9	99.4	NA
North Platte	108.3	107.7	118.7	108.4	103.0	97.6	119.5	114.0	98.7
Kearney	107.9	114.9	37.2	100.3	114.0	100.8	109.3	66.4	NA
Scottsbluff	104.8	138.0	91.9	92.6	110.0	104.3	107.6	97.4	112.1
Norfolk	104.8	108.9	146.8	95.9	103.3	117.1	111.3	94.6	92.7
Columbus	104.7	115.2	106.0	88.4	104.9	111.1	96.7	126.3	78.1
McCook	107.2	123.3	42.8	87.2	102.9	114.1	NA	103.6	115.2
Sidney	113.7	109.3	169.5	107.9	78.9	101.6	141.9	124.0	NA
Alliance	99.5	121.2	26.0	102.1	102.4	90.9	100.0	161.5	93.5
Nebraska City	98.0	95.7	170.2	98.4	99.8	83.7	72.1	127.3	NA
So. Sioux City	106.5	124.0	9.8	103.5	NA	110.0	NA	105.9	NA
York	105.1	117.4	127.9	92.1	102.5	105.2	101.1	62.7	111.5
Falls City	92.1	97.7	26.0	87.5	110.9	93.5	82.8	105.4	89.6
Fairbury	100.8	112.6	98.2	88.1	106.8	NA	138.2	86.1	97.4
Holdrege	106.9	139.4	287.2	91.3	109.0	93.6	112.1	108.9	97.7
Chadron	103.3	99.4	68.3	112.1	103.9	104.9	101.2	107.6	NA
Broken Bow	111.6	118.9	178.5	94.2	110.5	111.5	105.6	122.4	90.4

Percent of Preceding Month (Unadjusted)

NOV

City	City Index	Bank Debits	Building Activity	Retail Sales	Electricity Consumed	Gas Consumed	Water Pumped	Postal Receipts	Newspaper Advertising
The State	98.9	92.4	103.7	99.1	98.2	143.7	88.4	100.8	97.4
Beatrice	96.6	89.4	97.6	94.0	67.2	185.9	122.1	99.0	96.0
Omaha	98.9	87.7	104.1	99.7	99.8	123.2	91.9	90.7	111.4
Lincoln	95.7	94.6	104.2	105.9	85.7	152.5	87.4	80.2	96.8
Grand Island	100.1	97.3	104.9	100.9	97.2	182.4	88.0	107.6	93.7
Hastings	98.4	94.3	97.4	104.3	97.5	146.9	80.8	118.4	86.4
Fremont	93.5	88.6	83.1	94.2	108.2	NA	79.0	114.9	NA
North Platte	93.6	88.3	114.6	91.4	88.2	173.3	71.4	106.7	79.0
Kearney	89.7	94.1	125.4	88.1	86.5	168.4	79.0	86.8	NA
Scottsbluff	111.8	105.7	118.3	88.1	135.3	158.8	80.4	92.7	130.4
Norfolk	101.5	87.7	157.6	105.1	113.6	144.2	88.6	96.9	90.3
Columbus	94.9	89.7	81.3	96.4	105.7	166.6	87.7	116.0	81.8
McCook	91.7	90.8	77.0	88.6	90.1	188.8	87.6	97.3	116.0
Sidney	92.1	89.2	95.5	91.4	89.4	145.2	108.7	84.8	NA
Alliance	104.4	112.3	96.8	94.9	113.8	186.5	64.8	148.2	74.6
Nebraska City	96.3	93.0	81.2	87.3	94.3	142.0	101.6	112.3	NA
So. Sioux City	104.7	NA	98.4	82.2	112.9	189.5	NA	102.8	NA
York	101.9	102.4	128.5	92.5	94.1	136.1	87.2	118.6	89.5
Falls City	93.2	94.1	116.8	76.9	103.5	153.9	84.5	90.8	77.7
Fairbury	98.7	96.0	76.4	92.5	115.6	NA	118.3	107.7	88.6
Holdrege	96.6	114.2	133.2	90.7	93.7	156.3	69.5	82.2	88.0
Chadron	90.5	101.8	84.0	89.8	97.6	177.4	78.0	64.4	NA
Broken Bow	96.3	86.8	109.8	96.2	101.1	166.1	73.4	101.3	73.0

SALES TAXES: A REVIEW REPORT

State and Local Sales Taxes published late in 1970 by the Tax Foundation, Inc. merits more than a brief review for two reasons: it contains significant information about Nebraska sales tax collections in comparison with other states; and it is a careful analysis of the present and prospective role of the retail sales tax in state and local tax structures.

Including a brief history of the retail tax as it has evolved in the United States since 1930, the report examines recent developments: the use of sales tax credits against income taxes to alter payment patterns among income classes, and the trend toward broader exemption of business purchases (but not of consumer purchases). Results of a comprehensive survey among state sales tax officials are included in the 26 tables of statistical data.

DATA ON NEBRASKA

Analysis of data on retail sales collections in fiscal 1969 shows that per capita sales and use tax collection in Nebraska, $49, compare with a national average of $62; however, such collections per $1,000 of personal income amount to $15 in this state, only $3 less than the U.S. average. Thirty-one states had higher per capita and higher per $1,000 of personal income collections than Nebraska.

The relative importance of the sales tax in the overall tax structures of individual states is shown. In percentage distribution of state tax collections by major source (exclusive of unemployment compensation tax collection) retail sales and use taxes in Nebraska constitute over 32 percent of the state's total collections; personal income, 17 percent, corporation income taxes, 3 percent, motor fuels, 25 percent, tobacco and alcohol taxes, 8 percent, and other taxes, over 14 percent.

Only one state, New Hampshire, has a larger proportion of collections from motor fuel taxes, with the national median being about 10 percentage points less than Nebraska's. Thirty-four states collect a higher proportion from corporation income taxes, 24 states from retail and use taxes, and 22 a higher proportion from personal income taxes.

In selected factors of administration in fiscal 1968 the report shows that the number of firms registered for sales tax collection in Nebraska was 49,877, with 3,633 registered for use taxes. In that fiscal year the state employed only 13 auditors and examiners and was second high in the nation in number of sales accounts per auditor. The state had, however, only 1.1 percent delinquent accounts after the first notice, the second best in the nation in this respect.

PRINCIPAL FINDINGS

Several states have implemented bloc exemptions by granting credits against their income taxes. The credits amount to refunds of tax paid on several hundred dollars worth of taxable purchases. In effect such sales tax credits create a zero-rate bracket on a bloc of taxable sales. Although the statutory sales tax rate remains constant, credit-created exemptions bring a degree of deliberate rate variation into effect.

This may be illustrated with reference to three families, one with taxable purchases of $3,000 a year, one $7,000, and a third, $10,000. If each family receives an income tax credit to offset sales tax paid on $1,000 in purchases, the first family ends up paying sales tax on 67 percent of the sales included in the tax base, the second on 86 percent, and the third on 90 percent. This is a means, then, to offset the higher effective sales tax rates low-

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income families pay, a means that avoids the weaknesses of specific commodity exemptions.

Washington, D.C. and seven states, including Nebraska, use sales tax credits. In Indiana, where the credit is $8 per dependent, and in Colorado and Nebraska, where the rate is $7 per dependent, the credits are legally designated as offsetting tax paid on food for home consumption. Hawaii, Massachusetts, Vermont, and Washington, D.C. grant sales tax credits that are phased out at higher income levels.

It is pointed out that the bloc exemptions which credits create may be designated as covering purchases of food, but in effect they apply to all commodities. It makes no difference whether the state says the rebate is for tax paid on food or on cigarettes: the effect is the same as if the rebate offsets tax on a complete range of purchases.

The limited experience states have had with sales tax credits indicates that either a fixed or variable type of credit can be defined so as to do anything a food exemption does, at less cost in terms of lost tax revenue and with the ability to meet broadly differing conditions. The study points out the distributional effects of state and local government expenditures are sharply "progressive," in the sense that they benefit low-income residents most. Tax-financed state services and transfer payments going to low-income groups, as a rule, are many times the value of the taxes they pay.

A major conclusion of the study is that:

> A state sales tax in the range of four to six percent will probably have no more adverse effects on businesses than any other tax yielding the same revenue. Much depends, of course, upon the structure of the tax—particularly as regards the taxation of business purchases. At worst, however, the bad effects on the whole state economy—or, for that matter, the national economy—cannot be large compared with those of other revenue sources.
>
> A retail sales tax, unlike an income tax, is not a levy on a base on which the Federal government already imposes rates of 20 percent and over. A properly defined state sales tax will not aggravate today's powerful pressures to let income-tax considerations modify business and investment practices.

DOROTHY SWITZER

Single copies of the study are available at $1.50 each (for 10 or more copies, $1.15 each) from Tax Foundation, Inc., 50 Rockefeller Plaza, New York, 10020.