

Effect of War-Risk Tax Provisions, 1943 and 1944

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PROVISIONS for special war-risk contributions from employers were in operation as part of the unemployment insurance laws of 9 States in 1943 and 10 States in 1944.¹ Under these provisions, employers whose pay rolls in 1943 or 1944 exceeded past pay rolls by a certain percent and, in about half the States, new employers were generally required to pay contributions to the unemployment trust fund at an increased rate. About half the States exempted smaller firms from war-risk taxes.

The higher rate was imposed on the assumption that employers whose pay rolls had increased substantially during the war would probably lay off

large numbers of workers at the end of the war and cause a severe drain on the unemployment trust funds. The war-risk provisions were designed to exact additional contributions from such employers at a time when they were best able to make such payments.

On a national scale the impact of the war-risk provisions has been relatively light. They caused the average employer tax to increase from 2.04 to 2.09 percent in 1943 and from 1.79 to 1.92 percent in 1944. In the war-risk States, however, these special taxes increased revenue by \$32.5 million or 19 percent in 1943 and by \$75.3 million or 33 percent in 1944 (table 1). In these States the average employer tax rate was raised from 1.59 to 1.86 percent in 1943 and from 1.43 to 1.90 percent in 1944. Only 5.6 percent of the employers in war-risk States in 1943 and 11.0 percent in 1944 were required to pay these higher taxes (table 2).

Only in one State—Wisconsin in 1944—did these special taxes make up for the reduction in revenue resulting

from the operation of "normal"² experience-rating provisions. In the absence of the special taxes, 1943 and 1944 contributions would have fallen 41 and 46 percent, respectively, below collections at the standard 2.7-percent rate in the war-risk States; with those taxes in effect, the revenue reduction was approximately 30 percent in each year.

War-risk contributions were greater in 1944 than in 1943 for a number of reasons. First, the special tax provisions went into effect in an additional State—Ohio—in 1944. Second, war-risk taxes were in effect throughout 1944 in all 10 States, whereas in 1943 they were in effect in only 2 States throughout the entire year. Third, rising pay rolls increased both the number of liable firms and the pay-roll base to which the special tax was applied.

Although data are not yet available for 1945, there can be no doubt that contributions resulting from the war-risk provisions declined sharply below 1944 levels, despite the fact that 12 States required such taxes during

² "Normal" refers to the rate-modification provisions in State laws other than the provisions for war-risk and, in Wisconsin, special postwar reserve contributions.

Table 1.—Effect of war-risk provisions on employer contribution rates and revenue, by State, 1943 and 1944

[Amounts in thousands]

State	Effective date of war-risk provisions	Average employer contribution rate (percent)				Reduction in revenue under "normal" experience-rating provisions				Additional revenue from war-risk contributions ²				Net reduction in revenue			
		Excluding war-risk contributions ¹		Including war-risk contributions		Amount		Percent		Amount		As percent of contributions under "normal" experience-rating provisions		Amount		Percent	
		1943	1944	1943	1944	1943	1944	1943	1944	1943	1944	1943	1944	1943	1944	1943	1944
All States.....		2.04	1.79	2.09	1.92	\$403,778	\$566,887	25	34	\$32,549	\$75,265	3	7	\$370,107	\$491,662	23	30
All experience-rating States.....		1.77	1.69	1.85	1.74	403,778	566,887	35	42	32,549	75,265	4	10	370,107	491,662	32	37
All war-risk States.....		1.59	1.43	1.86	1.90	122,220	197,604	41	46	32,549	75,265	19	33	89,671	122,339	30	29
Alabama.....	April 1943.....	1.25	1.00	1.42	1.31	9,475	11,768	54	63	1,116	2,131	14	31	8,359	9,637	47	52
Florida.....	July 1943.....	2.24	2.10	2.33	2.25	2,632	3,650	17	22	523	914	4	7	2,109	2,736	14	17
Illinois.....	July 1943.....	1.36	1.16	1.53	1.66	67,695	72,559	50	57	7,142	23,558	12	43	50,553	49,001	43	38
Iowa.....	July 1943.....	1.92	1.68	2.20	2.40	3,786	5,203	29	38	1,385	3,672	15	43	2,401	1,531	18	11
Maryland.....	July 1943.....	2.01	1.61	2.49	2.28	7,799	12,581	26	44	5,487	8,160	24	51	2,312	4,421	8	16
Minnesota.....	January 1943.....	1.58	1.61	2.29	2.33	9,296	9,286	42	40	5,961	6,124	47	45	3,335	3,162	15	14
Missouri.....	July 1943.....	1.57	1.73	1.68	2.02	14,241	12,601	42	36	1,400	3,760	7	17	12,841	8,851	38	25
Ohio.....	January 1944.....		1.49		1.71		51,449		45		9,355		15		42,094		37
Oklahoma.....	January 1943.....	1.58	1.37	1.80	1.45	5,400	6,571	41	49	1,052	429	14	6	4,348	6,142	33	46
Wisconsin.....	July 1943.....	1.78	1.83	2.44	3.08	11,896	11,936	34	32	8,483	17,172	37	69	3,413	6,236	10	14

¹ Average employer contribution rate excluding "war-risk" contributions represents actual ratio (percent) of employer contributions to taxable wages reported by State agency and adjusted to exclude estimated additional contributions from war-risk provisions.

² Estimated increase in revenue over amount collectible on 1943 taxable wages in absence of war-risk contribution provisions.

³ Preliminary estimate.

⁴ Includes effect of special "postwar reserve" contribution of 0.5 percent.

⁵ Represents an increase over revenue due at the standard rate.

Table 2.—Number of active and war-risk accounts, 10 States, 1943 and 1944

State	1943			1944 ¹		
	All active accounts	War-risk accounts		All active accounts	War-risk accounts	
		Number	Percent of active accounts		Number	Percent of active accounts
All war-risk States.....	137,343	7,636	5.6	169,737	18,646	11.0
Alabama.....	6,146	236	3.8	6,753	192	2.8
Florida.....	7,470	693	9.3	7,483	1,203	16.1
Illinois.....	42,355	689	1.6	39,717	2,551	6.4
Iowa.....	7,832	326	4.2	7,498	575	7.7
Maryland.....	14,591	2,999	20.6	12,836	3,382	26.3
Minnesota.....	28,423	297	1.1	24,650	274	1.1
Missouri.....	12,939	647	5.0	(²)	(²)	(²)
Ohio.....				50,245	7,969	15.9
Oklahoma.....	6,155	249	4.0	6,514	592	9.1
Wisconsin ²	13,432	1,500	11.2	14,041	1,908	13.6

¹ Excludes Missouri; war-risk data not available.

² Excludes accounts subject only to the 0.5-percent special postwar reserve tax (this tax applicable to all accounts).

the year. While Georgia and Kansas employers became subject to war-risk taxes at the beginning of 1945, the special provisions were terminated in Missouri at the end of June and in Maryland at the beginning of October. In the other States the pay rolls of most liable firms fell below 1944 levels so that the tax was applied to a smaller base. In fact, the decline in pay rolls probably was so severe for some firms that they were no longer liable for the special tax. A further drop in war-risk contributions may be expected in 1946, when at most 7 States have these provisions in effect. The beginning and ending dates for the war-risk provisions are as follows:

Alabama.....	Apr. 1, 1943-Mar. 31, 1948
Florida.....	July 1, 1943-indefinite
Georgia.....	Jan. 1, 1945-Dec. 31, 1946
Illinois.....	July 1, 1943-Dec. 31, 1945
Iowa.....	July 1, 1943-Dec. 31, 1945
Kansas.....	Jan. 1, 1945-Dec. 31, 1945
Maryland.....	July 1, 1943-Oct. 1, 1945
Minnesota.....	Jan. 1, 1943-June 30, 1947, or termination of war, whichever is earlier
Missouri.....	July 1, 1943-June 30, 1945
Ohio.....	Jan. 1, 1944-Dec. 31, 1947
Oklahoma.....	Jan. 1, 1943-indefinite
Wisconsin.....	July 1, 1943-indefinite

The normal tax rate was lower for the average war-risk State than for the average experience-rating State without war-risk provisions. For the war-risk States it averaged 1.59 and 1.43 percent in 1943 and 1944, respectively, compared with 1.84 and 1.64 percent for the other experience-rating States. However, normal experience-rating provisions had reduced tax rates considerably more in some of the non-war-risk States than

in the States which added these special taxes. In 1944, for example, Alabama's normal employer rate of 1.00 percent, the lowest among the war-risk States, was higher than the average tax rate in the District of Columbia (0.50 percent), Delaware (0.68 percent), and Massachusetts (0.94 percent). South Dakota, another non-war-risk State, had an average rate of 1.01 percent, lower than the Illinois rate of 1.16 percent. Nine non-war-risk States had lower average normal rates than 4 of the 10 war-risk States—Ohio, Oklahoma, Maryland, and Minnesota. The remaining war-risk States ranked among the 42 experience-rating States with respect to their average normal tax rate in 1944 as follows: Iowa—nineteenth; Missouri—twenty-first; Wisconsin—twenty-fourth; and Florida, with a

Table 3.—Percentage distribution of war-risk accounts by war-risk tax rate,¹ for States with variable war-risk rates, 1943 and 1944

State	Number of war-risk accounts	Percentage distribution of war-risk accounts by war-risk tax rate (percent)											
		Total	0	0.1-0.9	1.0-1.8	1.9-2.6	Below 2.7	At 2.7	Above 2.7	2.75-3.6	3.7-4.0	4.1-5.0	5.0-5.5
Total, 1943, 3 States...	2,515	100.0	(²)	1.0	4.0	22.6	27.6	17.8	54.6	16.1	30.9	7.6	.....
Illinois.....	689	100.0	.....	.....	.....	40.1	40.1	59.9	.....	.....	.....	.....	.....
Iowa.....	326	100.0	.....	.....	.....	.....	.....	8.6	91.4	25.2	7.4	58.8	.....
Wisconsin ³	1,500	100.0	.1	1.6	6.7	10.5	27.9	.4	71.7	21.6	50.1	.....	.....
Total, 1944, 4 States...	13,033	100.0	.5	.8	16.3	29.4	47.0	14.0	39.0	31.6	1.0	6.4	.....
Illinois.....	2,551	100.0	.....	.....	.....	40.3	40.3	59.7	.....	.....	.....	.....	.....
Iowa.....	605	100.0	.....	.....	.....	.....	.....	18.2	81.8	21.0	6.8	54.0	.....
Ohio.....	7,969	100.0	.....	.....	20.6	30.6	51.2	2.4	46.4	46.4	.....	.....	.....
Wisconsin ³	1,908	100.0	.....	3.3	15.1	27.0	45.4	.....	54.6	16.0	6.9	9.2	22.5

¹ Rate assigned under schedule in war-risk provisions; applicable to war-risk taxable pay roll.

² Less than 0.5 percent.

normal tax rate of 2.10 percent—thirty-third.

Rates High in States With Variable War-Risk Tax

In all States except Ohio a new war-risk rate was substituted for the normal rate on all or part of the employer's taxable pay roll. In Ohio, the additional tax was added to the employer's normal tax and applied to the total taxable pay roll. This combined tax has been considered the Ohio war-risk tax for classifying employers by size of war-risk rate.

Only Illinois, Iowa, and Wisconsin in 1943 and these three States plus Ohio in 1944 assigned variable war-risk rates depending on the individual employer's experience. The remaining States assigned a uniform rate to all employers who came under the special provisions.

A majority of the war-risk employers in the variable-rate States paid war-risk taxes at a rate at or above 2.7 percent in both years; Iowa assigned rates above 2.7 percent to more than four-fifths of its war-risk accounts in 1943 and 1944 (table 3).

In each of the States with variable war-risk rates in both years, there was a general shift to lower rates between 1943 and 1944. In Illinois the shift was almost unnoticeable. In Iowa during 1944, 18.2 percent of the firms, compared with 8.6 percent in 1943, paid at the 2.7-percent rate. In Wisconsin, 45.4 percent in 1944, as compared with 27.9 percent in 1943, paid at less than the 2.7-percent tax rate. This movement toward lower rates is attributable to the fact that

³ Excludes accounts subject only to the 0.5-percent special postwar reserve tax (this tax applicable to all accounts).

Table 4.—Percent of accounts assigned war-risk rates, by "normal" employer contribution rate,¹ 7 States,² 1943

State	Number of active accounts	War-risk accounts		Percent of accounts assigned war-risk rates by "normal" employer contribution rate (percent)								
		Number	Percent of active accounts	0	0.1-0.9	1.0-1.8	1.9-2.6	Below 2.7	At 2.7	Above 2.7	2.75-3.6	3.7-4.0
Total, 7 States.....	109,320	3,137	2.9	2.0	2.7	6.8	2.6	4.1	1.8	0.6	0.6	.....
Alabama.....	6,146	236	3.8	.....	7.3	7.5	3.0	7.0	(³)	.....	.....	.....
Florida.....	7,470	693	9.3	.....	.....	22.8	26.9	23.2	(³)	.....	.....	.....
Illinois.....	42,355	689	1.6	.....	5.7	3.2	.8	3.8	(³)	(³)	(³)	(³)
Iowa.....	7,832	326	4.2	.....	.1	5.4	.....	2.0	8.1	1.1	1.1	.....
Minnesota.....	26,423	297	1.1	.....	.7	3.2	1.5	1.4	.9	.8	.8	.....
Missouri.....	12,939	647	5.0	2.0	.5	3.3	.....	1.4	10.1	4.8	4.8	.....
Oklahoma.....	6,155	249	4.0	.....	7.6	7.1	7.2	7.3	(³)	.....	.....	.....

¹ "Normal" contribution rate is tax rate for which employer would be liable in absence of war-risk provisions.

² Data not available for Maryland and Wisconsin. ³ War-risk provisions not applicable to accounts assigned "normal" rates of 2.7 percent or more.

tax rates assigned in these States were based partly on employer-reserve ratios which increased in 1944. The combination of increased normal contributions because of rising pay rolls, low benefit payments, and the extra contributions collected under the war-risk provisions in 1943 forced reserve ratios up and tax rates down. Whereas no Wisconsin employer paid taxes at a rate in excess of 4.5 percent in 1943, an increase in Wisconsin's maximum rate (including the 0.5-percent postwar reserve tax) to 5.5 percent in 1944 resulted in the assignment of that rate to 22.5 percent of Wisconsin's war-risk employers.

During the first year of operation in Ohio, more than half (51.2 percent) of the war-risk accounts were taxed at a rate of less than 2.7 percent. Only 2.4 percent paid at a rate of 2.7 percent. The remaining 46.4 percent contributed at a 3.0-percent tax rate.

Higher Tax for More Firms With Medium Normal Rates

Employers whose tax rates in the absence of the war-risk provisions would have been between 1.0 and 2.6 percent were assigned war-risk rates more frequently than any other group. In 1943, war-risk rates were assigned to a larger proportion of the firms with normal rates between 1.0 and 1.8 percent than of any other group—6.8 percent of them had such rates.³ In 1944, firms with normal rates between 1.9 and 2.6 percent were assessed war-risk rates most frequently—22.6 percent (tables 4 and

³ Based on data for seven States.

5). In general, war-risk taxes were assigned more frequently to employers whose normal tax would have been less than 2.7 percent than to employers with normal tax rates of 2.7 percent or more.

In States other than Ohio and Wisconsin, few firms that normally would have had to pay contributions at a rate above the standard 2.7 percent were subject to the war-risk tax. Except in Alabama, Illinois, and Oklahoma, very few of the firms with the lowest normal tax rates were assigned war-risk rates.

Differences among the States not only in the war-risk provisions but also in the normal experience-rating provisions account for the erratic relationship between normal tax rate and proportion of firms assigned war-risk rates. In States using the re-

serve-ratio experience-rating plan, employers whose pay rolls increased more rapidly than their reserves probably became subject to a higher normal tax rate as well as to the war-risk tax. In States using other types of experience-rating plans, however, employers whose pay rolls rose sharply became subject, in general, to lower normal tax rates at the same time they were assigned war-risk rates.⁴

Furthermore, differences in the definition of liable firms under the war-risk provisions, in the method by which they are taxed at the added rate, in the rate of entrance of newly subject employers and the degree to which they may be subject to war-risk taxes, all complicate the relationship between the normal tax rate and proportion of accounts assessed the added tax.

Effect on Revenue Varied Greatly Among States

Because of war-risk rates, employer contributions to the reserve funds increased 19 and 33 percent, respectively, in 1943 and 1944. Moreover, in several States the war-risk taxes brought contributions close to what they would have been at the standard 2.7-percent rate. The revenue raised by Wisconsin's war-risk tax and its

⁴ In these States, tax rates are based directly on the relationship between benefits and pay rolls. Sharp increases in pay rolls in combination with low benefit payments result in reduced tax rates.⁴

Table 5.—Percent of accounts assigned war-risk rates, by "normal" employer contribution rate,¹ 7 States,² 1944

State	Number of active accounts	War-risk accounts		Percent of accounts assigned war-risk rates by "normal" employer contribution rate (percent)								
		Number	Percent of active accounts	0	0.1-0.9	1.0-1.8	1.9-2.6	Below 2.7	At 2.7	Above 2.7	2.75-3.6	3.7-4.0
Total, 7 States.....	150,381	14,678	9.8	3.1	4.4	16.9	22.6	11.2	8.4	2.7	2.6	4.2
Alabama.....	6,753	192	2.8	.....	4.9	3.5	0	4.5	(³)	.....	.....	.....
Florida.....	7,483	1,203	16.1	.....	.....	31.3	29.7	31.2	(³)	.....	.....	.....
Illinois.....	39,711	2,551	6.4	.....	15.5	12.3	4.7	12.8	(³)	(³)	(³)	(³)
Iowa.....	7,498	575	7.7	.....	.5	15.4	.....	5.6	12.9	2.2	2.2	.....
Minnesota.....	24,650	279	1.1	.....	.5	3.3	2.1	1.4	.7	.8	.8	.....
Ohio.....	50,245	7,969	15.9	.....	(³)	17.7	53.3	13.8	20.8	21.4	21.4	.....
Wisconsin ³	14,041	1,908	13.6	3.1	.....	21.7	.....	11.4	18.5	10.7	22.9	4.2

¹ "Normal" contribution rate is tax rate for which employer would be liable in absence of war-risk provisions.

² Data not available for Maryland, Missouri, and Oklahoma.

³ War-risk provisions not applicable to accounts assigned "normal" rates of 2.7 percent or more.

⁴ War-risk provisions not applicable to accounts assigned "normal" rates of less than 1.5 percent.

⁵ Excludes effect of 0.5-percent special postwar reserve tax

special 0.5-percent postwar reserve tax levied on all employers brought increases of 37 percent and 69 percent in 1943 and 1944, respectively, and increased contributions in 1944 to 14 percent above collections at the standard rate; in 1943, when the additional taxes were in effect only during the last half of the year, contributions were brought to within 10 percent of the amount collectible at the standard 2.7-percent tax rate (table 1). War-risk taxes brought revenue to within 15 percent of the amount collectible at the standard rate in Florida, Maryland, and Minnesota during 1943 and in Iowa and Minnesota during 1944.

The additional revenue resulting from the war-risk provisions increased collections in the war-risk States by varying amounts. Contributions from employers in 1943 were increased by 47 and 37 percent in Minnesota and Wisconsin. In Florida and Missouri, however, they were increased by only 4 and 7 percent, respectively. During 1944, when war-risk provisions were in operation for the entire year, the largest increases were in Maryland (51 percent) and Wisconsin (69 percent) and the smallest in Florida and Oklahoma (less than 10 percent).

The effect of the war-risk provisions on State contribution rates in the several States can be analyzed

on a more comparable basis for 1944 than for 1943, since in 1944 the provisions were in effect for the full 12 months in all 10 States.

Wisconsin experienced the greatest relative increase in contribution rates as a result of the additional taxes. Its average tax rate increased from 1.83 percent to 3.08 percent; Wisconsin thus became the only State with an average tax rate above the standard 2.7 percent. The extent of the increase was due in great part to the special postwar reserve tax of 0.5 percent imposed on all Wisconsin firms and to the raising of the maximum tax rate from 4.5 percent in 1943 to 5.5 percent in 1944. As a result, war-risk revenue amounted to \$17.2 million, or 69 percent more than would have been collected under the normal experience-rating plan.

In Oklahoma and Florida, on the other hand, 1944 tax rates were increased relatively little—from 1.37 to 1.45 percent and from 2.10 to 2.25 percent, respectively. The war-risk taxes in these States increased revenue by only 6 and 7 percent, respectively.

For two States, Oklahoma and Minnesota, 1944 was the second complete year during which war-risk provisions were in effect. While Minnesota's revenue was increased by about the same relatively large amounts (47 and 45 percent) in both years, in Oklahoma the additional revenue

dropped from 14 percent above normal collections in 1943 to only 6 percent above in 1944. This drop was due principally to the Oklahoma provisions for determining which employers and how much of their pay rolls were liable for war-risk rates. In 1943 and 1944, Oklahoma employers were liable for war-risk taxes if their current annual taxable pay roll was at least 300 percent of their lowest annual taxable pay roll for the 3 immediately preceding calendar years; the war-risk tax was applied to that amount of pay roll in excess of the 300-percent level. Thus for most employers in 1943, the 1940 pay roll was the base pay roll, whereas in 1944 the 1941 pay roll became the base. In 1941, taxable pay rolls for Oklahoma were nearly 20 percent higher than in 1940. Since 1941 pay rolls were considerably higher than 1940 pay rolls, and since 1944 pay rolls had increased by a smaller percentage above those in 1943, the amount of war-risk taxable wages and war-risk revenue for 1944 dropped substantially.

Why States Varied in Relative Increase in Revenue

The extremely wide range in the percentage increase in 1944 revenue due to war-risk taxes—from 6 percent in Oklahoma to 69 percent in Wisconsin—is the result of a number of legal and economic factors. The most im-

Table 6.—1943 taxable wages as percent of 1940 taxable wages, by industry division, 10 States

Industrial classification	Total, 10 States	Alabama	Florida	Illinois	Iowa	Maryland	Minnesota	Missouri	Ohio	Oklahoma	Wisconsin
Total	191.4	241.0	230.7	171.6	176.1	237.0	176.6	171.9	202.8	215.6	192.4
Agriculture, forestry, and fishing	129.6	220.2	139.5	183.1	158.1	90.4	240.5	100.9	75.7	108.5	153.4
Mining	164.8	181.3	202.5	164.9	118.0	155.5	219.3	178.9	174.6	131.5	182.5
Construction	221.4	272.8	216.0	180.6	136.1	308.3	120.6	226.2	226.2	722.1	205.3
Manufacturing	246.1	290.4	414.2	217.1	247.3	309.3	282.7	237.6	246.6	353.4	227.8
20 Food and kindred products	159.6	188.3	195.9	161.1	175.1	180.9	157.0	158.2	134.0	174.4	169.9
22 Textile-mill products	179.3	214.6	65.4	134.3	129.4	158.9	195.9	139.8	218.0	121.2	150.2
23 Apparel and other finished fabric products	166.2	215.7	421.3	159.7	235.7	138.0	167.4	172.0	151.8	750.5	270.7
24 Lumber and timber basic products	169.7	216.2	140.7	158.1	132.4	176.5	201.6	149.0	180.2	132.6	166.0
25 Furniture and finished lumber products	146.7	163.4	148.8	138.4	165.8	138.0	239.2	159.1	130.2	152.2	166.4
26 Paper and allied products	169.3	178.6	176.4	171.8	137.9	146.4	195.6	168.0	183.3	186.6	152.2
27 Printing, publishing, and allied industries	115.2	118.9	108.9	118.5	109.8	114.9	111.5	105.5	116.4	106.6	114.5
28 Chemicals and allied products	374.8	653.1	160.3	232.5	895.7	239.3	1,052.7	767.4	106.3	1,054.5	619.7
29 Products of petroleum and coal	167.5	164.9	75.3	181.9	—	95.6	178.5	155.2	215.2	148.9	136.9
30 Rubber products	194.8	287.3	—	93.4	162.9	81.4	1,685.2	194.4	210.6	334.6	26.8
31 Leather and leather products	163.1	193.3	152.6	172.5	478.6	106.5	216.7	160.3	140.7	134.7	171.2
32 Stone, clay, and glass products	149.6	166.0	145.3	142.2	122.9	158.4	174.6	159.7	147.1	196.8	128.5
19, 33 Ordnance, iron and steel and their products	267.3	192.5	418.6	310.0	527.3	188.7	596.1	219.7	250.3	238.7	245.6
34 Transportation equipment (except automobiles)	2,028.6	2,823.0	5,029.7	1,318.0	757.8	1,203.2	19,654.0	1,242.3	3,953.1	13,374.7	1,207.0
35 Nonferrous metals and their products	226.2	1,382.7	189.0	176.7	215.0	166.6	226.2	154.0	282.9	158.7	244.3
36 Electrical machinery	255.3	95.5	378.9	223.8	918.1	676.4	313.4	371.9	200.8	96.8	380.6
37 Machinery (except electrical)	241.1	369.7	265.1	221.0	223.2	304.3	280.5	272.2	257.6	265.1	230.1
38 Automobiles and automobile equipment	107.0	236.7	184.0	212.0	176.6	262.8	267.4	102.0	175.4	115.2	262.8
39 Miscellaneous manufacturing industries	179.4	271.1	255.1	172.9	211.4	146.0	203.5	150.3	196.0	119.8	174.8
Transportation, communication, and other public utilities	138.0	187.0	211.8	130.2	125.8	137.2	131.4	135.3	133.4	140.4	135.4
Wholesale and retail trade	122.6	156.0	147.2	120.6	118.9	137.4	114.7	108.7	122.7	137.1	124.4
Finance, insurance, and real estate	110.5	117.5	130.1	109.1	112.2	106.2	105.6	94.4	118.9	130.3	111.6
Service industries	144.3	203.3	165.9	127.5	143.2	166.1	125.4	139.0	155.7	226.5	146.5
Establishments not elsewhere classified	45.8	—	226.0	3.1	—	—	72.2	—	2.7	—	981.2

portant of these are the percentage of all taxable wages in the State assessed the war-risk tax, the proportion of individual employer's pay roll assessed the special tax, and the maximum special tax rate assigned.

The percentage of all taxable wages assessed the war-risk tax is itself the resultant of several others. The proportion of a State's wages taxable at the war-risk rates is determined partly by the State's legal provisions which affect the number of accounts taxed and the portion of their pay roll to be taxed at the special rates, and partly by the size of the war-risk firms in relation to all other firms. The last factor may be extremely important. For example, in Minnesota only 1.1 percent of the firms were taxed at war-risk rates but 24 percent of the State's taxable wages were affected. This situation occurred because about half of the State's war-risk firms had taxable pay rolls of \$1 million or more, and more than a fourth had taxable pay rolls between \$100,000 and \$1 million.

Wisconsin, with a 69-percent revenue increase in 1944, assessed all employers at least the 0.5-percent special

postwar reserve tax. In addition, 66 percent of the State's taxable wages were subject to variable war-risk tax rates which ran as high as 5 percent. The sharp revenue increase in Maryland in 1944 above what would have been collected under normal experience-rating taxes (51 percent) resulted from the fact that more than one-fourth of the State's employers, with 58 percent of the State's taxable wages, had all their taxable pay rolls assessed the 2.7-percent war-risk rate.

At the other extreme, war-risk contributions in Oklahoma amounted to only 6 percent of normal contributions. In this State, only that part of a firm's pay roll in excess of 300 percent of the base pay roll was taxed at the 2.7-percent war-risk rate. Thus, only 4 percent of taxable wages were taxed at the war-risk rate.

In all other States for which data are available, less than half the 1944 taxable wages were subject to the war-risk tax. For all but one of these States, the war-risk pay roll was defined as only that portion of total taxable pay rolls which was in excess of a specified percentage of pay roll

in the base period. Furthermore, in some of these States war-risk tax rates were 2.7 percent or less. The relatively small revenue increase in Ohio, despite the fact that war-risk taxes were paid on 41 percent of 1944 taxable wages, is due to the fact that employers subject to the war-risk tax had to pay at a maximum additional taxes of only 1.0 percent above their normal tax.

Why States Varied in Proportion of War-Risk Accounts

Variation among States in the proportion of accounts liable for war-risk contributions is basically a result of the differing provisions of the various State laws and the degree to which taxable wages have increased in the several States. The proportion of war-risk accounts is dependent on certain economic and legal factors. It is determined by such factors as:

- (1) whether the State's total 1943 taxable pay roll exceeded the 1940 level by at least 90 percent;
- (2) whether all firms, regardless of size, were subject to the war-risk tax;
- (3) whether a 1-year period was used as the basis of comparison with the

Table 7.—Percent of accounts assigned war-risk rates, by industry division, 9 States, 1943

Industrial classification	Percent of accounts assigned war-risk rates									
	Total, 9 States	Alabama	Florida	Illinois	Iowa	Maryland	Minnesota	Missouri	Oklahoma	Wisconsin
Total.....	5.6	3.8	9.3	1.6	4.2	20.6	1.1	5.0	4.0	11.2
Agriculture, forestry, and fishing.....	5.3	0	10.4	.8	14.5	11.4	1.8	1.3	1.7	12.9
Mining.....	6.7	11.1	14.5	.5	4.6	25.6	27.6	8.9	4.1	19.6
10 Metal mining.....	128.2	3.6		(?)			51.0	40.5	11.1	(?)
12 Bituminous and other.....	19.1	13.7			3.8	28.6		4.5	3.3	(?)
14 Nonmetallic mining and quarrying.....	7.4	8.3	15.5	1.5	7.1	22.2	4.9	4.6	21.2	(?)
Construction.....	16.8	2.9	10.6	1.5	5.0	19.1	1.6	8.8	6.8	16.8
15 Building construction, general contractors.....	7.4	4.6	7.7	2.9	4.2	14.8	1.8	10.0	9.1	(?)
16 General contractors, other than building.....	19.0	3.9	10.2	1.4	5.9	22.6	3.9	16.9	5.2	(?)
17 Construction, special-trade contractors.....	15.5	.9	8.6	1.1	4.9	21.2	1.0	5.2	6.9	(?)
Manufacturing.....	8.4	7.1	11.6	6.6	13.3	27.1	7.8	9.3	7.7	29.7
20 Food and kindred products.....	11.9	6.1	15.6	1.7	7.2	26.5	3.6	3.1	3.0	16.5
22 Textile-mill products.....	22.1	44.2	(?)	3.0	(?)	25.5	14.3	3.6		40.8
23 Apparel and other finished fabric products.....	12.6	19.2	3.1	1.4	19.6	33.0	6.1	13.9	(?)	42.2
24 Lumber and timber basic products.....	6.9	1.7	8.1	1.5	12.8	23.1	5.4	7.4	16.0	18.6
25 Furniture and finished lumber products.....	10.6	5.1	6.7	1.3	16.7	31.0	9.2	9.8	3.8	32.4
26 Paper and allied products.....	9.5	(?)	(?)	1.4	(?)	17.8	11.5	2.9	(?)	22.1
27 Printing, publishing, and allied industries.....	1.0	0	3.4	.3	.6	4.8	.7	1.3	0	1.0
28 Chemicals and allied products.....	8.6	9.8	14.9	3.1	11.1	26.2	3.1	4.2	12.1	16.5
29 Products of petroleum and coal.....	9.9	(?)	(?)	1.9		(?)	(?)	(?)	6.5	(?)
30 Rubber products.....	13.1	(?)	(?)	0	(?)	(?)	(?)	(?)	(?)	(?)
31 Leather and leather products.....	18.2		4.1		(?)	21.2	15.4	10.8		48.0
32 Stone, clay, and glass products.....	6.8	8.2	7.8	2.9	9.8	21.0	3.9	3.3	5.6	9.4
19, 33 Ordnance, iron and steel and their products.....	24.3	30.5	22.6	16.4	30.6	34.4	26.3	10.8	19.1	57.0
34 Transportation equipment (except automobiles).....	39.9	(?)	23.3	24.5	(?)	36.6	(?)	(?)	(?)	64.7
35 Nonferrous metals and their products.....	11.6	(?)	0	6.1	0	40.8	7.0	9.9	0	37.3
36 Electrical machinery.....	26.5	(?)	(?)	15.2	(?)	(?)	30.2	41.7	(?)	60.7
37 Machinery (except electrical).....	29.3	(?)	(?)	16.8	(?)	29.5	52.5	18.0	28.1	67.2
38 Automobiles and automobile equipment.....	19.3	(?)	0	11.9	(?)	(?)	(?)	6.9	(?)	50.0
39 Miscellaneous manufacturing industries.....	9.3	(?)	20.7	4.6	16.0	23.0	5.0	12.2	0	21.1
Transportation, communication, and other public utilities.....	9.0	9.0	21.3	1.8	5.1	31.4	1.1	6.8	5.4	14.8
Wholesale and retail trade.....	3.5	1.4	7.8	.2	1.7	18.9	.1	2.6	3.0	2.9
Finance, insurance, and real estate.....	1.7	.7	4.1	.1	.5	11.1	.1	1.2	1.4	1.4
Service industries.....	3.2	2.1	8.7	.3	2.0	21.4	.1	4.4	3.5	3.0
Establishments not elsewhere classified.....	24.9		0	0		0	0	(?)	(?)	39.8

¹ Figures for major industry group not available in Wisconsin.

² Not computed; less than 25 active accounts.

current year's pay roll to determine employer liability for war-risk tax; (4) whether employers with pay-roll increases as small as 50 percent were liable for war-risk contributions; and (5) whether new firms were subject to the war-risk tax.

None of these factors by itself accounts for the sharp variation between States; it is fairly clear, however, that together they explain most of the interstate differences. Maryland, Florida, Ohio, and Wisconsin,⁵ in that order, had the highest proportions of firms subject to war-risk taxation. These States, with 13.6 to 26.3 percent of their employers assessed war-risk taxes, were all affected by four of the five selected factors. While Wisconsin had a limitation on the minimum size of firms subject to the war-risk tax (exclusive of the postwar reserve tax for which all were liable), only firms with annual pay rolls below \$30,000 were excluded. Florida required a pay-roll increase of more than 50 percent for liability under its war-risk provisions;

⁵ Excluding firms subject only to the 0.5-percent special postwar reserve tax.

however, it assessed the tax on employers whose pay rolls had risen at least 100 percent above 1939 levels. All other States with a 1-year base period used 1940, a year of higher pay rolls, as the base.

The five States with less than 10 percent of their employers taxed at war-risk rates were affected by only one or two of the selected factors. Alabama and Oklahoma were the only States in this group whose 1943 pay rolls had risen at least 90 percent above 1940 levels. In fact, Alabama's pay roll had experienced the greatest increase (141.0 percent) among the war-risk States, and Oklahoma's pay-roll rise (115.6 percent) was close behind (table 6). Specific provisions of the war-risk amendments in these States, rather than the economic conditions in the States, resulted in relatively small proportions of war-risk employers.

Under the Alabama law, an employer was liable for the special tax if his current taxable pay roll was at least \$100,000 and exceeded by a specified amount his average annual taxable pay roll for a period of years. Firms without a taxable pay roll in

the base period were exempt from the war-risk provisions. As a result, newly subject firms and small firms with the required increases in pay roll were excluded. Furthermore, since the average pay roll included the war years rather than a single pre-war year, many Alabama employers who would have been liable for the war-risk tax in States with a single prewar year as the base period were not subject under the Alabama law.

Relatively few Oklahoma employers paid the special tax, since a 200-percent increase in taxable wages over the lowest annual taxable pay roll during the 3 preceding years was required before a firm became subject to the war-risk tax. In addition, as in Alabama, all firms without pay rolls in the base period were exempt from the war-risk provisions.

Firms in All Industries Taxed at War-Risk Rates

While the largest proportions of firms subject to the war-risk tax were in the industries most directly connected with production of implements of war, the special taxes hit a substantial proportion of firms in all in-

Table 8.—Percent of accounts assigned war-risk rates, by industry division, 9 States, 1944

Industrial classification	Percent of accounts assigned war-risk rates									
	Total, 9 States ¹	Alabama	Florida	Illinois	Iowa	Maryland	Minnesota	Ohio	Oklahoma	Wisconsin
Total.....	11.0	2.8	16.1	6.4	7.7	26.3	1.1	15.9	9.1	13.6
Agriculture, forestry, and fishing.....	12.3	0	19.0	5.9	13.2	9.4	1.0	19.5	10.3	20.7
Mining.....	15.6	5.6	21.5	4.1	10.7	31.2	27.6	24.4	14.4	19.3
10 Metal mining.....	28.8	0	0	(?)			46.3	(?)	11.3	(?)
12 Bituminous and other.....	19.5	7.8		2.9	10.1	36.8	0	35.7	13.1	
14 Nonmetallic mining and quarrying.....	13.6	2.6	23.7	9.9	12.5	26.5	5.7	16.3	7.1	8.0
Construction.....	12.2	2.5	13.8	4.7	9.3	20.7	1.8	20.0	12.9	11.2
15 Building construction, general contractors.....	12.2	3.2	9.9	7.3	13.1	17.8	2.1	19.4	16.4	10.4
16 General contractors, other than building.....	14.8	3.9	18.6	5.0	11.4	26.4	4.2	28.9	13.5	10.5
17 Construction, special-trade contractors.....	11.6	1.3	13.8	4.0	6.1	20.7	1.2	20.2	9.7	11.8
Manufacturing.....	19.8	4.9	20.0	14.3	21.9	34.4	7.3	23.4	12.4	37.1
20 Food and kindred products.....	14.8	3.9	22.4	8.1	13.8	40.8	2.9	13.1	5.8	26.0
22 Textile-mill products.....	25.0	11.3	(?)	21.3	(?)	29.1	15.2	28.6	0	50.0
23 Apparel and other finished fabric products.....	18.3	29.0	16.7	5.8	40.7	36.3	6.4	26.4	(?)	44.9
24 Lumber and timber basic products.....	9.8	1.4	16.8	8.9	12.8	22.1	4.5	20.7	4.9	25.7
25 Furniture and finished lumber products.....	15.8	1.8	12.4	7.2	28.3	26.4	9.0	18.2	3.8	37.8
26 Paper and allied products.....	18.5	(?)	(?)	14.1	(?)	31.8	13.2	8.1	(?)	36.8
27 Printing, publishing, and allied industries.....	3.3	0	6.0	2.9	1.2	10.7	.7	3.5	2.0	4.2
28 Chemicals and allied products.....	18.4	11.7	30.4	13.7	24.6	44.1	3.3	16.0	23.8	27.1
29 Products of petroleum and coal.....	10.7	0	0	3.9		(?)	(?)	18.8	0	(?)
30 Rubber products.....	17.6	(?)	0	4.3	(?)	(?)	(?)	20.0	0	(?)
31 Leather and leather products.....	26.1	0	(?)	14.2	(?)	30.0	11.1	16.5	0	54.6
32 Stone, clay, and glass products.....	12.6	3.5	16.7	13.2	10.2	24.4	2.8	14.9	2.6	11.8
19,33 Ordnance, iron and steel and their products.....	34.7	17.4	36.1	29.1	40.4	49.1	25.0	34.9	40.0	61.0
34 Transportation equipment (except automobiles).....	44.5	(?)	28.1	25.0	(?)	48.5	(?)	58.8	(?)	60.0
35 Nonferrous metals and their products.....	25.7	(?)	(?)	16.7	(?)	42.5	8.3	32.2	(?)	48.8
36 Electrical machinery.....	38.5	(?)	(?)	31.3	(?)	(?)	27.3	40.7	(?)	68.2
37 Machinery (except electrical).....	38.3	(?)	(?)	27.8	43.2	47.6	15.7	40.7	30.6	70.4
38 Automobiles and automobile equipment.....	37.5	(?)	(?)	27.1	(?)	(?)	(?)	40.5	(?)	70.2
39 Miscellaneous manufacturing industries.....	20.0	(?)	21.4	15.0	26.3	29.4	4.1	26.3	0	31.4
Transportation, communication, and other public utilities.....	17.0	8.3	27.5	11.3	10.3	35.6	1.0	22.1	14.7	21.2
Wholesale and retail trade.....	8.8	1.2	14.7	3.6	3.6	26.4	.1	13.8	6.3	5.0
Finance, insurance, and real estate.....	2.8	.3	8.3	1.8	1.2	12.9	.1	2.7	4.1	1.1
Service industries.....	8.0	1.7	17.1	4.2	4.2	20.5	.1	13.6	8.1	6.1
Establishments not elsewhere classified.....	8.7		0	0		(?)	0	3.5	0	(?)

¹ Excludes Missouri; data not available.

² Not computed; less than 25 active accounts.

dustries in the war-risk States. In both 1943 and 1944, higher proportions of firms in the manufacturing industry division (11.9 and 19.8 percent, respectively) than in any other division paid war-risk taxes (tables 7 and 8). During 1944, however, 8.0 percent of the firms in the service division and 8.8 percent of the wholesale and retail-trade firms paid the special taxes.

The manufacturing division includes the major industry groups that played the largest part in turning out the materials of war, such as ordnance, iron and steel, transportation equipment, electrical and nonelectrical machinery, and textile-mill products. Well over one-fifth of the firms in each of these major industry groups in the war-risk States paid war-risk taxes in 1943 and 1944. Firms manufacturing transportation equipment⁶ (aircraft, ships, and so on, but not automobiles) were assessed war-risk rates more frequently than other groups—39.9 percent in 1943 and 44.5 percent in 1944. This industry had the most dramatic wartime expansion, as old, established firms mushroomed and new plants and yards sprang up almost overnight; taxable pay rolls of that part of the industry located in the 10 States with war-risk taxes in 1944 soared by 1943 to almost 20 times the 1940 level. Firms producing electrical and nonelectrical equipment⁷ were assessed war-risk rates only slightly less frequently—26.5 and 29.3 percent of the accounts in 1943 and 38.5 and 38.3 percent in 1944, respectively. While these were major war industries, their expansion in the war-risk States was not nearly so sharp as that of the aircraft and shipbuilding industries. Pay-roll increases from 1940 to 1943 in the machinery-producing groups amounted to about 150 percent.

In general, for all war-risk States combined, there was a fairly strong relationship between an industry's 1940-43 pay-roll increase and the proportion of its employers subject to war-risk taxes. A notable exception to the general trend is the chemical

and allied products group, in which the pay-roll rise was second largest—about 300 percent—but only 8.6 percent of the firms in 1943 and only 18.4 percent in 1944 were subject to war-risk taxes.

Maryland's surprisingly high proportion of war-risk liability among trade and service industries—more than one-fourth in 1944—highlights what may be called the nonwar impact of war-risk taxes. It is true that many firms not engaged in direct war production expanded along with the general wartime expansion. Many of these firms, however—unlike those in such industries as production of aircraft and ships, which contracted with the same or greater speed than they expanded—had a peacetime outlook similar to their wartime outlook.

The general impact of war-risk taxes in all phases of the economy of the war-risk States is clearly indicated by the percentages of war-risk accounts in the different industry divisions in each State. Manufacturing had the highest proportion in only four States in 1943 and in only three States in 1944. Firms in the transportation, communication, and utilities division were assessed war-risk rates most frequently in two States in 1943 and in four States in 1944. Mining firms led in two States each year. And in 1943 the agriculture, forestry, and fishing division had the highest proportion of war-risk accounts in Iowa.

Large Firms Taxed at War-Risk Rates Most Frequently

Only a few States—one in 1943 and four in 1944—submitted data which would reveal the varying impact of the war-risk amendments on firms of different sizes. Pay-roll data submitted by these States for war-risk and all active accounts are not precisely comparable since, for war-risk accounts, the pay roll reported was generally for the current year, whereas the pay roll for all active accounts was for some prior year or an average of the 3 preceding years. The rapid rise in pay rolls during the war has undoubtedly resulted in some overstatement of the proportion of war-

risk accounts among the larger firms. Conversely, the proportions for the smaller firms probably have been understated. As a result, the data are biased in the direction of indicating a stronger relationship between size-of-firm and war-risk liability than actually exists; even if this bias were eliminated, however, the relationship would remain to some extent.

Size-of-firm data for both 1943 and 1944 are available for Alabama only. No small Alabama firms were taxed at war-risk rates; only firms with pay rolls of \$100,000 or more were subject. In both years a larger percentage of the firms with pay rolls of \$1 million or more than of those with less than \$1 million were subject to the added tax—95.6 percent compared with 48.0 percent in 1943 and 39.3 percent compared with 27.1 percent in 1944. Among the Iowa firms in 1944, less than one-fourth of those with pay rolls under \$1 million paid war-risk taxes, while over one-third of the firms with pay rolls of \$1 million or more paid the extra tax. In Wisconsin during 1944, only 44.2 percent of firms with pay rolls of \$50,000-99,999 were subject to war-risk taxes, whereas 67.9 percent of those with pay rolls of \$1 million or more paid these taxes.

The large firms, in general, were more frequently subject to war-risk taxes than the smaller firms for several reasons in addition to the size-of-firm provisions included in the war-risk amendments. Some of these firms were large in 1943 and 1944 because their pay rolls had increased rapidly over pay rolls in the prewar years; such firms would, of course, generally pay contributions at the war-risk rates. In general, firms which were most likely candidates for war-risk taxation were those in the rapidly expanded war-production industries—usually the heavy industries (iron and steel, ordnance, automobiles, and so on) which are normally the large-sized firms. Also, many of the newly established war-production firms were making heavy war equipment in large quantities and therefore had greater-than-average pay rolls. In six of the war-risk States, such new firms were automatically subject to the extra tax.

⁶ Major industry group 34.

⁷ Major industry groups 36 and 37.