



MONTHLY REVIEW

of Ninth District Agricultural and Business Conditions
FEDERAL RESERVE BANK OF MINNEAPOLIS

Vol. 8

FEBRUARY 28, 1946

Serial
No. 50

SPECIAL ARTICLE

Agriculture at the Crossroads

NOW that the postwar period is here, what kind of an agricultural program is in prospect?

Will it be a production control program as exemplified in the A.A.A.? Or will it be a purchase or storage and loan plan such as the old Farm Board or Commodity Credit Corporation program? Will it be an export program for farm surpluses—if and when they develop? Or will new programs be developed—such as forward pricing of farm commodities, parity income payments, or some plan to maintain or increase consumption of food products?

This much is certain: agriculture is now face to face with adjustments from a war to a peacetime economy. Temporarily, during 1946, and possibly part of 1947, agriculture is in what may be termed an intermediate phase of reconversion and adjustment.

This phase is one of large food exports for relief, and of large but decreasing military demands for food. Eventually, however, these special demands for food products will decline. The development of a definite farm program at the earliest possible date would be helpful to farmers in their decisions as to what adjustments are most useful to meet the new and prospective conditions.

It is generally conceded that the spectre of surpluses will again be with us within a year or two. During the war, total agricultural production increased approximately one-third from the prewar 1935-1939 average. This increase took place in spite of critical labor and equipment shortages on farms.

This phenomenal increase in production has been due to several factors, some of which are farm mechanization, increased use of fertilizer, new crop varieties and improved seeds, and adoption of improved scientific soil and livestock management practices.

It is estimated by the Department of Agriculture that in the period ahead total agricultural production will, in years of normal weather, average at least 25 percent larger than prewar. Once agriculture has expanded, it is exceedingly difficult to shrink to its former size. It is this greatly increased production potential that makes many believe that with the war ended, surpluses will eventually develop and prices decline to levels that in many cases will be unsatisfactory.

Expanded Agricultural Production Complicates Postwar Farm Programs

● Parity Price Modernization, Forward Pricing, Parity Income, and Stabilized Food Consumption Suggested Alternatives to Solve Farm Problems

It will be recalled that during the World War I period agricultural production increased and prices advanced until about 18 months after the signing of the Armistice. Farm prices fell sharply in 1920—about 40 to 50 percent for many farm products. During the 1920's and 1930's, farm surpluses and relatively low farm prices were common, and pressure was brought by the farm interests for Government assistance.

Because of agriculture's distressed situation in the Twenties and Thirties, various agricultural programs to improve farm prices were instituted. Most of these programs dealt with production controls and commodity loans in an effort to control the supply or improve distribution in order to raise prices or to even out year-to-year price fluctuations to some extent.

PRESENT FARM PRICE SUPPORT PROGRAMS ARE BASED ON PARITY

The parity concept appeals to the farmer and to the public, since the word "parity" carries the meaning of equality. The formula of parity prices for farm products, therefore, has gained wide acceptance in recent years as a desirable goal in farm programs. Farmers have endeavored since World War I to establish the concept of purchasing power equality.

Today it is the basis for much current farm legislation. For example, mandatory price support at a percent of parity was made a part of the Agricultural Adjustment Act of 1933, and 1938, and in the 1941 and 1942 agricultural price support legislation as embodied in the Steagall Amendment of the A.A.A. of 1938.

Existing farm legislation promises support for a wide range of agricultural products at 90 percent of parity (92½ percent for cotton) for two full calendar years after the war has been officially declared ended. A farm program to carry out this price commitment has not yet been fully developed.

Farm prices at present are above the parity level due to the unusual prevailing demand conditions.

The price support legislation is specific and comparatively inflexible. This means that the farm program of the next three years may of necessity be somewhat different from the farm program which is developed to fit the longer term and constantly changing farm picture.

DISSATISFACTION WITH PARITY CONCEPT EXISTS

In spite of the wide acceptance and popularity of the present parity concept there is a growing realization among many farm and educational leaders that it is inadequate for the period ahead. The weaknesses of the present parity farm programs may be briefly listed as follows:

- (1) Probably the fundamental defect in parity pricing is that it freezes price relationships to a historical base of 30 years ago—in most cases 1910-1914. This means outgrown price relationships are continued.
- (2) The costs of producing different farm products today vary from the 1910-1914 costs. In some commodities, farm mechanization has greatly decreased the unit costs. In others where labor is a principal cost, the per unit costs are now higher. The parity formula does not take these changes into account. Some farm products are thus overpriced at parity and others are underpriced on the basis of present market conditions.
- (3) Pricing farm products at parity tends to make it more profitable to produce certain products than others. These commodities are then produced in larger quantities than are needed on the market. This eventually tends to produce crises of embarrassing surpluses, and eventually a collapse.
- (4) Parity prices for exportable farm products are normally higher than the world price level. As a result, exports are restricted, and the problem of surpluses becomes more unmanageable. Cotton is an example. With artificially high prices as a result of Government programs, the United States has priced itself out of the export market. As a result, cotton production has expanded in foreign countries and competitive products have increased in importance domestically. The result is chronic cotton surpluses and a demand that has been permanently shrunk.
- (5) If parity prices are achieved over a period of years, it means surpluses in the hands of Government agencies. This leads to greater Government control and farmer regimentation. In 1941 and 1942 the amount of wheat held by Government agencies under loan or purchase amounted to almost a year's domestic requirements. Only the heavy war demands prevented drastic controls from being put into effect.

(6) If farm prices are arbitrarily maintained at or near parity without regard for the real market price, more people and resources are kept in agriculture and in the production of particular farm products than are needed. American agriculture normally produces a surplus of people. This has been a persistent trend since the early history of the country. It is only as opportunities outside of farming become relatively attractive that people leave the farms for urban employment and enable those who remain in agriculture to participate in rising standards of living.

These features of our present farm parity programs are gradually coming to the fore. Many proposals have been or are being made designed to offset these disadvantages in whole or in part, and yet provide assurance that farm incomes will not collapse as they did in the early Thirties and that agricultural prices and income will not be out of line with other parts of the economy.

MANY DIFFERENT FARM PROGRAMS SUGGESTED

Modernize parity—It has been suggested by some, including at least one of the major farm groups, that a more modern base be established—say 1925-1929 or 1935-1939—for farm prices, but that the present index of prices paid by farmers be used in the parity formula. This would eliminate some of the present inequalities but would not eliminate all of them, since price inflexibilities would continue to exist, and changes in demand and supply conditions and cost relationships would not be reflected in parity prices.

Forward pricing—A program of forward pricing has been receiving increasingly favorable consideration among professional agricultural economists in the agricultural colleges and also in the Department of Agriculture.

Many variations of this plan have been suggested, but basically the idea is for a centralized and impartial board to set a forward floor price on farm products, extending ahead for one production period.

The basic objective of the plan would be to stabilize prices by preventing sharp price fluctuations, but still set prices over a period of time as nearly as possible in line with demand and supply conditions. The following standards for such a plan are suggested by one writer.¹

- (1) "The price floor for export commodities should not exceed the world price expected to prevail over the next year."
- (2) When a storage program for nonperishable commodities is in operation, the Board should lower the price floor of any commodity when the carry-over exceeds the established 'normal' by 10 percent. When the carry-over is below normal by 10 per-

(Continued on Page 318)

¹ "Agricultural Adjustment and Income," Postwar Economic Studies, No. 2, October, 1945, Board of Governors of the Federal Reserve System, Washington, D. C.

BUSINESS**January Activity Exceeded 1945 by 15%**

BUSINESS activity for the month of January in the Ninth Federal Reserve District, judging by the dollar value of department store sales and the dollar value of checks written against depositors' accounts, was approximately 15 percent greater than a year earlier.

Manufacturing lines showed more moderate gains over last year. Flour production in Northwest mills increased 4 percent over last year, while linseed oil shipments for January were about one-third larger. Carloadings of grain and grain products in the Northwest area were up by 20 percent from a year ago, while livestock carloadings increased 12 percent.

Less-than-carload-lots of merchandise moved by rail was increased substantially over last year, but reduced shipments of coal and coke and forest products left total carloadings just equal to January, 1945. The 38 percent increase in less-than-carload-lots of merchandise probably reflects the larger movement of certain types of civilian consumer goods.

Department store sales in the Ninth District in January, up 17 percent from a year ago, authenticate one point at least—consumers still have funds they are willing to exchange for available merchandise even though that merchandise may not be exactly what is desired. Also the larger sales volume reflects the gradual return of merchandise not available in

BUILDING moves far ahead of last year.

Sales at department stores 17 percent over January 1945—double 1941.

Debits to depositors' accounts top 1945 by 15 percent.

Carloading of grain and livestock up, coal and coke and forest products down.

Farm machinery for Northwest may fall short of last year.

the war years, goods for which there is now a ready market. Supplies of durable goods still are lean, but they do add to the already large sales volume of soft goods. Men's wear and home furnishings continue to register sizeable gains over sales for the same month a year ago.

A glance at the sales records for city department stores reveals the dollar volume of sales in January this year to be almost double the last pre-war January—January of 1941.

Preliminary figures from stores over the district signify about the same relative sales gains throughout the five states. A few sections reported sales off slightly for the month. Central Minnesota and central North Dakota registered declines of 2 and 4 percent respectively. For most other trade areas, the gains were consistently near 17 percent.

Department store sales for cities showed Minneapolis well in the lead with a gain of 19 percent; St. Paul followed with sales up 16 percent from January a year ago. Other cities for which percentages were available; Mankato, 3 percent decrease; St. Cloud, 1 percent increase; Duluth-Superior, 5 percent increase.

The dollar volume of city department store stocks on January 31 slightly exceeded the figure of a year ago, but in view of higher prices generally this in all probability indicates a reduced physical volume of merchandise on hand.

Bank debits, a dependable gauge of general business activity, both for relatively small communities and for comparatively large sections of the economy, point toward a gain of 15 percent in January, 1946, as compared to the same month a year ago.

Debits to depositors' accounts recorded in 132

Sales at Department Stores

	Number of Stores Showing Increase	Number of Stores Showing Decrease	% January 1946 of January 1945
Total District	193	74	117
Mpls., St. Paul, Dul.-Sup.	23	3	117
Country Stores	170	71	116
Minnesota	47	25	111
Central	5	3	98
Northeastern	4	3	122
Red River Valley	3	1	113
South Central	8	11	105
Southeastern	12	1	122
Southwestern	15	6	109
Montana	31	6	124
Mountains	12	0	126
Plains	19	6	123
North Dakota	35	17	115
North Central	4	7	96
Northwestern	2	3	117
Red River Valley	16	3	117
Southeastern	11	4	118
Southwestern	*	*	
Red Riv. Val.-Minn. & N. D.	19	4	116
South Dakota	17	7	119
Southeastern	5	1	126
Other Eastern	8	2	118
Western	4	4	102
Wisconsin and Michigan	40	16	115
Northern Wisconsin	10	5	119
West Central Wisconsin	24	8	113
Upper Peninsula Michigan	6	3	118

* Not shown, but included in totals. Insufficient number reporting.

**Department Store Sales Indexes by Cities
(1935-39 — 100 unadjusted)**

	Jan. 1946	Jan. 1945	Jan. 1944	Jan. 1941
Minneapolis	222	156	131	98
St. Paul	157	135	113	83
Duluth-Superior	157	142	126	74

cities in the Ninth District totaled \$2 billion as against \$1.7 billion a year earlier. The largest gains, in South Dakota and North Dakota, were 23 and 21 percent respectively.

In the Upper Peninsula of Michigan, a moderate gain of 9 percent was recorded, with 5 of the 19 cities registering a decline from January, 1945.

Installment loans made by commercial banks, industrial loan companies, small loan companies, and credit unions increased another 2 percent during the month of January. This expansion of credit was due primarily to financing automobile purchases and to "other" installment loans made up largely by credit extended on durable goods lines such as refrigerators, stoves, and washing machines.

Reporting commercial banks had a 7 percent increase over December in automobile loans. "Other" installment loans by these banks showed a larger relative gain, but the dollar volume still was comparatively small.

When compared to a year ago, total installment loans outstanding at these commercial banks at the end of January were larger by 25 percent. Personal cash loans and automobile loans accounted for most of the increase.

Home construction was one of the things left undone during the war.

Some residential construction was completed, but building of this type fell far short of current needs. Now joining in the search for new homes are returning veterans who have swelled the ranks of buyers. This presents the nation with one of its most perplexing problems for the year 1946. A great expansion in residential building confronts the construction industry just as it struggles to regain its capacity—a struggle to be carried on by inexperienced working crews against shortages of material and equipment.

Since 1918, the end of World War I, the population of the United States has increased 40 percent from 103,000,000 to 140,000,000. Yet at the end of World War II the construction industry was operating at a slower rate than at the end of the first World War.

Public sentiment and the returning veterans' resentment over inadequate housing facilities, plus the apparent impasse of industry in general, brought pressure to bear on Washington to develop a program for low cost housing to meet a critical need.

NORTHWEST BUSINESS INDEXES

(Adjusted for Seasonal Variation—1935-1939 = 100)

	Jan. 1946	Dec. 1945	Jan. 1945	Jan. 1944
Bank Debits—93 Cities.....	247	237	215	225
Bank Debits—Farming Centers.....	292	250	240	228
City Department Store Sales.....	216	211	184	155
City Department Store Stocks.....	157	134	147	148
Country Department Store Sales.....	207	174	178	166
Miscellaneous Carloadings.....	143	114	156	153
Total Carloadings (excl. misc.)	99	99	92	104
Farm Prices—Minn. (unadj.)	168	175	168	165

The result proposed: a comprehensive emergency housing program.

The salient features are:

- (1) For 1946, 1.2 million new dwelling units; in 1947 a total of 1.5 million.
- (2) Premium payments for manufacturers have been proposed to encourage greater output.
- (3) An expanded labor force in residential construction from the present 650,000 to a peak of 2.2 million in 1947.
- (4) Extensive use is to be made of manufactured homes. In 1946, an estimated 250,000 prefabricated units; in 1947 probably 600,000.

Current building rate is higher than the wartime level, according to a Department of Commerce report from Washington stating that privately financed residential construction in the Nation for January was \$138 million—3 percent above December and five times the \$25 million figure for January, 1945. The value for all privately financed construction was placed at \$394 million for January this year.

Similar increases were evident in the Ninth District in January when 12 cities showed a six-fold increase in building permits over January, 1945. Permits issued in January were off sharply from December.

Mortgage loans on non-farm property recorded in 1945 topped 1944 by 22 percent, according to figures released by the Federal Home Loan Bank Administration. This points not so much to new construction as to buying activity in older residential property. The average mortgage in 1945 was \$3,440, an increase of eight percent over 1944.

Farm machinery, 1946: Soon after V-J day in August, 1945, farm implement manufacturers, wholesalers, and retailers, as well as farmers, were enthusiastically working out their part in the plan to produce, distribute, and use a greatly expanded output of farm equipment in the first post-war crop year.

In some manufacturing plants in which war machines had been produced, reconversion was necessary, while in other plants new techniques were to be introduced and additional workers trained to speed up the output. This would require time, and problems would be present, but all confidently planned on a level of output somewhat greater than in 1945, or in any other war year. Production plans of manufacturers last fall indicated farmers in 1946 could make a good start on a farm-machinery-purchase-program that had been held back for want of equipment in the war years.

Current newspaper reports make it obvious to all that farm machinery production, like all durable goods lines, has been slowed up by labor disputes and material shortages in the past 90 days. But the question before farmers, and for Northwest bankers who may be called upon to provide credit for farm equipment purchases is this: How much new equip-

(Continued on Page 310)

AGRICULTURE***Wheat Shortage Restricts Uses of Wheat***

WHEAT has been the most talked about farm commodity in recent weeks. Almost overnight the realization of a world-wide shortage of the Northwest's principal crop has developed.

In spite of a record wheat crop last year—over a billion bushels—it now appears there is insufficient wheat to meet fully both foreign and domestic requirements.

The disappearance of wheat during the last half of 1945 totaled 715 million bushels compared with 554 million bushels in the same six months the previous year. That means an increased use of 161 million bushels of wheat. On January 1, 1946, there was 146 million bushels less wheat on hand compared with January 1, 1945.

The Government made commitments several months ago to send 225 million bushels of wheat for foreign relief during the first half of 1946. The job is to find that much wheat for export without crippling domestic wheat and flour requirements too severely.

The Government in an effort to squeeze out more wheat for foreign shipment and for human consumption issued a regulation in early February governing the distribution and utilization of wheat and flour. There were several provisions of the order which briefly may be listed as follows:

- Increase the extraction rate of wheat flour from the present average of about 70 percent to 80 percent. This means adjustments in formulas and recipes by millers and bakers and some changes in consumers' food habits.

- Control the inventory of wheat held by mills and flour inventories held by bakers and distributors.

- The use of wheat in the production of alcohol and beer is banned. The distillers will have to use grains other than wheat or top grades of corn. This means a drastic cut in production of high quality liquors.

- The Department of Agriculture is given greater control of wheat and flour exports.

- The Department of Agriculture is directed to develop additional ways of saving grain used in feeding of livestock and poultry. A reduction of wheat in mixed feeds will produce the biggest sav-

GOVERNMENT issues regulations on wheat and flour.

Wheat shortage means less carryover and favorable outlook.

Farm prices stay up; farm incomes maintained.

ings. Commercial feed manufacturers may be limited to nearly 60 percent of the amount of wheat used in feed formulas of a year ago. This may result in faster movement of livestock to market as the feed shortage develops.

The Administration hopes by these proposals to save some 25 million bushels of wheat for export to Europe.

The present world-wide wheat shortage is something new to an industry that has had chronic surpluses for so long. The present situation puts our Northwest wheat producers in a more favorable position for their 1946 and possibly 1947 crop.

There will be a very small carry-over of old wheat to depress prices of the new crop if the present supply estimates are correct. Present indications are for another good winter wheat crop in Montana, South Dakota, and Minnesota. Based on crop conditions in December, the estimate is for a winter wheat crop of nearly 40 million bushels in 1946 compared with 37 million bushels last year. No estimates are yet available on the spring wheat crop in this area.

For the country as a whole, a big winter wheat crop of 750 million bushels is indicated on the basis of December conditions. This is slightly smaller than last year, but with a normal spring wheat crop it would result in another billion bushel wheat crop.

Prices received by farmers in the Ninth District were little changed from the previous month except for seasonal price adjustments for some farm products. Egg prices are an exception in that a sharper than usual price decline occurred.

Farm commodity prices in general, however, are higher compared with a year earlier, and are nearly double the prewar 1935-1939 average.

When the war ended last summer many people thought food supplies would start piling up and prices would shortly go down. Instead, prices of practically all farm products are tight against ceilings and there are serious shortages of wheat, feeds in general, and dairy products.

At the present time there are no indications that these food shortages will be eased to any appreciable extent in the next few months. In fact if relief needs of foreign countries are met, the food situation here could become even tighter. A drouth

Winter Wheat Production¹

(Thousands of Bushels)

State	Crops of 1944-1943	Crop of 1944	Crop of 1945	Crop of 1946 ²
Montana	17,379	26,686	30,162	34,360
So. Dakota	1,480	2,079	3,936	3,096
Minnesota	3,116	1,904	2,714	1,836
United States	585,994	758,930	823,177	750,739

¹ Data from United States Department of Agriculture.

² Based on indications December 1, 1945.

this summer might easily make the situation serious for a much longer time.

The policy with regard to continuation of food subsidies and farm commodity price ceilings has not yet been fully determined. It was expected several months ago that ceiling prices and subsidies would be largely removed by June 30, 1946. However, since most farm prices are wedged tightly against ceilings many observers believe there is a good chance Congress will extend the price stabilization laws for another six months period and possibly for a year in an effort to prevent sharp increases in the cost of living. If prices are held rigidly at present ceiling levels, removal of subsidies would result in somewhat lower prices to farmers.

Some farm leaders have suggested that subsidies be removed at the earliest possible time but that ceiling prices be adjusted upward at the same time. This would prevent price declines to farmers but would increase consumer food costs. If, on the other hand, subsidies are removed at a later time when farm commodity prices are not pressing ceil-

ing levels, the result will be lower farm income by the amount of the subsidy.

The uncertainties of the present situation make it difficult for the farmer to plan his operations. Particularly is this true for livestock and dairy producers where subsidies constitute a substantial proportion of the price.

For poultry and egg producers the price situation is somewhat different. No subsidies are involved and prices are not pressing ceilings. It is generally conceded that for these products the problem later this spring is likely to be one of oversupply.

Cash farm income in the Ninth District continues high, reflecting current high prices and large marketings. Somewhat smaller stocks of grain on farms and in elevators may reduce cash income in the next few months from these sources, compared with a year earlier. However, sales of livestock and livestock products are the major source of income, particularly in the first half of the year, and marketings of these products should approximate if not exceed those of a year earlier.

In fact, livestock marketings may be increased as the current feed shortage affects individual producers. Under the new feed orders poultry producers particularly will feel the pinch, and sharp reductions in poultry numbers are expected.

The total volume of marketings should therefore be well maintained for several months. If favorable prices are assumed, the result will be a continuation of the recent satisfactory trends in cash farm income.

Average Prices Received by Farmers¹

Commodity and Unit	Ninth District			Parity Prices ² United States Jan. 15, 1946
	Jan. 15, 1937-1941 Avg.	Jan. 15, 1945	Jan. 15, 1946	
Crops				
Wheat, bushel	\$.85	\$ 1.40	\$ 1.50	\$ 1.56
Corn, bushel	.56	.86	.92	1.14
Oats, bushel	.31	.64	.66	.706
Potatoes, bushel	.61	1.35	1.19	1.29

Livestock and Livestock Products

Hogs, 100 lbs.	7.18	13.67	13.87	12.90
Beef Cattle, 100 lbs.	6.84	11.27	10.98	9.59
Veal Calves, 100 lbs.	8.49	12.76	13.01	11.90
Lambs, 100 lbs.	7.67	12.61	12.75	10.40
Wool, lb.	.26	.42	.43	.324
Milk, wholesale, 100 lbs.	1.63	2.72	2.78	3.00
Butterfat, lb.	.32	.52	.53	.484
Chickens, live, lb.	.115	.214	.208	.202
Eggs, dozen	.175	.35	.335	.389

¹ Data compiled from "Agricultural Prices," United States Department of Agriculture.

² The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-1914.

January-November Cash Farm Income¹

State	1935-1939 Average	(Thousands of Dollars)		
		1944	1945	1945 in Per- cent of 1944
Minnesota	\$ 312,762	\$ 739,268	\$ 760,632	103%
North Dakota	104,468	380,300	402,860	106
South Dakota	100,442	312,406	344,297	110
Montana	84,425	218,418	236,103	108
Ninth District ²	656,283	1,830,908	1,924,934	105
United States	7,525,852	18,530,728	19,697,000	106

¹ Data from "The Farm Income Situation," United States Department of Agriculture.

² Includes 15 counties in Michigan and 26 counties in Wisconsin.

BUSINESS

(from Page 308)

ment will be available? Will spare parts be on hand to keep in operation war-worn machines that already have served several years beyond what is normally expected?

A poll of farm equipment manufacturers and wholesalers reveals their position as follows:

- (1) Work stoppage in ball-bearing industry has slowed production in many lines, especially power units.
- (2) Spare parts should be adequate to meet 1946 needs.
- (3) New equipment production will not exceed

last year, and may fall as much as 10 percent below 1945. This is specially true of machines used early in the crop year—plows, planters, cultivators which normally move off production lines from December to March.

- (4) Current production will cover only necessary replacements; backlog orders must wait for 1947.

Is food production threatened? This is not likely, for the farmer is resourceful and through help exchange between farms, and through custom operations, the farm work in 1946 season can be done barring adverse weather.

(Continued on Page 312)

BANKING**Readjustment Marks Financial Scene**

THE last month was essentially one of pause and readjustment in Ninth District banking. Major changes in the financial picture took the form of a readjustment of earning assets with only a very small change (decline) in total resources.

Deposits of the city reporting banks declined \$21 million during the four weeks ending February 13, a change of modest proportions compared with some of the monthly fluctuations which occurred during the last year. The decline was centered entirely in correspondent balances (balances which other banks maintain with these city banks). These deposits actually declined from mid-January's \$385 million to \$347 million a month later.

Other types of deposits exhibited a partially offsetting increase. Balances of individuals and businesses expanded \$14 million, and even U. S. government deposits (mostly war loan) rose by \$5 million.

Earning assets were reduced enough to meet about half of the decline in deposits. Loans did decline by \$7 million, but an increase in miscellaneous investments (excluding government securities) in part offset this modest decline in loan volume. Cash resources were reduced from \$406 million in mid-January to an even \$400 million four weeks later.

The remainder of the deposit reduction was matched by a \$9 million increase in borrowings by these banks. Total borrowings stood at \$15 million by mid-February.

Excess reserves, which were \$10 million on January 16, amounted to \$5 million on February 13.

While total holdings of U. S. government securities held even during the month, there were some

SOUTH DAKOTA member bank deposits jumped 35 percent in 1945.

Banks shift investments to longer maturity Government bonds.

City member banks' deposits off from last month.

substantial changes in composition. U. S. Treasury bill holdings declined from \$37 million on January 16 to \$13 million a month later. Holdings of U. S. Treasury notes were also reduced by \$10 million to \$159 million on February 13. While certificates of indebtedness holdings rose \$8 million, the largest offsetting expansion was the rise in holdings of U. S. government bonds from \$644 million to \$670, a reflection of the current movement by banks out into longer maturities.

Country member bank deposits, contrary to those of city banks, did rise from an average of \$1,670 million during the last two weeks in December to an average of \$1,694 million a month later. The increase was split about equally between time and demand balances. This pushes country member bank deposits to a level \$402 million above a year ago.

Minnesota country banks accounted for about half of the monthly increase (\$12 million), with Michigan and North Dakota sharing the remaining \$12 million increase about equally.

Tabulations of the year-end 1945 call report produced a deposit total of \$3,427 million for all Ninth District member banks as of December 31, 1945. This compares with \$2,800 million at the end of 1944 and \$1,213 million for year-end 1940, increases of 22 percent and 130 percent respectively. Deposits of individuals and businesses accounted for \$420 million of the \$627 million increase, as the table indicates.

The two Dakotas again in 1945 achieved the distinction of turning in the largest relative deposit increase for the district. South Dakota member

Assets and Liabilities of Selected Ninth District Member Banks

	(In Million Dollars)		
Assets	1/16/45	2/13/45	Change
Loans	\$ 262	\$ 255	— 7
Total U. S. Government Securities	1086	1086	
Other Investments	55	57	+ 2
Cash and Due from Banks	406	400	— 6
Miscellaneous Assets	15	16	+ 1
Total	1824	1814	—10

Liabilities	(In Million Dollars)		
	1/16/45	2/13/45	Change
Deposits of U. S. Government	370	375	+ 5
Deposits of Individuals and Businesses	876	890	+14
Other Deposits	478	438	—40
Total Deposits	1724	1703	—21
Borrowings	6	15	+ 9
Miscellaneous Liabilities	8	10	+ 2
Capital Accounts	86	86	
Total Liabilities and Capital	1824	1814	—10
Excess Reserves	10		

Holdings of U. S. Government Securities Selected 9th District Member Banks

	(In Million Dollars)		
	1/16/45	2/13/45	Change
U. S. Treasury Bills	\$ 37	\$ 13	—24
U. S. Treasury Certificates			
of Indebtedness	236	244	+ 8
U. S. Treasury Notes	169	159	—10
U. S. Government Bonds	644	670	+26
Obligations Guaranteed by U. S. Government			
Total	1086	1086	0

bank deposits jumped 35 percent in 1945 and North Dakota 30 percent. The district average was 22 percent.

The use to which the banks put these added funds followed the wartime pattern. The largest single chunk, \$434 million, went into added holdings of U. S. government securities. Loan pouches became thicker to the extent of \$43 million. Indicative of a tendency to maintain a substantial degree of liquidity was the additional \$146 million held in cash or on deposit with the Federal Reserve Bank or in correspondent balances. Miscellaneous investments were augmented by \$20 million.

A breakdown of holdings of U. S. government securities revealed a tendency in 1945 for banks to lengthen maturities. At the end of 1944, combined holdings of U. S. Treasury bills, certificates of indebtedness, and Treasury notes accounted for 47.8 percent of total holdings of governments; by year-end 1945 this figure had declined to 39.8 percent. This 1945 figure varied from a high of 50.0 percent for Montana to a low of 26.4 percent for the Upper Peninsula of Michigan.

For most states the proportion of total governments represented by certificates of indebtedness remained about the same, with the declines concentrated in Treasury bills and notes.

The added investments in the longer securities were principally centered in bonds due or callable within a range of 5 to 10 years, although the relative increase was largest in the case of bonds due or callable after 10 years.

Capital funds were augmented to the tune of \$13 million during the year.

Percentage of U. S. Government Securities Held By Member Banks According to Maturity

TREASURY BONDS						
State and Date (Year-End)	Treas. Bills, G. I.'s and Notes	Savings Bonds	To 5 Years From Call	5-10 Years From Call	Over 10 Years	
MINNESOTA						
1944	48.1%	1.8%	10.8%	32.8%	6.5%	
1945	38.8	2.5	10.7	37.8	10.2	
MONTANA						
1944	53.1	2.4	8.0	33.3	3.2	
1945	50.0	3.1	11.7	30.7	4.5	
NORTH DAKOTA						
1944	49.3	3.5	9.1	34.7	3.4	
1945	42.6	4.0	12.6	36.2	4.6	
SOUTH DAKOTA						
1944	45.7	3.5	11.5	34.8	4.5	
1945	39.7	4.0	11.0	39.1	6.2	
WISCONSIN*						
1944	39.7	5.6	9.8	34.0	10.9	
1945	34.5	6.5	10.7	40.5	7.8	
MICHIGAN*						
1944	36.2	5.9	8.0	41.1	8.8	
1945	26.4	7.9	12.2	41.7	11.8	
TOTAL NINTH DISTRICT						
1944	47.8	2.5	10.2	33.5	6.0	
1945	39.8	3.3	11.0	37.2	8.7	

* Only banks in the Ninth District.

Assets and Liabilities of Ninth District Member Banks

	(In Million Dollars)	
Assets	Dec. 1944	Dec. 1945
Loans & Discounts (Incl. Overdrafts).....	\$ 408	\$ 452
U. S. Government Securities.....	1724	2158
Other Investments.....	105	125
Cash Balance with Banks (Incl. Res. Bal.)	703	849
Other Assets.....	25	26
Total Assets.....	2965	3610
Liabilities		
Demand Deposits (Ind., Partner., Corp.)...	1252	1499
Time Deposits (Ind., Partner., Corp.)...	586	760
Deposits of States and Pol. Subdivisions....	147	164
Deposits of Banks.....	327	425
Other Deposits.....	488	579
Total Deposits.....	2800	3427
Capital Account.....	156	169
Other Liabilities.....	9	14
Total Liabilities and Capital Account.....	2965	3610

Daily Average Reserve Position for All Ninth District Member Banks for the 16-Day Period Ending January 31, 1946

	(Thousands of Dollars)		
	Average Reserves Carried	Average Reserves Required	Average Excess Reserves
Reserve City Banks.....	\$171,187	\$168,144	\$ 3,043
Other City Banks.....	30,026	24,552	5,474
Total City Banks.....	201,213	192,696	8,517
Total Country Banks.....	185,940	139,983	45,957
Total Ninth District—1946	387,153	332,679	54,474
Total Ninth District—1945	312,913	275,418	37,495

Total Deposits by States All Ninth District Member Banks

	(In Million Dollars)		Percent Change
	12/31/44	12/31/45	
Minnesota.....	\$1,833	\$2,179	+19
Montana.....	338	427	+26
North Dakota.....	171	223	+30
South Dakota.....	200	270	+35
Michigan*.....	118	149	+26
Wisconsin*.....	140	179	+28
Total Ninth District.....	2,800	3,427	+22

* Only banks in the Ninth District.

BUSINESS

(from Page 310)

Farmers want more mechanization, for machines in agriculture, were, to a large degree responsible for the increased productivity of American agriculture in the war years. Farmers want and need more equipment and in many instances have the cash resources to buy.

Some credit will undoubtedly be needed by farmers, and they should have no difficulty in obtaining accommodations.

SPECIAL ARTICLE

(from Page 306)

cent the Board should raise the price floor for the following season.

- (3) In the case of perishable commodities it should be mandatory for the Board to lower the price floor when the Government had been forced to purchase a commodity on the open market and dispose of the product at a loss.
- (4) When the market price of a commodity exceeds the price floor by 10 percent the price floor for the following season should be raised."

It has been suggested that if and when price support becomes necessary under the plan, the farmer receive a direct payment represented by the difference between the market price and the announced forward support price. For example, if the forward price of wheat for a season was \$1.35 a bushel and the market price of wheat dropped to \$1.05 the difference of 30c would be paid direct to the farmer.

By letting wheat prices seek the market level, consumers would benefit by the lower price, wheat could move freely into world trade channels, and the farmer would not be affected by the sharp price decline. The difference between the market price and the forward price during the marketing season would give him ample warning of possible price adjustments that most likely would be made in forward prices for the next production period.

The principal advantages of a forward pricing program are: First, the farmer would know in advance what the minimum prices of individual farm products would be, and this would put him in position to plan his production program more intelligently and profitably.

Second, such a plan could operate to guide production. That is, if the need for increased production of some farm product is foreseen by the experts studying food requirements, the floor price could be made attractive to draw out the desired supply. On the other hand, if surpluses were developing, a lower forward price might discourage production.

Third, since prices can be modified to meet changing conditions the rigidities of the old parity pricing system are eliminated. In a depression, prices might temporarily be established to maintain farm income. As soon as the emergency has passed, prices could again be adjusted to reflect market conditions.

Fourth, there would be no production control with its attendant difficulties.

One disadvantage of the forward pricing plan is that forward or support prices would be made by a group of individuals. Their decisions would of necessity be more or less arbitrary. Not even the experts can foresee with complete accuracy future

demand and supply conditions. It would be difficult also to prevent some influence (direct or indirect) by pressure groups and for political considerations.

A second objection is that Government revenues may be used in whole or in part to administer the program and to maintain farm income.

Food consumption programs—The objectives in such programs are to improve diets and to increase the demand for food products so that farm prices will be maintained at satisfactory levels. Two such measures are under Congressional consideration at the present time. One is a program to expand the school lunch program to include all school children. The second is a national food allotment program which would make it possible for low-income families to secure an adequate diet.

It is claimed by proponents of these programs that, if they were put into effect, prices of most farm products would be maintained above 90 percent of parity, whereas without the program and under free market conditions in periods of unemployment and depression farm prices might be expected to drop materially below the 90 percent level. They were 62 percent of parity in 1932. It is doubtful, however, if this program would react so directly in favor of maintenance of the prices of many crops such as cotton and wheat.

Participation in such a program would be determined by establishing the cost of a minimum adequate diet and then arbitrarily fixing a maximum proportion of a family's income that should be spent for food. If a family spends this proportion of its income for food but still cannot purchase an adequate diet they would be entitled to Government subsidy for the difference.

For example, suppose a family of four received a \$100 monthly income and the cost of an adequate diet for one month is calculated to be \$60.00. It arbitrarily is determined that no family should spend more than, say, 40 percent of its income for food. An average family with this income would then have only \$40.00 available for food purchases ($40\text{ percent} \times \$100 = \$40.00$) and would be entitled to exchange this \$40.00 for \$60.00 worth of food stamps in order to purchase an adequate diet.

It is argued that this plan is more humanitarian than production control programs. Malnutrition is widespread even in this country. Some claim that a third of the families in normal periods have inadequate diets and substantially more than that proportion in depression times.

It probably would cost little more than production control programs to accomplish the objective of maintaining satisfactory farm prices. In fact, the estimates run from about a half billion dollars in periods of full employment to about $2\frac{1}{2}$ billion dollars in depression. Current food subsidies are costing about 1.8 billion dollars annually and the A.A.A. program in 1939 cost about 1 billion dollars.

The plan has the added advantage that demand for foods would tend to become stabilized, farmers would follow their natural inclination to produce to the full, and full agricultural production would maintain employment in food processing and distributive agencies, a desirable postwar objective.

The disadvantages of such a program are the difficulties involved in its administration. Many also doubt the advisability of a permanent program of subsidizing individuals on the basis that it tends to deaden initiative. Another disadvantage is that this program would solve only part of the farm problem. Important crops such as cotton and wheat would not be appreciably affected by these programs, since per capita consumption of these commodities vary only slightly from year to year.

Parity Income—The Secretary of Agriculture and others have recently been stressing the desirability of a farm program that would emphasize parity income. The parity income concept differs from parity price in that it is the ratio of net income per person on farms to net income of persons not on farms as measured from the base period 1910-1914. The thought back of proposals of this type is that the farmer should be guaranteed a minimum income or a floor below which farm income should not fall.

In periods of high national income and full employment, agriculture has historically been able to get a reasonable share of the total income. On the other hand, agriculture fares relatively badly in periods of depression from a price and income standpoint because millions of farmers acting independently are unable to control production in line with the decreased purchasing power. As a result, prices fall sharply in order to move the relatively steady volume of farm production into consumption.

The proponents of this plan argue that if farm income falls below a prescribed minimum in relation to total national income, farm income should be supplemented by income payments to individual farmers. Payments would be made in proportion to the quantity of products each farmer would produce and sell. Each farmer, however, could produce whatever and as much as he pleased.

One authority in outlining this farm program has suggested that such payments be made only to those following satisfactory soil conservation practices. There should be no objection to this.

The disadvantages would be the administrative problems involved in determining the exact amount each farmer would receive on the basis of his production and soil management practices.

Free market plan—By this is meant that the Government should withdraw completely all price or income supports. Government action would be limited in the price field to the furnishing of market news reports, outlook reports, and other educational helps as in the past but, perhaps, on an improved and enlarged scale.

Under such a program the farmer would be guided by prices in a freely competitive market. He would produce as much and whatever he pleased. He would receive no Government handouts or subsidy.

Competitive farm prices would adjust farm production in line with efficient use of resources. In other words, land, labor, and capital would not be maintained in production above the real market needs as might be true of some commodities under parity pricing.

There is much to be said for a free market program. It promotes full employment and complete use of resources. It is obvious that only by a program of abundant production in all segments of the economy can the standard of living be increased. A program of restricted production may be of benefit temporarily to the group doing the restricting, but society as a whole suffers.

Such a plan, however, is not without its difficulties. From the farmer's standpoint it can be successful only if the same policy is followed by the rest of the economy. During the depression of the early Thirties agricultural production held nearly constant and prices declined drastically. In contrast, production of many industrial products such as farm machinery declined sharply while prices were substantially maintained. This worked to the disadvantage of agriculture, with the result the A.A.A. came into existence to do for the farmer what business was able to do for itself.

ECONOMISTS' VIEWS ON FARM PLANS VARY

What type of farm price program do agricultural economists favor? This question was asked last December in a poll of 305 economists in Government, college, and other work.

Surprisingly only 11 in the group, or 4 percent, voted for a continuation of the present 90 percent of parity price support program after the two-year guarantee has expired.

Forty percent voted for the forward pricing plan and 37 percent for the parity income plan with payments to be made only in periods of depression.

Fifty-eight or 19 percent of those polled voted for a complete return to free markets with Government withdrawing completely from price or income support.

When farm history is written covering the next several years it probably will record the adoption of no single farm plan as outlined in this article. Rather, the adopted policy probably will be a combination of the more useful elements of several plans.

The need today is to present for discussion and clarification the different alternatives to meet the farm problem, with the hope that when policies are finally adopted they will meet not only agriculture's needs but also be in the long-term national interest.

—Franklin L. Parsons