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FEDERAL RESERVE BANK OF MINNEAPOLIS

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What About Farm Programs?

Alternatives Include Farm Market Expansion, Continuation of Current Farm Programs, and A Return to Restricted Crop Production . . .

THERE is general agreement that the current agricultural situation poses some rather important questions for the American farmer.

What will happen when foreign relief demand is no longer in the picture? Will farm incomes fall? Will the current farm price support program expiring December 31, 1948, be replaced by a more permanent farm program? What will be the nature of such a program and what will be the costs to the American taxpayer?

Obviously these are questions of great importance to farmers and others who live in the agricultural Ninth District. It is equally obvious that they cannot all be answered precisely. Opinions may differ. Perhaps, however, comments may be made that will stimulate thinking and discussion about existing farm programs and prospective new ones.

With the possible exception of the Homestead Act, farm programs—in the sense that they are Government sponsored, financed, and oftentimes subsidized—are of comparatively recent origin.[1] Such programs were started on a national scale in 1916 with the passage of the Federal Farm Loan Act, which provided for farm real estate loans. Government sponsored agricultural credit agencies have expanded since then to include all types of farm credit.

There were a variety of proposals made during the 1920's to relieve agricultural distress. The only one designed to influence farm prices on an extensive scale that got into legislative form was the Agricultural Marketing Act of 1929. Price stabilization through the "Farm Board" and the financing and encouragement of cooperatives were major activities provided by this legislation.

As is well known, the price stabilization activities of the "Farm Board" finally ended in heavy losses which, in turn, gave rise to new demands for production control in the early 1930's.

It was not until the "New Deal" in 1933 that farm programs began to expand and multiply until now they are of tremendous significance and importance to agriculture and the total economy as well.

AGRICULTURAL PROGRAMS MANY AND VARIED

Some idea of the variety and extent of government interest in agriculture may be illustrated by briefly listing some of the more important government sponsored organizations or programs for farmers.

- The Agricultural Adjustment Act of 1933 affected millions of farmers. Benefit payments were received in return for contracts to reduce acreages of certain crops.
- The work of the Soil Conservation Service is well known. It supplements the work of the AAA, but basically its purpose is to conserve the soil.
- The Commodity Credit Corporation, organized in 1933, was intended originally to stabilize farm prices by making non-recourse loans to farmers in order to even out the seasonal marketing of farm products. In later years it has been used extensively in supporting farm prices —particularly grains. The CCC uses both a lending and direct purchase program to achieve its objectives.
- School lunch programs have provided an outlet for some farm surpluses.
- The Federal Crop Insurance Corporation, originating in 1935, writes all-risk insurance for certain crops.
- The Farm Credit Administration, which includes the Federal Land Banks organized in 1916 and the Federal Intermediate Banks organized in 1923, was expanded in 1933 and later years to deal in all phases of agricultural credit.
- The Rural Electrification Administration has been rapidly expanded in recent years.
- The Farmers Home Administration, previously called the Farm Security Administration, is designed to help the low income farmer.
- Government price support programs may have a significant effect on the agricultural and business economy.
- During and since the war, billions of dollars have been paid in farm production and "roll-back" cost of living subsidies. These billions were for two principal purposes: (1) to stimulate production of food; (2) to help hold down retail food prices and thus assist in preventing inflation.
- Huge quantities of food have been exported under lend-lease, UNRRA, or relief arrangements. Some of these programs, of course, were designed for purposes other than agricultural aid.

For the most part these farm programs and farm organizations have been designed directly or indirectly to play a part in maintaining farm prices and income.

[1] The term "subsidy" may have various interpretations by different people. To some it may mean direct cash payments from the Federal Treasury to the individual. To others a subsidy may include both direct and indirect benefits or advantages. In other words, a subsidy is any benefit received either directly or indirectly which tends to increase net income and for which an equivalent service is not rendered by the individual.

FARM ORGANIZATIONS ASK EQUALITY BETWEEN AGRICULTURE AND INDUSTRY

The agricultural problems in this country stem directly from the fact that farmers produce so much of some products in normal times that prices decline to unprofitable levels. For consumers this might be a happy situation except that it usually occurs at a time of widespread unemployment and low urban incomes.

One of the striking features of the ups and downs of business activity is the difference between agriculture and industry. During a general business depression, agricultural prices decline much more severely than other prices, largely because agricultural production holds up well in a depression, while industrial production experiences a severe contraction.

Both agricultural and industrial incomes are affected, the former because of sharply declining prices, the latter because of reduced production.

These relatively violent declines in agricultural prices have been responsible in a large measure for demands for special farm programs to "fill in the troughs." Why do these swings occur? Why are agricultural prices more sensitive than others? Why does farm production stay up, even in a deep depression?

The answers are not hard to find. Any business will tend to produce even in a depression if receipts will meet or exceed direct or out-of-pocket costs.

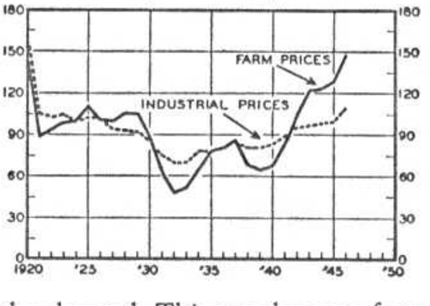
Farmers are no different from other businesses in that respect. The real difference is that these out-of-pocket costs for the farmers are a much smaller proportion of total costs than for most other businesses.

Prior to the age of mechanized farming, direct costs were little more than seed, a certain minimum of repairs, and some feed for horses. The big farming costs were fixed—taxes, interest, wear and tear on machinery, even his own labor. Therefore, even in a deep depression, production held up because the farmer at least expected to be able to get back his out-of-pocket costs and some toward these fixed outlays.

During the inter-war period, and particularly in the depression years of the early Thirties, agricultural production was high in relation to

UNITED STATES INDEX NUMBERS OF WHOLESALE PRICES OF ALL FARM PRODUCTS AND ALL COMMODITIES OTHER THAN FARM PRODUCTS AND FOODS

(1926 = 100)



the demand. This was because farm production was expanded during the war period. Following the war, both domestic and foreign demand for food declined. The total value of agricultural exports in 1919 was over $4 billion. Exports averaged about $2 billion during the 1920's but declined to less than three-fourths billion dollars during the 1930's. Partly, as a result, farm product prices were relatively low.

To gain equality of income, farmers turned to Congress, through their national farm organizations, and demanded farm programs that would restore equality of purchasing power between agriculture and industry. Parity prices were established as a goal of equality.[1]

(Parity prices are established by a formula which tends to maintain the same relationship between prices received by farmers and prices paid by them as prevailed during the 1910- period — a relatively favora period for agriculture.)

Many of the farm programs, su as the AAA, Commodity Credit, a various price support measures we designed specifically to enable far ers to get a price approximati this parity.

Cash benefits running into billio of dollars have been paid farmers recent years. During the five yea 1941 through 1945, Governme payments totalling $3,530,000,0 went to farmers. During a peri when agriculture was highly pro perous, these payments averaged percent of total cash farm inco for the period.

Payments to farmers in Ninth D trict states[2] in 1939 for conservati practices alone totaled nearly $ million, and between 85 and 90 pe cent of all crop land was covere

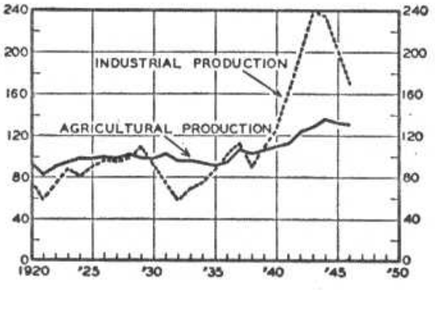
Over 436,000 individuals receiv these payments, with an average $153.67 per payee. Some, of cour received substantial amounts, wh others received relatively small p ments.

The number of people receivi conservation payments was 51,0 larger than the number of farms the four states. This is because pa ments are divided between landlor and tenants as they contribute to t carrying out of conservation pra tices.

Conservation payments to Nin District farmers in 1939 constitut more than two-thirds of all gover ment payments to farmers in th states. The total of all governme payments to farmers of the distr in 1939 was 12 percent of total ca farm income. The percentage h been less in recent years, due pri cipally to unusually high cash far incomes from marketings.

UNITED STATES INDEX NUMBERS OF INDUSTRIAL PRODUCTION (PHYSICAL VOLUME) AND VOLUME OF AGRICULTURAL PRODUCTION FOR SALE AND CONSUMPTION IN FARM HOUSEHOLDS

(1935-39 = 100)



FARM PROGRAMS COSTLY

For the most part, farm progra are administered through the Unit States Department of Agricultu In many cases funds are appropria direct to the USDA for the carry out of such programs.

Appropriations to the Unit States Department of Agricultu

[1] See "Monthly Review" for February for discussion of parity prices, pp. 420-21.

[1] "Agricultural Statistics, 1946," U. S. D. A p. 563. Payments under rental and ben soil conservation, price adjustment, price pa Sugar Act, and production programs.

[2] Includes only the four states of Minne Montana, North and South Dakota.

have been enormously increased since 1932. Most of the increase has been used to finance new farm programs such as the AAA, soil conservation, the Farm Security (Home) Administration, Federal Crop Insurance, and the Rural Electrification Administration.

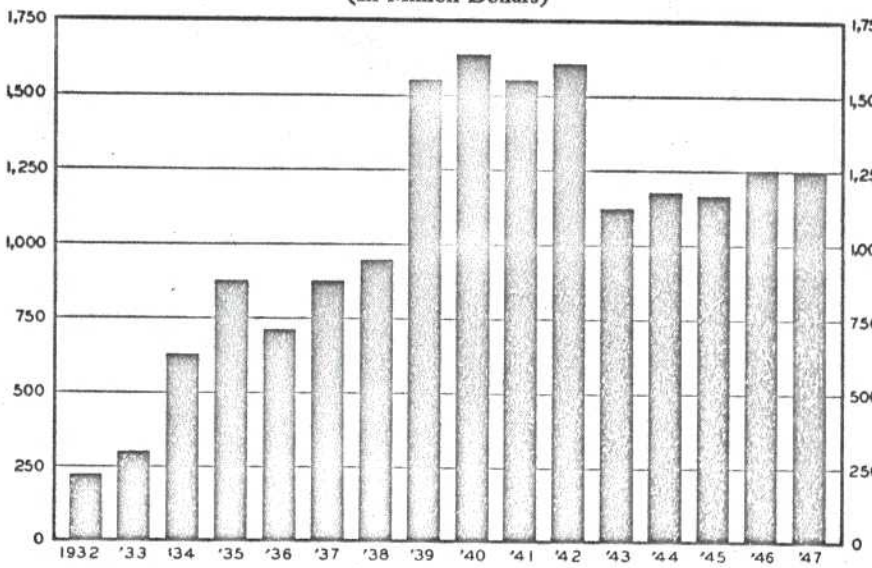
Total appropriations, reappropriations, and RFC loan authorizations to the Department of Agriculture in 1932 were less than one-quarter of a billion dollars. In 1940 they reached a peak of more than $1.6 billion, and they have not fallen below $1 billion since then, even though in recent years agriculture has enjoyed the most prosperous period in history.

From the standpoint of appropriations, the AAA ranks first among USDA agencies. During the earlier Thirties, payments were made to farmers to reduce production. Later they became conservation payments and during the war were used to stimulate farm production.

Total conservation payments averaged close to one-half billion dollars annually from 1937 through 1943. Since then payments have declined until for the 1947 fiscal year just ending only 314 million dollars were appropriated.

TOTAL APPROPRIATIONS TO THE U. S. DEPARTMENT OF AGRICULTURE FOR CARRYING ON VARIOUS FARM PROGRAMS AND OTHER ACTIVITIES

(In Million Dollars)



1. SOURCE: United States Department of Agriculture, office of Budget and Finance.

COMMODITY CREDIT CORPORATION FINANCES PRICE SUPPORT

Another agency which spends or uses tremendous amounts of public funds is the Commodity Credit Corporation (CCC). This agency does not contact farmers directly. It uses the county AAA committees, the Federal Reserve banks and some 11,000 commercial banks, as well as various commercial agencies acting under contract to do its work.

It is easy to underestimate the importance of the Commodity Credit Corporation. At the present time the authorized capital of the corporation is $100 million, and it has authority to borrow up to $4,750 million in doing the numerous tasks assigned to it by government—not the least of which is price support of farm products.

At first the principal function of this agency was to make commodity loans under the Agricultural Adjustment program. Later the CCC, by Congressional action, was required, among other things, to assist in supporting farm prices at ever-increasing percentages of parity by both loan and direct purchases.

Under the loan program, if prices advance the farmer sells the commodity, repays the loan, and pockets the profit. If the price falls, he keeps the loan and gives the crop to the Government, which may not sell below the support level.

In recent years the CCC has been able to dispose of much of its purchases and acquirements under loan at a profit. Huge quantities of farm products purchased by CCC have also moved abroad under foreign relief or credit arrangements.

FEDERAL CROP INSURANCE HAS NOT PAID ITS WAY

The federal all-risk crop insurance program has been in trouble a good part of the time since it began operations in 1938. In 1943 Congress eliminated it, but in 1944 it was again revived.

When the crop insurance program was first initiated it was intended to be self-sufficient, at least as far as premiums covering losses is concerned. It may have been contemplated that the Government would bear the administrative costs. This has not been the case, however, since indemnities paid to farmers over a period of years have substantially exceeded premiums in each year of the program's operation.

For the period 1938 through 1945 the Federal Crop Insurance Corporation collected a total of $61.2 million in premiums and paid out $119.5 million in indemnities, according to estimates by the United States Department of Agriculture. Losses have therefore been 95 percent larger than premiums. The loss has been much higher on cotton than it has been on

Agricultural Conservation Payments, Number of Payees, Percent of Crop Land Covered, and Average Payments in 1939 for 9th District States and United States[1]

State	Total Conservation Payments (000 $)	Number of Payees Covered (No.)	Percent Crop Land Covered (Percent)	Average Payment Per Payee (Dollars)
Minnesota	$ 21,442	169,440	81.5	$126.54
Montana	8,502	44,953	84.7	189.13
North Dakota	20,739	115,840	93.8	179.03
South Dakota	15,998	106,390	94.0	150.37
United States	497,311	5,756,240	78.1	86.40

[1] Source: "Agricultural Statistics, 1941," pp. 636-37, United States Department of Agriculture.

wheat. In addition, the administrative costs averaging more than 5 million dollars per year have been paid by the Government.

There have been no losses on wheat insurance for the past two years principally because of extremely favorable weather conditions (see table).

Federal Crop Insurance Experience on Wheat 1939-46[1]
(Million Dollars)

Crop Year	Premiums	Indemnities	Loss Ratio
1939	3.41	5.60	1.64
1940	9.16	13.69	1.49
1941	7.10	18.92	2.66
1942	8.45	13.67	1.62
1943	10.61	19.79	1.87
Subtotal	38.73	71.67	1.85
1945	1.52	.69	0.45
1946 (Est.)	15.00	11.20	0.75
Subtotal	16.52	11.89	0.72
Total	55.25	83.56	1.51

[1] Source: United States Department of Agriculture, Office of the Secretary.

FEDERAL AGRICULTURAL CREDIT AGENCIES ENJOY FREE USE OF CAPITAL AND HAVE TAX EXEMPT FEATURES

In the agricultural credit field, the federal Government has established a complete system of credit facilities. Most of these agencies have come into existence or have vastly expanded operations since 1932.

The loss experience of these credit agencies fortunately has been light in recent years. One important reason, of course, has been the favorable crop conditions together with the upward trend in farm prices.

For the most part these federal credit agencies were originally capitalized with Government funds. This, in effect, was a subsidy to agriculture, since the costs of such funds are borne by the tax-paying public. This, and the tax exempt privilege enjoyed by them, have given a certain amount of competitive advantage over privately financed credit agencies.

The Federal Land banks and some of the other farm credit agencies have now partly or completely repaid their Government capital, but during the time these interest free funds were available they provided a profitable source of income, since the funds could be re-invested by the credit agency in loans or interest bearing securities.

In addition, during most of the 1930's a direct interest subsidy of 0.5 percent on Federal Land bank loans was available to borrowers. The land banks are allowed to charge their farmer borrowers one percent over the cost of selling their securities to the investing public. This one percent charge pays operating costs of the banks. During the "emergency period" borrowers paid only one-half percent over the cost of funds. The Treasury reimbursed the land banks for the other one-half percent.

Borrowers through the banks for cooperatives have also enjoyed interest subsidies on some loans. It should be made clear, however, that the funds loaned by these federal credit agencies are obtained principally from the sale of securities to the investing public.

ARE SUBSIDIES TO BE PART OF FUTURE FARM PROGRAMS?

The last few years have brought about spectacular changes in agriculture. Net farm incomes have more than trebled. Debts have been repaid. In short, agriculture is in the best financial position in history.

In addition to this, there have been changes in production and marketing practices, in crop varieties, in farm equipment, and in market demands. Agriculture is geared to produce much more than it did before the war.

There is a general expectation that foreign demand will decline. Furthermore, wartime price supports are scheduled to expire at the end of 1948. In view of agriculture's productive power, what will happen to farm prices and income when demand does taper off? Will farm prices decline substantially below "parity" as they did in the inter-war period? Will new demands be made for Government assistance by rejuvenated old programs or new ones? In short, what kind of an agriculture do farmers themselves want?

These are complex problems and the answers are of course not yet available.

Several suggestions, however, have been made by agricultural economists and others to alleviate the problem of relatively low farm prices and incomes during less favorable periods.

OLD FARM PROGRAMS MAY BE CONTINUED

Many suggest a continuation o the various farm programs now existence, most of which have op ated on a subsidized basis to a grea or lesser extent. That is, the CC may continue to make loans and pu chase farm products that are in su plus supply.

Soil conservation, parity and oth payments may continue to be pa to augment farm incomes to some pa ity level. Crop insurance, farm cred rural electrification, and other fa programs may continue, with t Government paying a share capitalization and administration co as well as assuming net losses, if an of such programs.

If such a course is followed the a nual drain on the federal treas may be substantial, depending course on whether times are good bad.

These programs tend to make ag culture a more profitable and sa factory enterprise. As such there m be a tendency for more young pe ple to stay on the farm or for oth people to be attracted to farmin This will eventually intensify t farm problem, as the need over a lo period of years has been to m agriculture's excess population i business and industry.

Some farm programs often ha the further disadvantage of preve ing economic forces from working readjust production and trade in l with real needs, the best use of r sources, or the changing pattern demand.

They also may interfere with a justments in international trade. F example, the high parity price p

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BUSINESS

Credit Sales Looming Larger

A HIGH dollar volume of department store sales, with more credit buying although consumer incomes are at a record level, characterizes the Ninth District business picture.

District department store sales, however, during the first and second week of August fell below the dollar volume of a year ago, for the first time in the postwar period.

A smaller dollar volume as compared with a year ago may be traced to two specific causes, neither of which necessarily reflects a turning point in the trend of the district's department store sales. First, the unusually hot weather decreased sales as consumers tended to avoid shopping centers.

Second, sales increased significantly during the third quarter of 1946 and declined during the fourth quarter. Consequently, a decline in dollar volume as compared with a year ago during the third quarter does not necessarily reflect a slump in the present volume of sales.

July department store sales exceeded the dollar volume of the corresponding month in 1946 by 5 percent. During the first half of this year the dollar volume was 13 percent larger than in the first half of last year. For each month the increase was 10 percent or larger.

In view of the increases in prices, however, it is apparent that unit volume of sales in most lines is somewhat less than in 1946.

RETAIL CREDIT BUYING UP

The trend toward more credit buying is evident in department store sales. With the continued rise in sales during the first half of the year, cash sales as a proportion of total sales declined steadily. On the basis of a sample of 11 stores located in representative trading centers in the district, cash sales in January were [illegible] percent of total sales, while in June they had fallen to 49.0 percent of total sales. In July, cash sales again rose to 52.4 percent of the total.

The volume of cash sales in July usually increases. In the past seven years cash sales as a proportion of total sales have ranged from 2½ to 4 percent higher than in June. The rise in cash sales during July is attributed to the seasonal trend of cash farm income and of non-agricultural employment.

Cash farm income in this district rises sharply in July and reaches a peak in September or October. Due to the food processing industries, manufacturing employment in this district generally rises significantly during the third quarter, increasing aggregate payrolls.

The rise in credit sales is primarily in the form of charge accounts. Charge account sales in January were 41.4 percent of total sales at these stores, and in June they were 46.8 percent of the total. With a rise in cash sales during July, they again declined to 43.0 percent of the total.

Instalment sales as a proportion of total sales have remained relatively stable. During the first half of this year, monthly instalment sales averaged 4.5 percent of total sales.

As a result of the rise in credit sales and slower collections, department store receivables are decidedly larger now than a year ago. On the basis of figures compiled from 33 district stores on charge accounts and from 17 stores on instalment sales, charge account receivables at the end of June were 33 percent larger and instalment sales receivables 56 percent larger than a year ago. Collections on these credit sales rose by a smaller percent—30 and 33 percent respectively.

DEPARTMENT *store credit sales rise substantially, with cash purchases proportionately less.*

Consumer credit expansion supplements record spending power.

Preliminary figures for August indicate dollar volume for first time in postwar period has fallen below 1946 volume.

FARM AND URBAN INCOMES REACH NEW PEAKS

Consumer incomes are at a record level. Cash farm income in the first

Sales at Ninth District Department Stores[1]

	% Jul. 1947 of Jul. 1946	% Jan.-Jul. 1947 of Jan.-Jul. 1946	Number of Stores[2] Showing Increase	Number of Stores[2] Showing Decrease
Total District	105	112	106	178
Mpls., St. Paul, Dul.-Sup.	102	110	6	19
Country Stores	111	114	100	159
Minnesota	105	110	25	57
Central	90	103	4	8
Northeastern	103	107	3	3
Red River Valley	102	110	3	1
South Central	114	115	4	16
Southeastern	109	114	2	13
Southwestern	110	110	9	16
Montana	111	114	19	14
Mountains	114	116	5	6
Plains	109	113	14	8
North Dakota	111	117	14	34
North Central	102	113	4	4
Northwestern	107	111	2	4
Red River Valley	123	124	2	15
Southeastern	99	109	5	9
Southwestern	94	104	1	2
Red River Valley-Minn. & No. Dak.	120	122	5	16
South Dakota	112	112	18	27
Southeastern	115	115	6	7
Other Eastern	111	111	10	15
Western	101	108	2	5
Wisconsin and Michigan	118	119	24	27
Northern Wisconsin	122	117	10	3
West Central Wisconsin	120	121	9	20
Upper Peninsula Michigan	108	112	5	4

[1] Percentages are based on dollar volume of sales.
[2] July 1947 compared with July 1946.

four months of this year was 36 percent larger than for the same period of last year. Non-agricultural income has also risen substantially. Although figures are not available on aggregate payrolls, the rise in employment and in weekly earnings is indicative of the growth in payrolls.

According to the Minnesota Division of Employment and Security, mid-July manufacturing employment in Minnesota reached a new postwar peak of 205,000 workers. As compared with a year ago, this was an increase of 5.4 percent. This is the first time since the end of hostilities that manufacturing employment in this state has surpassed the 200,000 mark. The war-time peak consisted of 230,500 workers.

Manufacturing employment in Montana in June was 13.1 percent higher than last year, according to the Unemployment Compensation Commission of that state. Total non-agricultural employment in that state in June was 4.9 percent larger than a year ago.

According to the latest report of the U. S. Department of Labor, manufacturing employment in both North and South Dakota in March of this year was 10 percent higher than a year ago.

The rise in employment has been accompanied by larger average weekly earnings. According to the U. S. Department of Labor, average weekly earnings in all manufacturing industries of the nation in May were $48.46. This represented an increase of 13.6 percent since May 1946.

In the food processing industries, which are important in this district, average weekly earnings in May were $47.71—an increase of 17.4 percent from May 1946. In malt liquor, slaughtering and meat packing, and flour milling industries, average weekly earnings in May were above the average for food processing industries, with $61.55, $53.31, and $51.77 respectively.

The rise in individual incomes in the Ninth District is also reflected in the growth of demand deposits. Farmers in February of this year held demand deposits 21 percent larger than in July 1946; other individuals held demand deposits 12 percent larger. As a result of a high level of current income and savings from the war years, consumers are still in command of a large volume of purchasing power.

Northwest Business Indexes

Adjusted for Seasonal Variations—1935-1939 = 100

	July 1947	June 1947	July 1946
Bank Debits—93 Cities	273	295	233
Bank Debits—Farming Centers	327	326	271
Ninth District Department Store Sales	268 p	278	253
City Department Store Sales	277 p	284	270
Country Department Store Sales	260 p	273	236
Ninth District Department Store Stocks	255 p	257	224
City Department Store Stocks	230 p	234	229
Country Department Store Stocks	276 p	275	220
Country Lumber Sales	145 p	134	128
Miscellaneous Carloadings	123	118	117
Total Carloadings (excl. Misc.)	138	138	131
Farm Prices (Minn. unadj.)	268	262	230

p—Preliminary.

Index of Department Store Sales by Cities

(Unadjusted—1935-39 = 100)

	July	Percent Change From a Year Ago July	Jan.-July
Minneapolis	214	....	+ 8
St. Paul	206	+ 3	+15
Duluth-Superior	......	+15	+13
La Crosse	210	+15	+18
Mankato	182	+ 6	+10
St. Cloud	243	—10	+ 2

CONSUMER CREDIT AT BANKS INCREASES $47 MILLION

The expansion in consumer credit has added to the aggregate volume of purchasing power. Consumer credit outstanding in the United States at the end of June aggregated $10,884 million. The increase in the 12-month period was almost $3,000 million.

The net amount of consumer cr outstanding in a sample of 25 c mercial banks of this district at end of July was 5 percent larger at the end of June. The percent crease during July is quite represe tive of the monthly increase du the first half of the year. It is mated that the total consumer cr outstanding at commercial bank this district at the end of June $91 million as compared with million a year ago.

Other institutions—small loan c panies, industrial banks, indus loan companies, and credit unio still do over one-half of the total sumer instalment loan business. though the rate of increase in amount outstanding during the year has been somewhat less tha commercial banks, these institut nevertheless, have increased mat ly the aggregate volume of cons credit.

WHAT ABOUT FARM PROGRAMS?

(Continued from Page 481)

gram for cotton in the 1930's stimulated cotton production abroad as well as competitive materials at home. As a result cotton has lost both a share of foreign and domestic markets.

The cost to taxpayers to support the income of cotton growers tends to increase. At the same time the consumer pays more for cotton fabrics.

In effect such farm programs guarantee farm prices and incomes at some established standard. In recent years farm prices and incomes have soared to unprecedented heights. Farmers, as much or more than any other group, have benefited from the war economy.

If the present types of farm grams are to be continued it m agriculture can "cash in" on h profits during an emergency pe and they are guaranteed an es lished level of prosperity in favorable years.

PRODUCTION CONTROL A SECOND ALTERNATIVE

A second choice suggested by economists is a deliberate effor farmers to curtail production in o to maintain farm prices at a fi able level. This is, in reality, a of the old agricultural adjust plan of the 1930's. But to be really effective it would call for widespread and tighter controls have ever yet been tried.

At the present time such a gram is not likely, since the av

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BANKING

Deposits and Loans Show Increase

WHILE the major financial impact of the substantial volume of agricultural production in the district is still to be felt, the initial influences were in evidence by the latter part of July at country member banks in the western sections. Member bank deposits jumped $38 million during July after having registered a seasonal decline of $144 million during the first six months of the year.

All of the deposit expansion in July was accounted for by deposits in the country member banks. As a matter of fact, city member bank deposits during July declined on balance by $3 million, accounted for by nominal declines in balances due to other banks and deposits of states and other political subdivisions.

The second important development of the month was a resumption of the earlier sharply rising trend of member bank loans. During May, member bank loans declined modestly, reversing a trend of over a year's duration. This decline proved to be only a temporary setback, and loans in June and again in July registered gains of $20 million and $17 million respectively, substantially in excess of the $11 million monthly average during the first half of the year.

Country member banks accounted for roughly 70 percent of this expansion, although they account for only 54 percent of total loans. In other words, the relative rate of bank loan expansion has been greater at country banks than at city banks.

At the city banks the loan expansion continued through the first two weeks of August, the latest period for which data are available, and the July deposit decline was reversed with a $22 million expansion. Most of the expansion was centered in demand deposits of individuals and businesses and balances due to banks. The latter presumably reflected the beginning of the flow of funds to country banks incident to heavy grain marketing.

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MEMBER bank deposits up $38 million during July.

Loans continue at level above first six months average.

Assets and Liabilities of All Ninth District Member Banks*

(In Million Dollars)

	June 30, 1947	July 30, 1947	Change
Assets			
Loans and Discounts	$ 659	$ 676	+ 17
U. S. Government Obligations	1,766	1,761	— 5
Other Securities	160	160	....
Cash and Due from Banks	780	793	+ 13
Other Assets	26	27	+ 1
Total Assets	$3,391	$3,417	+ 26
Liabilities and Capital			
Due to Banks	$ 313	$ 323	+ 10
Other Demand Deposits	1,955	1,980	+ 25
Total	$2,268	$2,303	+ 35
Time Deposits	905	908	+ 3
Total Deposits	$3,173	$3,211	+ 38
Borrowings	10	0	— 10
Other Liabilities	17	15	— 2
Capital Funds	191	191	....
Total Liabilities and Capital	$3,391	$3,417	+ 26

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

Assets and Liabilities of Twenty Reporting Banks

(In Million Dollars)

	July 2, 1947	July 30, 1947	August 13, 1947	Change July 2-30
Assets				
Comm., Ind. & Ag. Loans	$ 201	$ 200	$ 204	— 1
Real Estate Loans	48	48	49	....
Loans on Securities	19	23	22	+ 4
Other Loans	89	91	92	+ 2
Total Loans	$ 357	$ 362	$ 367	+ 5
Total U. S. Gov't Securities	696	697	694	+ 1
Other Investments	61	62	62	+ 1
Cash and due from banks	418	402	426	— 16
Miscellaneous Assets	14	15	15	+ 1
Total Assets	$1,546	$1,538	$1,564	— 8
Liabilities				
Demand Deposits, Ind., Part. Corp.	$ 730	$ 733	$ 749	+ 3
Demand Deposits, U. S. Govt.	9	11	13	+ 2
Due to Other Banks	291	286	307	— 5
Other Deposits	403	400	383	— 3
Total Deposits	$1,433	$1,430	$1,452	— 3
Borrowings	5	0	3	— 5
Miscellaneous Liabilities	12	12	13	....
Capital Funds	96	96	96	....
Total Liabilities & Cap.	$1,546	$1,538	$1,564	— 8
Excess Reserves	2	4	2	+ 2

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, AUG. 27, 1947

INDUSTRIAL production was at a lower level in July than in June, owing in part to influences of a temporary nature. Retail trade was generally maintained. Prices advanced during July and also the first half of August.

INDUSTRIAL PRODUCTION—Production of manufactures and minerals both declined in July and total industrial production, according to the Board's seasonally adjusted index, was at 178 percent of the 1935-39 average. This was 6 points below the June level and 12 points below the March postwar high of 190. Scattered information now available indicates a somewhat higher level for August than for July.

Output of durable manufactures generally decreased in July. There was a marked reduction in steel output during the first two weeks of the month, when a coal shortage seemed imminent. Activity in ship-building was sharply reduced by work stoppages, and there was a moderate decline in activity in the machinery industry. Automobile output declined somewhat in July, and showed a further reduction in the first half of August, with production still limited by the sheet steel shortage. Non-ferrous metal manufacturing continued to decline in July, partly as a result of some reduction in demand. Output of lumber and of stone, clay, and glass products was also at a lower level than in June.

EMPLOYMENT—Factory employment declined somewhat further in July, after allowance for seasonal changes, while employment in most other non-agricultural lines continued to show little change. Total government employment was reduced by 120,000 to about 5,300,000 persons in mid-July, reflecting a reduction in federal employment and also a decline of a seasonal nature in other government employment.

DISTRIBUTION — Department store sales showed the usual seasonal decline in July, and the Board's adjusted index remained at the high May and June level. In the first two weeks of August, sales showed less rise than usual and were 4 percent below the corresponding period of a year ago, whereas in July ... 5 percent higher than last year ... ference reflected in part the ... porary rise in sales which o... August a year ago, and unfavo... ping weather in many sections...

COMMODITY PRICES—T... level of wholesale commodity ... vanced somewhat further from ... the middle of August, reflect... further increases in prices of ... products, and fuels, and a gener... of about 10 percent in prices o... steel products. Prices of new ... were generally raised in this pe... scrap prices declined in the ... August, following sharp advanc... ceding weeks.

BANK CREDIT—Commerc... dustrial loans at banks in lea... increased sharply during July a... half of August, particularly at ... side New York City. Real estat... sumer loans showed further ... growth. Government security ... declined somewhat at banks in ... City but showed little change ... city banks.

WHAT ABOUT FARM PROGRAMS?

(Continued from Page 483)

farmer abhors restrictions and regimentation. In a period of serious depression such as the early 1930's such a program, however, may appear to many as the lesser of two evils.

The taxpayer's cost would probably be somewhat less compared with the first alternative, but food costs might be higher. The administrative and production adjustment costs would probably surpass those of the 1930's.

An effective production control program must almost of necessity be administered by the government, with the inevitable danger under such circumstances that farming may pass from a free enterprise activity to one with substantial Government controls.

This is what has happened abroad. In return for assured markets and guaranteed prices the English farmer must farm his land the way the Government thinks it should be done. If he does not the land may be taken away from him and resold to someone who will farm it in the way the Government experts think necessary.

In any event a restricted production program, whether in agriculture or industry, operates against a higher standard of living for all. Only by an economy of abundance can people have the things they want and at relatively low prices. It is to be hoped all segments of the economy will continue to establish and maintain policies that will expand production and reduce costs per unit of output rather than attempt to curtail production with resultant high costs to consumers.

FOREIGN AND DOMESTIC MARKET EXPANSION MAY SOLVE FARM PROBLEM

Still others suggest that the solution to the farm problem should be in the direction of a totally unfettered and substantially unsubsidized agriculture with major Government interest directed towards expansion of markets for farm products both domestically and abroad. Obviously, the first requirement of such an attack on the farm problem is the avoidance of serious slumps in the level of national income.

Other parts of the program might include the promotion and conduct of agricultural research for the discovery of new uses of farm products; the development of international trade; and the increased domestic use of food through better nutrition education and practices.

It is argued that such an approach would tend to give ma... strength to the farm market. ... same time the expense to ... would be minimized. It has ... advantage that prices of ... commodities would be ref... their free-market values and ... some pegged or artificial valu... tends to throw production ... out of balance.

In other words, free-mark... unfettered by production co... purchase and loan programs ... guide resources into their ... most economical uses.

There seems to be gener... ment that the first necessar... tions of an effective long-ti... program are a vigorous and ... tive level of domestic busi... tivity and expanding inter... trade.

The record of the past two ... shows the sensitivity of f... comes to industrial activity ... ployment. If consumers ha... quate purchasing power, th... what they need and want a... satisfactory to farmers.

The importance of forei... to agriculture is apparent w... realized that over half of the ... in farm income from 1928 ... occurred because of a 58 perc... cline in agricultural exports.

—Franklin L. P...

AGRICULTURE

Food Exports Add Billions to Farm Incomes

RECORD wheat crop almost in the bin.

Quality and yield of corn crop is below that of last year.

Flax production may be third largest on record.

Farm prosperity stimulated by large food exports and below average food imports.

UNPRECEDENTED farm exports plus large domestic demand combine to assure a record agricultural income for the Ninth District.

Total wheat production in the district for 1947 is estimated at 319 million bushels. This, 13 percent larger than last year, is a new all-time high.

The harvest of wheat and other small grains, except flax, is practically completed in the southern part of the district, and it is well under way north to the Canadian border.

Indicated barley and rye production is up sharply compared with last year. Hay production is up slightly. Oats are estimated about 8 percent below last year's production and about 14 percent fewer potatoes may be harvested.

Early combine and threshing reports indicate that the quality of wheat, barley, and rye is generally good to excellent, with oat quality only fair.

Corn is the only really dark spot in the crop picture this season. Based on August 1 conditions, a crop of [illegible] million bushels was indicated for the Ninth District compared with [illegible] million bushels in 1946. Since August 1, temperatures have been generally high and rainfall up to mid-month was received at only scattered points in the corn growing areas. As a result, further deterioration in crop prospects probably has occurred.

An indication of how serious the corn situation is has been the extent to which corn prices have risen in recent weeks. At one time in mid-August, cash corn was higher than cash wheat. This is a rare occurrence, because a bushel of wheat weighs more than does a bushel of corn, and it also has greater feeding value, pound for pound. Based on feeding value, feeders might be expected to bid approximately 50 cents a bushel more for wheat than they do for corn. If corn prices remain at current levels for any length of time it would appear that the demand for feed wheat would increase.

Much will depend on weather and moisture conditions during September and early October as to the final outturn of the corn crop. If frosts come early the crop will not only be short but also soft and of poor quality. It now appears that frosts will have to hold off at least two weeks later than usual in order to produce a crop of only average quality.

FLAX, A PROSPEROUS CROP THIS YEAR

It is likely that flax production will be the third largest on record. A United States crop of nearly 39½ million bushels is indicated by the Department of Agriculture for 1947 based on August 1 conditions. This is a 72 percent increase from last year's low production of 23 million bushels. The record crops were 50 million bushels in 1943 and 41 million in 1942.

Approximately 85 percent of total United States flax production is expected to come from Ninth District states this year. Minnesota alone may produce about 15 million bushels this year or about 38 percent of total production. Current reports from Minnesota and the Dakotas indicate the flaxseed crop this year may average from 8 to 10 bushels per acre.

At $6.00 per bushel, Minneapolis basis, this crop should prove a very profitable crop this year. Many shrewd farmers recognized this last winter when the $6.00 support price was announced. North Dakota farmers almost doubled their flax acreage. Montana farmers increased flax acreage 150 percent from the previous year. Considerable amounts of new land were broken out this year, and probably 80 to 90 percent of this new breaking was seeded to flax.

$3.5 BILLION IN FARM PRODUCTS EXPORTED IN 1946

Exports of agricultural commodities are a tremendously important factor in current high farm prices and record farm incomes.

Exports of grains during 1946 were valued at nearly $800 million and totaled nearly a half-billion bushels. Grain exports during the first quarter of 1947 totaled $320 million, more than a third larger than any quarter during 1946.

Exports of foods other than grains—dairy and poultry products, meat, fruit, vegetables and others—totaled over $1.3 billion in value during 1946. Before the war the value of such exports was less than $175 million annually. The physical quantity of food exports in 1946 and the first quarter of 1947 was probably well over three times the pre-war quantity, according to estimates by the Department of Agriculture.

The U. S. D. A. also indicated that foodstuffs accounted for 68 percent of all agricultural exports in 1946. During 1935-39, they were only 36 percent of agricultural exports.

Before the war, cotton and tobacco exports made up approximately 60 percent of the value of total agricultural exports. During 1946 and the first quarter of 1947, cotton and tobacco made up only about 28 percent of the value of agricultural exports.

The figures as given on value and quantity of agricultural exports do not include military shipments to foreign civilians. If these data were included the quantity, value, and relative importance of food would be increased for 1946 and thus far in 1947. Neither is any consideration given here to the millions of parcels and packages of food that individuals and charitable organizations have sent abroad in recent years.

PHYSICAL QUANTITY OF FOOD EXPORTS TO REMAIN HIGH

Since agricultural exports are so significant in our current farm economy, it is important to appraise the factors affecting future exports. The Department of Agriculture has forecast that the physical quantity of farm exports during all of 1947 may approximate those of 1946.[1]

The trend in agricultural exports,

of course, will be affected by such factors as the size of domestic crops, the number of dollars available to foreign customers and how they choose to spend them, changes in world food supplies, and changes in our foreign policy.

During 1946 almost $1.5 billion worth of agricultural exports were paid for with United States Government gifts and with loans that were specifically earmarked for farm products. This is 42 percent of the total value of agricultural exports in 1946. This amount, however, does not include the proportion of the English and French loans that have been and are being used to purchase farm products here.

These loans were not specifically earmarked for purchases of farm products. It is known, however, that the amount spent for food from these loans has been large because of critical food shortages in these countries.

During 1947, United States government foreign gifts and loans are expected to finance only about $1 billion worth of agricultural exports, according to a recent Department of Agriculture report. This means if exports are to continue as large as in 1946, foreign countries will have to use more of their own current earnings, reserves, or general credits.

The extent to which foreign countries may use dwindling dollar exchange for the purchase of American farm products rather than other goods will depend, of course, on how soon world food production can be expanded and whether or not food prices elsewhere are cheaper.

IMPORTS HAVE BEEN LAGGING

At the same time food exports have been tremendously expanded in recent years, our food imports have been materially reduced. For example, before the war the United States imported fresh meat from Canada, canned meats from the Argentine, and live cattle from Mexico. Canadian and Argentine meat exports now go mainly to Europe or elsewhere, and the foot and mouth disease outbreak in Mexico has stopped the usual annual importation of about one-half million cattle.

Smaller imports and much larger exports of meat, coupled with the tremendous increase in domestic demand for meat, help one understand the current high prices for livestock and meats.

The decline in imports of meat, cheese, fats and oils in recent years at the same time exports have more than trebled is a major factor in explaining current high food prices. This has been a highly favorable situation for agriculture in general. However, the average wage earner and consumer has increasingly felt the pinch of the resulting higher food costs. To this group a closer balance between exports and imports would be desirable.

Total imports of all goods and services in recent years have been below their peacetime relation to our industrial production. Exports of all goods and services in 1946 totaled slightly more than $15 billion. Imports were only $7 billion. The export surplus in 1946 was therefore about $8 billion. In the first half of 1947 the export surplus was nea $6 billion, or at an annual rate about $12 billion.

It is generally recognized that t current export-import relationsh are temporary and that their cont uation over a protracted period time could scarcely be in accord w our best interests, since productive fort represented by the net expo would result in no equivalent bene to consumers in the form of offsett imports. EN

[1] "The Demand and Price Situation," United States Department of Agriculture, July, 1947, p. 9.

Average Prices Received by Farmers[1]

Commodity and Unit	Ninth District July 15 1937-1941 Avg.	July 15, 1946	July 15, 1947	Parity Pri United St July 15,
Crops				
Wheat, bushel	$ .73	$ 1.92	$ 2.41	$ 2.04
Corn, bushel	.60	1.86	1.85	1.4
Oats, bushel	.26	.80	.89	.9
Potatoes, bushel	.72	1.36	1.52	1.7
Livestock and Livestock Products				
Hogs, 100 lbs.	8.10	16.33	22.96	16.8
Beef Cattle, 100 lbs.	7.37	16.36	19.80	12.5
Veal Calves, 100 lbs.	8.43	16.01	21.07	15.6
Lambs, 100 lbs.	7.50	15.26	19.59	13.6
Wool, lb.	.26	.43	.42	.4
Milk, wholesale, 100 lbs.	1.49	3.20	3.08	3.44
Butterfat, lb.	.29	.72	.71	.5
Chickens, live, lb.	.126	.251	.237	.26
Eggs, dozen	.168	.322	.396	.4

[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 give to the commodity a purchasing power equivalent to the average purchasing power of commodity in the base period, 1910-1914.

January-April Cash Farm Income[1]

(Thousands of Dollars)

State	1935-1939 Average	1946	1947	1947 In Percent 1946
Minnesota	$ 102,257	$ 276,945	$ 381,801	138%
North Dakota	23,566	96,316	136,649	142
South Dakota	30,533	148,873	184,305	124
Montana	17,082	50,735	72,604	143
Ninth District[2]	197,391	634,862	860,638	136
United States	2,238,447	6,055,000	7,812,000	129

[1] Data from "The Farm Income Situation," United States Department of Agriculture.
[2] Includes 15 counties in Michigan and 26 counties in Wisconsin.

BANKING

(Continued from Page 484)

The early August loan expans of the city banks was somewhat l pronounced, loans rising $5 mill during the first half of the mon Commercial, industrial, and agric tural loans and loans on real est accounted for most of the expans during this period. EN