MONTHLY REVIEW

Contents:

FEDERAL RESERVE BANK OF MINNEAPOLIS

APRIL 1963

Adjustment: the district's basic wheat problem

Late this spring, Ninth district wheat farmers will participate in a referendum that may determine the program under which the 1964 crop, and presumably those of future years, will be produced and marketed. Though referendums are nothing new to wheat farmers, this year's has taken on special significance and has aroused more than a usual amount of controversy. The controversy arises partly because of some of the provisions of the 1964 program proposal, which depart significantly from past programs in many respects. At issue is a decision by wheat farmers to accept increased restraints on production.

The adjustment problem, i.e., the problem of adjusting agricultural resource use to new economic and technological conditions, can be dealt with in various ways with varying effects on farm incomes, farm production and consumer prices or taxes. However, if some progress toward the ultimate solution of the resource problem in agriculture is to be made, some "excess" resources must be shifted from agricultural production. Thus, the current controversy over the 1964 wheat program is not so much concerned with a specific program, but with the general method to be employed in achieving adjustment implied by that program. It is indeed a controversy over method and a controversy that relates to all of agriculture and not alone to wheat farmers. Moreover, political reality suggests that farmers are going to have to take a hard look at the program alternatives offered.

A complete analysis of farm program alternatives and their varying effects is beyond the scope of this article.[1] The forthcoming wheat referendum, however, does provide an excellent opportunity to review again the wheat problem and to set out some of the basic factors that must be considered in evaluating farm programs. It also is useful in pointing out some of the implications to the district of adjustment in the wheat economy.

New program approach

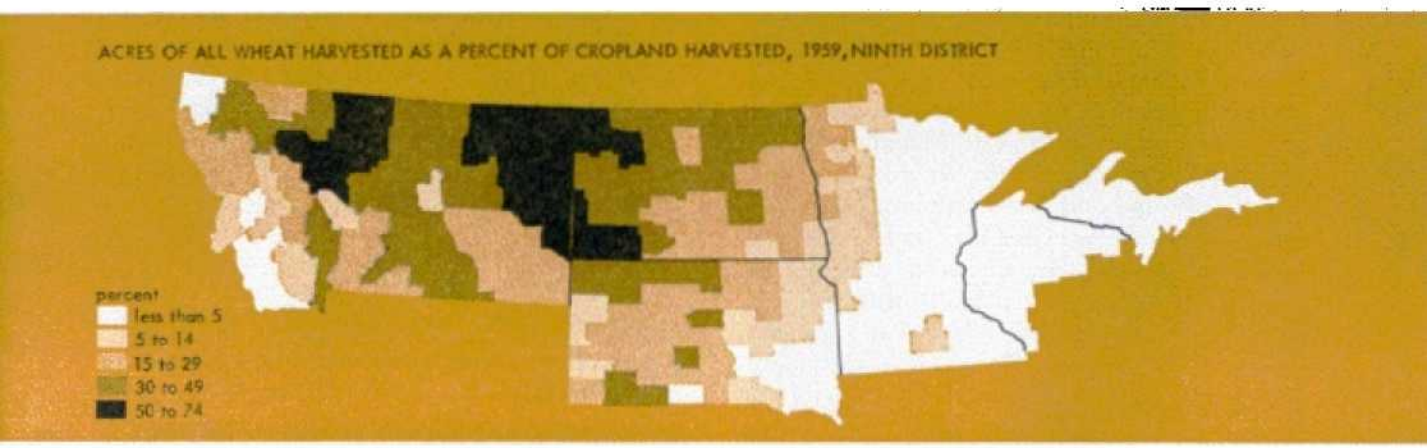
Wheat legislation has a long and complex history.[2] In many respects past programs were poorly adapted to the total agricultural situation and succeeded only in shifting the excess resource problem of agriculture from one commodity to another. Due to political considerations and partly to forces that could not be anticipated, particularly the advances in agricultural technology, the pro-

[1] For a discussion of this topic see **The Wheat Adjustment Problem**, by T. W. Manning and R. J. Doll, Fed. Res. Bank of Kansas City, Nov. 1961.

[2] See **Wheat Problems and Programs in the U. S.**, by J. A. Schnittker, Res. Bul. 753, U. of Missouri, Columbia, Missouri, Sept. 1960.

grams at current prices have given rise to the imbalance between production and consumption of wheat today. While past wheat programs, through the means of arbitrarily set price supports, have been generally effective in maintaining farm incomes, they have failed to deal effectively with the basic problem of adjusting resource use between agriculture and the nonagricultural sector of the economy. The method that was and still is used to curb output deals only with one resource: land. For many reasons, particularly the substitution of other crops on diverted land, substitution of other resources (e.g., fertilizer) for land, and improved technology, such a policy has not brought production into balance with needs at prevailing prices. Since 1954, the minimum national wheat acreage allotment has been set at about 55 million acres, a total that in recent years has been too high to keep wheat output near utilization levels. Congress has not reduced that level and, moreover, has added certain exemptions from the allotment restrictions. Thus, there has been a build-up in wheat stocks in spite of expanded efforts to dispose of stocks outside of normal marketing channels at home and abroad. The 1962 wheat program succeeded in reducing the national allotment. It imposed a 10 percent reduction in allotments and provided land diversion payments in an attempt to maintain income. Other indirect methods, such as the Soil Bank Program of the late 1950s and the Great Plains Grassland Program, have been used in an attempt to cut back the acreage of wheat, but even these have stimulated a more intensive use of the remaining acres. Land retirement programs are becoming increasingly expensive as attempts are made to induce farmers to retire more productive land, and at best, they work at a disadvantage as long as farmers can continue to apply new technology to their operations.

The proposed program for 1964 attempts to avoid some of the problems associated with earlier acreage reduction programs by determining, first, the quantity of wheat that can be expected to be utilized at a given price level and deriving the number of acres needed to produce that amount. Utilization estimates will include wheat normally used for domestic food, exports, feed and seed. From this total requirement an amount of wheat is deducted that is to be withdrawn from surplus stocks. The end result is the production target which acreage allotments are designed to achieve.



Besides the acreage allotment, the farmers will also receive marketing allotments or certificates that will represent the farmer's share of the national wheat marketing allotment. The farmer can market a quantity of wheat equal to the quantity listed on his certificates at an assured price that would range between 65 and 90 percent of parity. All wheat produced on a given farm acreage allotment in excess of certificate quantities would be supported at a lower level, presumably near the current world wheat price. Thus, the acreage restriction would be reinforced by limiting the total amount of wheat marketed at the higher support price. The farmer would also receive land diversion payments for the mandatory reduction and any voluntary reduction up to 20 percent of the 1964 allotment.

Although there are many other changes in the proposed program from past programs, the essential new features in terms of production adjustment are the new method of determining acreage allotments based on marketings and the two-price system of price supports. The purpose of the program is to effect a tie between production and marketings, and to reduce incentives on producing additional bushels per acre by pricing the excess at a lower support level. The expected result is the maintenance of farm income through price supports and land diversion payments, a reduction in production and government-held stocks, and a general reduction in program costs.

An added feature of the program that could be of considerable consequence to the district wheat areas is a provision that if a feed grain program is in effect, wheat farmers with feed grain acreage allotments could plant wheat on those acreages. Thus, wheat and feed grain allotments would become a single allotment and the farmer could plan to plant his total acreage allotment into wheat. In much of the wheat area of the district, wheat is clearly the best alternative in terms of grain production at the world price level and even the lower feed grain price levels.[3] This is generally not true in other farm areas of the country. Thus, if this program were accepted, there undoubtedly would be an expansion in the district wheat acreage.

The direct effects of this program as they would affect particular areas or states is difficult to analyze and quite involved, due to the differences in support levels among the states from the national average and the operational procedures in implementing the program at the farm level. The controversy over the program, however, is not centered around the income effects or production effects as they are estimated by the USDA,[4] except for the ever-present quibbling over assumptions and details. In general, the estimates can be accepted as a fair approximation as to the over-all results of the program. The current controversy centers around the method of restricting production and, indeed, it is a more stringent method of control than has been used in earlier programs. While the major objection is restriction, other factors are important, such as the strait-jacketing of wheat production into historical patterns and the fact that wheat allotments cannot be shifted from areas that are traditionally non-wheat producing. Another disadvantage of this type of acreage control program is that it tends to restrict the farmer's ability to achieve efficient sized farm units.

The Agricultural Act of 1962, which contained the provisions of the 1964 program, also provided an alternative program if the referendum failed to receive a favorable vote. This would be a program that would designate the same national wheat acreage allotment, but with a price support set at about 50 percent of parity under existing law. In order to receive the price support, the farmer would have to comply with the acreage restriction, but such action would be voluntary on his part. There would

[3] See How Wheat Farmers Would Adjust to Different Programs, by W. R. Bailey and R. D. Aines, Pro. Res. Report No. 52, ERS, U. S. Department of Agriculture, Washington, D C., May 1961.

[4] See Wheat—The Program for 1964, USDA, Jan. 1963.

be no program for land diversion under this alternative. What could happen is a lower price level, a substantial increase in wheat production, especially in the district, lower incomes from wheat, and a considerable amount of free wheat or wheat not eligible for government support that would put pressure on both the export and feed grain markets.

Another alternative, should the referendum fail, is the possibility that Congress would pass new wheat legislation. However, even if there were some certainty that Congress would enact a new law, no clearly defined substitute program has been set forth as yet. But the suggestion of a new law puts the wheat economy right back where it started in terms of program-making. The political process of determining a new program would have to be rerun without any certainty of the form of the program.

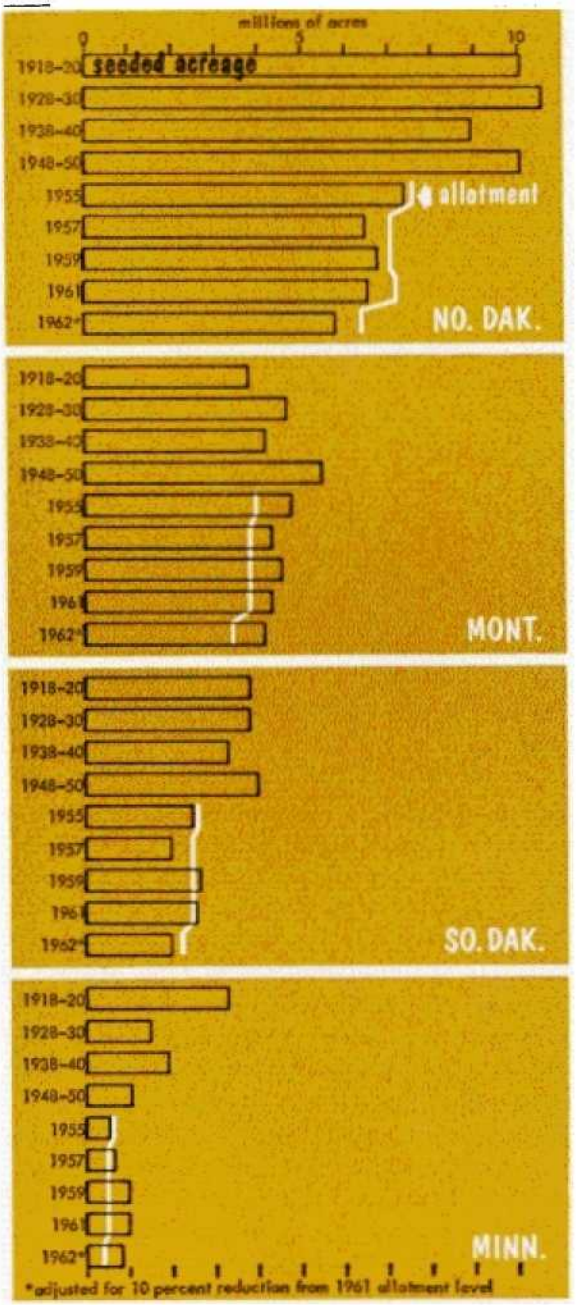
District wheat production and the effect of past programs

No matter what procedures are used to bring about adjustment in wheat production, there will be considerable impact in the Ninth district. Cash receipts from the sales of wheat, the district's leading cash crop, have accounted for roughly 15 percent of total farm receipts (table 1). Much of this wheat income, of course, is earned in North Dakota and Montana where wheat receipts ranged around 40 and 33 percent, respectively, of total cash receipts. Wheat income is of less relative im-

TABLE 1—PERCENT OF TOTAL CASH FARM RECEIPTS RECEIVED FROM WHEAT SALES

	Average 1955-1959	1960	1961
North Dakota	38.3	41.6	37.2
Montana	37.2	30.8	28.4
South Dakota	9.4	11.6	11.4
Minnesota	2.6	3.4	3.0
4 States	15.8	15.6	13.5

Seeded wheat acreages and acreage allotments, selected years



portance in South Dakota; in Minnesota, wheat follows corn and soybeans in importance as a source of cash receipts.

Wheat land accounts for the largest proportion of harvested cropland in northeastern Montana and western North Dakota where wheat accounts for 50 to 75 percent of all harvested cropland (see map). Over all, about one-third of the total harvested cropland in Montana is wheat acres, and over one-fourth in North Dakota. The proportion is about 12 percent in South Dakota. The harvested acreage of wheat accounts for a relatively small proportion of total cropland in Minnesota, less than 5 percent, and almost all of that is concentrated in the Red River Valley.

The above proportions understate the total amount of wheat acres that might be planted in the absence of acreage restrictions imposed by past and current wheat programs. Under the 55-million acre national wheat allotment, the district's allotment amounts to just under 15 million acres. Prior to 1955, when the current national restrictions took effect, the planted acres of wheat reached a high of 20.8 million acres during the period 1918-1920. After some decline, acreages expanded again to almost the same total in 1948-1950.

Several shifts in planted acreages in the district have occurred since 1912, as can be seen in chart 1. A substantial decrease in planted wheat acreages in Minnesota between 1920 and 1930 was offset by a moderate increase in North Dakota and a fairly rapid expansion in Montana. The Agricultural Adjustment Act of 1938 imposed a national allotment of 55 million acres with an apportionment of about 16 million acres to the district states, sharply reducing wheat acres in all states except Minnesota. Acreage restrictions were again removed during World War II and not imposed again until 1954. Under the heavy demand pressures following World War II and during the Korean conflict, wheat acres in the district were again expanded to over 20 million acres in the late 1940s and early 1950s. The distribution among the states had changed markedly, however. Montana's planted wheat acreage expanded almost 2 million acres, from about 18 percent of all planted wheat in the district in 1918-1920 to more than 26 percent in 1948-1950, while the proportions in Minnesota's share dropped from 16 percent to 5 percent. There was little change in the proportionate shares in North Dakota and South Dakota. The acreage allotments put into effect in 1955 are still, by and large, in effect in 1963. They have maintained the same relationship.

In terms of the total planted acreages of wheat in the U. S., the relative amount in the district decreased from 29 percent in 1918-1920 to about 27 percent in 1948-1950. The total acreage allotment allocated to the district in 1962 also amounted to about 27 percent of the national total.

The expansion in total national wheat acreage between the early 1940s and the mid-1950s had an effect on the district total wheat allotment. In 1939, the four-state total amounted to about 16 million acres, or 29 percent of the total national allotment. When the 55-million acre restriction was again imposed after 1954, the district's total allotment was reduced to about 15.3 million acres, or about 28 percent of the total. The total allotment dropped to 14.7 million acres by 1959, but has since increased and amounted to 14.9 million acres in 1962, or about 27 percent of the national allotment. Thus, the district has lost slightly more than one million acres of wheat allotment since 1939.

There has also been a substantial shifting in allotments among the district states. The wheat allotment in North Dakota dropped from about 8.3 million acres in 1939 to 7.3 million acres in 1959. That trend was reversed, and the 1963 allotment for North Dakota is estimated at 7.5 million acres. In Minnesota, the allotment has been cut almost in half, dropping from 1.4 million acres in 1939 to just over 700 thousand acres. The allotment in South Dakota has changed very little over time, dropping from 2.9 million acres to 2.7 million acres. The only state in the district to gain allotment acres is Montana, an increase of 600

thousand acres between 1939 and 1962, to a total allotment of 4 million acres. The shift in relative amounts of the district's allotment is shown in table 2.

The reasons for the changes in the state allotments are generally related to each farmer's historical planting response to his individual allotment. The sharp decline in allotment acres in Minnesota reflects the declining importance of wheat as a cash crop, or rather the increased profitability of corn and soybeans in cropping patterns. The decline in North Dakota reflects a general tendency of farms in that state to underplant their allotments. The most likely reason for this underplanting is due to the dominance of spring wheat in the state. Farmers, in making all of their planting plans in the spring, commit their cropland for the entire year as they cannot plow down wheat acres in excess of acreage allotments without losing the income from that land. Thus, they tend to estimate plantings conservatively and to plant another grain crop rather than lose the use of the land. Underplanting of allotments also occurs as farmers shift from cash crop production to livestock production. As they do so, they tend to be less concerned with full utilization of their wheat allotments. The situation is much different in Montana where the wheat acreage allotment typically is overplanted. This no doubt is due to the increasing importance of winter wheat grown in that state. Farmers can plant winter wheat in the fall and after having seen the results of the winter wheat plantings, can adjust their wheat acres to allotment restrictions. If there are excess acres of winter wheat over the allotment, they can plow it down and plant some other crop. Further, if the wheat crop fails to come through the winter, they have an opportunity to substitute spring wheat on the allotment acres. Overplanting of allotments is generally the case in Minnesota. In that state, as the total allotment was dropping, an increasingly large proportion of farmers, due to their shift in cropping patterns, held allotments of 15 acres or less. Farmers with allotments of 15 acres or less were free to exceed allotments without penalty except for the loss of price support privileges. Thus, the planted acreages of wheat are typically much higher than the state allotment. For example, seeded wheat acres in 1963 amounted to over 1 million acres, while the allot-

TABLE 2—WHEAT ALLOTMENTS AND PROPORTION OF DISTRICT TOTAL

(thousand acres)

	1939		1954		1961		1962		1963	
	Acres	Percent of total	Acres	Percent	Acres	Percent	Acres	Percent	Acres	Percent
North Dakota	8.3	52	8.2	49	7.3	50	7.4	50	7.5	50
Montana	3.4	21	4.6	27	4.0	27	4.0	27	4.0	27
South Dakota	2.9	18	3.2	19	2.7	18	2.7	18	2.7	18
Minnesota	1.4	9	.9	5	.7	5	.7	5	.7	5
			(percent of national allotment)							
4 States	16.0	29	16.9	27	14.7	27	14.8	27	14.9	27
United States	55.0	100	62.8	100	55.0	100	55.0	100	55.0	100

ment for the state was 720 thousand acres. Farms with an allotment of 15 acres or less are not very significant in numbers in the other district states. There are about 75 thousand such farms in the district, with Minnesota accounting for two-thirds of the total, South Dakota, 20 percent, and about 7 percent each in North Dakota and Montana.

In the 1962 wheat program, farmers elected in a referendum to accept a mandatory restriction on wheat acres of 10 percent under the 55-million acre national allotment plus voluntary reductions of up to 30 percent of individual allotments. Diversion payments were made according to the amount of land taken out of production. Thus, the effective wheat acreage allotment in 1962 amounted to about 13.4 million acres in the district, rather than 14.9 million acres. Of this, there were 12.8 million acres actually seeded.

The harvested acreage and total production of wheat is, of course, dependent upon weather and yields, as well as seeded acreages. The record production figure for the district was reached in 1958, when the four states produced 330.3 million bushels of wheat on 13.4 million harvested acres with an average yield of 24.6 bushels per acre. The 1962 crop, second largest on record, amounted to 284.6 million bushels produced on 11.3 million acres, averaging 25.2 bushels per acre. Although climatic conditions in the district make wheat production highly variable, a definite upward trend in yields per acre can be observed. Thus, the diminishing amount of land devoted to wheat has been largely offset by higher yielding varieties of wheat and improved farm managerial practices, with the result that total wheat production has not been reduced to as large an extent as acreage. This factor, of course, is the crux of the wheat problem. There has been sub-

TABLE 3—WHEAT PRODUCTION BY CLASSES

	Montana			North Dakota			South Dakota			Minnesota	
	Ave.*	1961	1962	1951-1960 Ave.	1961	1962	1951-1960 Ave.	1961	1962	1951-1960 Ave.	1961
Harvested acres (millions)											
Spring wheat	2.9	1.5	1.5	6.4	4.4	3.6	2.1	1.6	1.1	.8	1.0
Winter wheat	1.7	2.1	1.7	—	—	—	.4	.6	.4	**	**
Durum	.3	.1	.3	1.3	1.3	1.9	.1	.1	.1	**	**
All wheat	4.8	3.7	3.4	7.8	5.7	5.5	2.8	2.3	1.7	.9	1.0
Yield per acre (bushels)											
Spring wheat	15.9	9.0	23.0	15.4	12.0	27.5	12.3	13.0	19.5	21.1	24.0
Winter wheat	23.1	19.0	22.0	—	—	—	20.0	18.0	11.0	22.6	27.5
Durum	17.8	12.0	24.0	14.5	12.5	31.0	11.8	15.5	20.0	18.1	22.0
All wheat	19.2	14.7	22.6	15.2	12.1	28.7	13.6	14.4	17.3	21.1	24.0
Production (million bushels)											
Spring wheat	46.4	13.5	34.2	94.7	52.6	98.9	25.2	20.4	22.0	16.6	23.3
Winter wheat	41.2	39.1	37.1	—	—	—	8.5	10.3	4.9	.9	.7
Durum	5.6	1.4	7.0	18.5	16.8	59.6	1.7	1.8	2.9	.7	.6
All wheat	91.6	54.0	78.3	113.2	69.4	158.5	35.4	32.5	29.8	18.2	24.6

*Average acreage from 1956-1960.
**Less than 100,000 acres.

stantial substitution of resources rather than reduction of resources in the production of wheat. The district states are no exception to this (table 3).

Changes in production by classes

No discussion of wheat production in the Ninth district would be complete without an examination of wheat production by classes. The district is the primary spring wheat and durum area of the U. S. Almost all of the durum wheat produced in the U. S. is grown in the district, with North Dakota alone normally accounting for roughly 75 percent of the total; about 80 percent of the nation's spring wheat is also produced in the district, with North Dakota again contributing the largest share, averaging 45 to 50 percent of total output.

		4 States		
1962	1951-1960 Ave.	1961	1962
.7	12.2	8.5	6.9
**	2.3	2.7	2.1
**	1.7	1.5	2.3
.7	16.2	12.7	11.3
24.0	15.0	12.9	24.8
23.0	22.0	18.6	20.2
33.0	15.5	13.7	31.0
24.6	16.0	14.2	25.2
15.8	182.9	109.8	170.9
.5	50.6	50.1	42.5
1.7	26.4	20.6	71.2
18.0	259.9	180.5	284.6

While the output of spring wheat is the most important, averaging about 70 percent of all wheat produced in the district during the 1951-1960 period, there has been a pronounced shift toward winter wheat production. This shift is occurring especially in Montana. In 1929, only about 15 percent of the total wheat acreage in that state was in winter wheat; in 1962, it was over 50 percent. A similar shift has occurred in South Dakota where the proportions of winter wheat acres amounted to about 2 percent in 1929 and about 24 percent in 1962. The shift in South Dakota has been largely at the expense of durum wheat acres, which declined from a high of 43 percent of all wheat acreage in 1924 to about 4 percent in 1961.

Several factors can be cited for the shift to winter wheat, the most important being the greater yield derived from winter wheat as opposed to spring wheat and durum. During the period 1952-1961, the yield advantage of winter wheat over spring wheat averaged more than 7 bushels per acre in Montana, and during the drouth year of 1961, winter wheat yields in that state amounted to 19 bushels per acre as compared to 9 bushels per acre for spring wheat.

A comparison of gross incomes from wheat per acre over the same period in Montana shows that winter wheat receipts averaged $40.80 per acre, while the gross receipts for spring wheat per acre averaged $30.69.[5] This means that given average yields and the average price of the period of $1.78 per bushel for winter wheat, the spring wheat price would have had to average $2.56 per bushel in order to produce an equivalent income to winter wheat. During that period, spring wheat prices averaged $1.93 per bushel, ranging from $2.14 in 1954 to $1.73 in 1960. This would imply that the farmer would have had to receive an average of $.62 more per bushel for spring wheat in order to keep him from shifting to winter wheat, a figure far greater than the average market premium of a little over $.15 per bushel for spring wheat.

Several other factors are important in explaining the shift to winter wheat. Improved varieties and land management practices have made winter wheat production possible in many areas where it would have been unthought of a few years ago. The crop also gives farmers an alternative between fall and spring planting as soil conditions vary. If the fall planted wheat fails to survive through the winter, the farmer has a second opportunity to produce a crop from the land by planting some spring crop. Winter wheat enables farmers to take advantage of periods of the greatest rainfall, which typically occur in the fall and spring on the North-

[5] See "Growers Shift from Spring to Winter Wheat Production," by T. J. Kuzelka, Montana Farmer-Stockman, July 1, 1962.

ern Plains. This not only accounts for the greater yielding of winter wheat but also provides a farmer with a type of crop insurance. Finally, the cultural practices involved are much the same for both spring and winter wheat, with the important difference being that by planting in the fall the farmer can achieve a better workload distribution with the release of labor and machines for other operations in the spring. All of these are plus factors that must be added to the income differential favoring production of winter wheat. Thus, it

(Continued on page 16)

Of mink and men

Among the oldest crafts known to our civilization — and one of the least familiar to most people — is the fur industry. Details of trapping, trading, manufacturing craftsmanship, and finance have remained comparatively mysterious to those not actively engaged in the fur business. And a relatively new development in the industry — fur ranching — is, for the most part, familiar in detail only to the ranchers themselves and to their associates.

Fur ranching, the breeding and raising of animals for their pelts, developed early in the 1920s with fox farms. When the over-productive foxes caused a glut on the fur market, mink, to a large extent, became popular.

The mink is classed zoologically between the weasel and the otter, and North America is by far the largest producer of the valuable little animal, which is found in most sections of the U.S. Many of the first mink ranches were set up near the Canadian border by trappers who snared the original stock, some of which were kept and some sold for breeding stock to other beginning ranchers. Interest in mink ranching grew and spread over the country, until pelts of the ranch variety now far exceed in number — and equal in quality — wild mink pelts. In 1961, 6,727 thousand pelts, three times as many as ten years before, were produced by over 6,500 mink farmers on mink ranches in 35 states.

The search for pelt quality and production improvement gradually has eliminated direct descendants of the original wild stock and has led to the development of an improved variety of quality animals. Results attributed to the raising of mink in captivity have been more pliable leather, pelt color and quality uniformity, and new colors of fur.

Easily the most popular of the higher priced furs, mink accounts for at least 80 percent of the total international retail market value of furs, largely as a result of the discovery in the 1940s that it is feasible to produce mink in different colors. Breeding experiments have produced a number of mutations, some of which rank among the most valuable of all pelts. A mutation is a suddenly produced variation where the offspring is different from the parents in some well-marked characteristic; in mink, this variation is one of color and combinations of colors. Today, there are seven popular mutations, including a white one called Jasmine, and these mutations account for over half the entire fur business in the U. S.

The Ninth district states of Wisconsin and Minnesota lead the U. S. in ranch mink production; Michigan ranks sixth. (See map.) In 1961, Wis-

Ten major mink producing states, 1961 crop

State	Number of kits produced (thousands)	Percent of total U.S. mink production
1. Wisconsin	2,115	31.4
2. Minnesota	770	11.5
3. Utah	395	5.9
4. Washington	372	5.5
5. Illinois	361	5.4
6. Michigan	351	5.2
7. Oregon	338	5.0
8. New York	331	4.6
9. Ohio	281	4.2
10. Pennsylvania	247	3.7
Total	5,541	82.4

Source: National Board of Fur Farm Organizations 1962 statistical report.

consin produced a crop of 2,115 thousand mink, 137 thousand more than the 1960 total, and Minnesota yielded 770 thousand new mink, 113 thousand more than the year before.

Present-day mink ranches are scattered throughout the three states. Typically, they are small-scale family ventures, perhaps entered into as a hopefully profitable sideline that will in time become (or which already have become) the main source of the family income. Mink are delicate animals, expensive to rear. (The sound of a jet airliner passing overhead has been known to wipe out large percentages of mink herds.) The mink rancher is a specialist who must be adept at experimentation in diet, shelter measures, sanitation procedures, disease control and the use of controlled breeding to produce increasing numbers of quality pelts in a variety of colors. Poor quality mink will not pay for the cost of producing and maintaining them.

Mink ranching is a year-around job with a production cycle that starts about January 1st and runs through the year, during which most of the

months are spent in preparing for the whelping of mink offspring — called "kits" — in May and for the pelting operation which usually takes place in fall or early winter.

Mink are housed in wire pens out-of-doors or in sheds with capacities ranging from around 50 cages to as many as 600. The shed size varies, of course, with the extent of the operation, but a typical shed housing 200 mink in two rows may be 180 feet long and 22 feet wide, probably with an entrance on each end and measures taken to provide a sheltered but natural environment.

Mink diets vary from ranch to ranch and in accordance with the level of mink development during the yearly growth cycle. The greedy mink favors raw horsemeat, which may account for roughly 80 percent of his diet, while tomatoes and cod liver oil supplement the typical mink meal. An aid to the mink rancher has been the development of specialized formulas by the commercial feed industry.

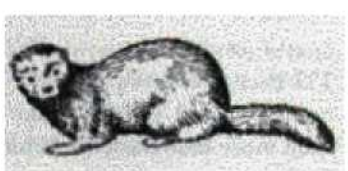
Maturity is reached in seven months (December), but mink fur usually reaches its highest quality level in the late fall when the first "late adolescent" winter coats have "furred out." Pelt quality and color deteriorate after December and are never recovered, so the pelting procedure is scheduled from late November through December on most ranches. Mink saved for breeding purposes are eventually pelted, but their darker, coarser fur brings lower prices.

Nearly all ranchers produce two or more types of mink, and in order to take advantage of market changes, they prefer to sell one type of pelt in December or January, another in the early spring, and the balance toward the latter part of the selling season; it is generally conceded that June is the time by which most mink crops have been sold out.

The individual rancher has several alternatives in marketing his pelts. He can sell them at his ranch to traveling buyers, some of whom buy mink in the carcass and arrange their own skinning, fleshing (removing fat and excess flesh) and pelt drying; the rancher can ship to any of a large number of skin dealers and brokers, or the pelts can be sold to one of several manufacturers who buy directly from the ranch. There are even a few retail furriers who buy from ranchers. By far the large majority of ranchers, however, sell through a fur auction house.

Five recognized fur auction establishments operate in the U. S.; one of them is located in Minneapolis. The Minneapolis auction reported an average 1961 price of $18.11 for all mink pelts sold at auction there. In December 1962, pelts sold at between $17.50 and $57.00 for male mink pelts, and between $13.00 and $25.00 for the smaller female pelts. Fur price variations are due to a number of factors, not the least of which are market volume, the demand for certain colors dictated by fashion innovations from year to year —and pelt quality, of course. Since 1951, U. S. mink marketing has been aided by an embargo retained in the Trade Expansion Act, which prevents the importing of mink from Russia and China. Almost a million mink pelts were exported from the U. S. in 1961, a quarter of them going to the United Kingdom.

It is likely that mink coats will always be in demand, and about 75 pelts are required for each coat. In recent years, mink has begun to appear as trimming on cloth coats and on accessories to fashion ensembles. Stores now feature mink-trimmed gloves, scarves, boots, earmuffs, earrings —and even false eyelashes. Mink ranching, a family enterprise in which the Ninth district plays a large part, will probably see its produce displayed in exclusive shops on the best avenues, for a long time to come.



Current conditions . . .

Recent data indicate that the Ninth district economy continues to exhibit a modest upward movement. Personal incomes are up. Nonagricultural employment in February was about 2.2 percent above a year earlier with the number of insured unemployed down 3 percent; apparently, nonagricultural employment has decreased less than seasonally since the first of the year. Construction employment in both January and February stood at new highs for these months despite the severe cold. Manufacturing employment, too, has been on the strong side compared with a year ago, with hours worked per week put at 40.7 in January compared with 40.2 hours for the nation as a whole. Also, the industrial use of electric power in the district on a seasonally adjusted basis for the month of January tilted up sharply.

In the important agricultural sector of the district's economy, cash incomes in January were up about 5 percent from January a year ago, with relatively high inventories of livestock and grains on farms. This should insure favorable farm incomes over the next few months as supplies are marketed. In fact, the build-up in livestock numbers, particularly beef cattle, suggests that marketings during 1963 may be at substantially higher levels than last year. Livestock prices are forecast at slightly lower levels by the Department of Agriculture in response to larger marketings. Income from livestock in the district will, of course, be influenced by prices as well as the size of the inventory and also by feed and range developments this summer. Cash income from livestock and livestock products normally accounts for approximately two-thirds of total district cash farm income.

District bank deposits and loans increased at a faster than seasonal rate in January through February with the loan deposit ratio increasing slightly. Total bank credit at both city and country banks has expanded and there has been little or no borrowing by member banks. During the four weeks ending at mid-March, district bankers became net borrowers of federal funds.

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

CONSTRUCTION ACTIVITY STRONG

Construction activity in the Ninth district fluctuated at a record level throughout 1962 and held

up well in both January and February of this year despite the extended period of severe winter weather.

A comprehensive measure of construction activity in the district is the number of workers employed in this field. In 1962, such employment[1] averaged about 2,500 workers more than the number employed in 1961, an increase of nearly 3 percent. In January and February of this year, the number of workers reached a new high for the period of the year when employment is at a seasonal low.

Another indicator of the volume of construction undertaken in this district is the dollar amount of construction contract awards. The awards, made before the actual construction is begun, are an indication of future activity. The dollar amount of awards in both the latter half of 1961 and in the first half of 1962 was approximately $711 million. Although it dropped to $691 million in the latter half of 1962 for the year as a whole, the amount of awards made was nearly 4 percent above the total for one year earlier.

Residential building

Such building in the district, as in the nation, continues to be an important part of the total, but it has expanded less in the current economic recovery which began in March 1961,than in former expansionary periods of the post-World War II era. In this district, all of the gain in 1962 in the residential field was in apartment building. In fact, the number of single dwelling units authorized by permit in 1962 was down 4 percent from the previous year, while the number of multiple units rose by 37 percent. Of the total number authorized by permit in 1962, the number of multiple units was nearly half, 47 percent, whereas in 1961 they constituted only 38 percent.

The developments underlying the shift in the demand for housing are complex and varied. A basic factor is the shift in the age composition of the population. Families in the 25 to 44-year age bracket generally account for most of the purchases of single family houses. Since 1956 — the time when the demand for single houses began to slacken while the population in the nation continued to expand at a rate of about 3 million a year — the number of persons in the above age bracket has virtually stopped growing; and it is expected to remain stable for several more years. The leveling off in the number of persons in this age bracket is due to the low birth rate of the 1930s.

Advantages of home ownership, on both the economic and glamour basis, have receded somewhat for many families since the earlier postwar years. Real estate taxes and special assessments, particularly in the suburbs, have risen markedly. The slow but steady decline in prices of existing houses has reduced the prospect of capital gains on resale and, in many instances, even of the recouping of the original purchase price. As a result, individuals who anticipate a transfer in their work have become more hesitant to purchase houses. Suburbs surrounding the larger metropolitan centers, which have been the areas of rapid single home construction, have become more congested, and commuting to the cities in this district has become an increasing problem as most of the superhighways are yet to be built. These factors have reduced the attractiveness of suburban living.

On the other hand, the changing age composition in the population has contributed to the demand for apartments. The number of persons 65 years and older has continued to increase. According to the latest U. S. population estimate on July 1, 1961, there were 17,011 thousand such persons, over 9 percent of the total. This age group in the early 1950s constituted only 8 percent of the total population. Furthermore, social security coverage and other retirement income have enabled these people to maintain separate dwellings rather than sharing units with their children or relatives. In the Ninth district, this development has led to the building of apartments for senior citizens in many urban centers.

[1] Data do not include northwestern Wisconsin.

In addition to the elderly, the number of persons now reaching marriageable age is increasing rapidly. Most of the newly married couples are in the market for apartments until increasing family needs and an accumulation of savings brings them into the market for a house.

In some states an apartment dweller may purchase his unit, making apartment living more attractive, avoiding the monthly payment of rent. Whereas the cooperative principle gives an apartment resident a share of stock in the whole building, the condominium principle gives him full ownership of the individual unit with full privileges of tax exemption, and the power to mortgage, sell or lease subject only to the bylaws contained in the declaration filed as a prelude to this form of ownership. In addition to conventional mortgage loans, FHA guaranteed loans can be granted to develop and sell new or existing apartment units to individual owners. A bill has been introduced into the Minnesota State Legistlature to authorize this principle of ownership in the state.

The ownership of income-producing properties has become more attractive to some investors, and this has led to a wider range of selection of modern units. An important factor is the tax advantage in terms of capital gains realized and the accelerated depreciation allowed on both new and old properties in the Revenue Act of 1954. Another feature has been the liberalized amortization and financing provisions of the Housing Act of 1961.

Nonresidential building

The building of commercial, industrial, religious, educational, hospital and miscellaneous structures rose to a new high in the nation during the latter half of 1962, but in this district it slowed down. The dollar amount of contracts awarded in the district was down 7 percent from the total in 1961. If it had not been for urban renewal, preliminary freeway construction and related government programs in some of the larger district cities, this type of building would have been at an even lower level.

Heavy construction

Heavy engineering construction which includes highways, streets, underpasses, sewer and water systems, and electric and gas utilities, was up significantly in the district during 1962. The dollar amount of contracts awarded was up 12 percent from one year earlier. Information on the type of projects undertaken in Minnesota, North Dakota and South Dakota indicates that contract awards for electric and gas utilities were up about 50 percent from 1961. Contracts awarded for highways were up about 4 percent but definitely lagged earlier expectations.

DISTRICT BANKING DEVELOPMENTS

Over the month of February the net increase in district member bank credit extensions amounted to $38 million. This rise in bank credit compares very favorably both with the $26 million increase which took place over February of last year and with the average February change of the past six years. The increase, moreover, was shared by both city and country member banks.

The February increment in district member bank credit extensions consisted solely of an increase in the adjusted loan component. District member bank investments, in fact, fell in February by $30 million. This decline in investments, in turn, was concentrated in holdings of U. S. Government securities, which fell $38 million while holdings of other securities rose $8 million. Between February 28, 1962 and February 27, 1963, district member bank loans and investments rose $476 million while investments in U. S. Government securities rose only $28 million. In turn, this $28 million increase in district bank holdings of U. S. Government securities consisted of an $8 million decline in city bank holdings coupled with a $36 million increase in country bank holdings. There appears, therefore, to be a continuing shift in the composition of district member bank portfolios, with investments in general and holdings

of U. S. Government securities in particular acquiring a relatively diminished position in the portfolios of district member banks. This shift appears to represent an attempt to bolster earnings of district banks in the face of rising deposit costs.

February also witnessed a $38 million increase in total deposits at district member banks. This gain appears impressive when contrasted to both the $6 million decline which took place over February 1962 and the average February change in deposits of the last six years. In fact, this increase was the second largest February deposit gain experienced by district banks in the entire postwar period, exceeded only by the February 1961 increase. Despite this sizable February rise, however, member bank deposits were still below the average level of October, November and December of 1962.

The February deposit increase was concentrated in city banks; however, if due allowance is made for apparent February seasonal deposit behavior in country banks, then these would have displayed a February rise. Time deposits in both country and city banks also continued to rise in February.

These relative movements of bank credit and deposits in February resulted in a rise in the district member bank loan-deposit ratio to 52.6 percent. This is the highest ratio achieved by district member banks since June 1961. As a counterpart of this rise in the loan-deposit ratio, district member banks over the month experienced a slight fall in the level of non-borrowed reserves, a rise in borrowings from the Federal Reserve Bank, and a further shift in the direction of net purchases in the federal funds market.

The district bank credit and deposit picture appears to have firmed up somewhat in February when compared to January. This strengthening may indicate that the larger than seasonal declines which had occurred in January were the products of a temporary configuration of conditions, perhaps the severe weather. END

(Wheat article continued from page 10)

would seem likely that farmers will continue to shift from spring to winter wheat production whenever possible. Evidence of this trend is found in the fact that the most notable shift in the district during the past 10 years has occurred in what has been considered the traditional spring wheat area of northeastern Montana.

One aspect of wheat production in the district that is frequently mentioned is the relationship between classes of wheat and the support price programs. Hard red spring wheat, as grown in the district, is generally considered to be of more desirable quality in the production of flour for particular wheat products than other wheats. However, programs have treated wheat as a single commodity and have failed to recognize to the full extent the differences in qualities both within a given class and among the classes. Thus, it has been suggested that high quality spring wheat be given special recognition in programs. Several features of this argument, however, have not been fully analyzed and until all answers are known, it is difficult to see just what results might come forth from a program differentiating between classes.

While the amount of hard red spring wheat in government stock is small relative to winter wheat, the carry-over of hard red spring wheat (that is, the supply in excess of demand) has been building up since 1945 and currently amounts to about one year's production. This build-up has occurred in spite of the reduction in acreage allotments in the spring wheat areas, the shift to winter wheat production and a rather heavy retirement of land into the soil bank programs. The production of spring wheat is not without adjustment problems, but the adjustment necessary to bring spring wheat supply into balance with demand probably is less than that of winter wheat.

The most basic consideration, however, and the one to which least study has been applied in the class and quality problem, is the extent of substitution among classes. While admitting that spring wheats are superior in specific uses, other

wheats can be and are substituted to a lesser or greater extent. Thus, the discussion of quality differences is one of relative value and not of absolute value. It is a problem of pricing. Some idea of the substitution possibilities can be seen in current market conditions. Under price supports and large supplies of hard red winter and hard red spring, the price of hard red spring usually carries a premium of $.10 to $.15. In 1961, when quality wheat was in short supply, although total spring wheat stocks remained at high levels, the premium amounted to about $.30 to $.50 per bushel. However, with the higher price, the amount of spring wheat sold on the domestic market decreased by about 15 million bushels, while the purchase of other wheat, particularly hard red winter, increased. A more definite indication of the degree of substitution has been pointed out in a study made in Montana.[6] In that study it was found that a 1 percent increase in the price of spring wheat relative to winter wheat would result in a 6.5 percent decrease in spring wheat sales, indicating a strong price response on the part of millers. Further evidence of the effect of substitution among classes can be seen in the current durum situation. Acreage restrictions on durum were relaxed in 1962 as the result of serious drouth and reduced stocks in 1961. During the period of shortage, durum prices were over $3.00 per bushel and millers were substituting hard wheats heavily in their semolina flours. This year, farmers responded to the higher price by increasing acreages and, with an assist by nature, produced a bumper output. Durum prices fell more than $1.00 per bushel to the support level this past fall and stocks at the end of the year are expected to exceed one year's normal production and with much of that in government hands. Also, millers are now producing an almost pure durum flour.

It would appear from the above, first, that quality premiums seem to be market-determined under the present system; second, the premium price varies according to the quantity and quality of wheat available on the market. Therefore, the size of the premium depends more upon the relative prices of different wheats to the miller, and is not necessarily the result of government programs. Because of the freedom to substitute, spring and durum wheats are integrally tied to the total wheat economy; they cannot be treated as wholly separate commodities. The substitution possibilities among hard red spring, durum and hard winter wheat both in production and in use integrally tie the district to the national wheat problem.

This does not mean that support prices should not reflect more adequately the quality differences in wheat or that programs should not in some manner recognize the special position of spring wheat with respect to the wheat surplus. The effort of wheat interests in the district should continue to be directed toward achieving greater equity for producers. Nevertheless, the wheat classes question is only a part of the over-all wheat problem and its relation to the excess-capacity problem of agriculture. Wheat policies will be made in a world of political and practical reality, and it would be difficult to achieve legislation that, while benefiting one region, would hurt another. Spring wheat and durum wheat are likely to be considered primarily in terms of the over-all wheat problem.

What adjustment means to the district

While there is much debate over the type of program that would best bring about adjustment in wheat production, it is possible to look far enough into the future to see the general kinds of results that will come about if adjustment is accomplished. This kind of projection was made in the recently issued Upper Midwest Economic Study report on agriculture.[7] In that study it was

[6] See Factors Affecting the Demand for High Protein Hard Red Spring Wheat, by A. B. Richards, Mont. Ag. Exp. Sta. Mimeo Circular, Montana State College, Bozeman, Montana, Jan. 1955.

[7] See Upper Midwest Agriculture: Alternatives for the Future, by E. W. Learn, R. W. Cox and R. J. Herder, Study Paper No. 6, UMES, Univ. of Minn., Minneapolis, Dec. 1962. This study presents a discussion of program alternatives and the implication to the district in much greater detail.

assumed that by 1975, adjustment between wheat supply and demand at present prices would be achieved and that the district would maintain the same share of the total U. S. wheat market in 1975 as it held over the period 1954-1958. Total cropland needs for wheat were derived, taking account of wheat classes, by projecting advances in yields and technology. The results of these projections indicate that wheat acres in the district would decline almost 18 percent, or about 2.5 million acres, if the assumptions hold. This projection for the district compares with a projected decline in total U. S. wheat acres of almost 21 percent. While such projection methods are dependent on the assumptions supporting them, they at least provide a useful estimate of the kind and direction of change that will occur in the future.

The implications of this adjustment in land use are quite significant. In much of the wheat producing area, profitable alternative uses for land other than wheat production are relatively limited, generally restricted to barley production and grassland. Given complete planting freedom, these farmers in the western part of the district will almost always find wheat a more profitable crop even at prices below feed grain prices. Thus, the shifting of land out of wheat production to the next best alternative even at current prices can only lead to lower farm incomes. Moreover, the relatively high prices for wheat of the late 1940s and early 1950s and the price supports since then are reflected in higher land values. In sum, any program that leads to land use adjustment in either alternative crops, grass or idle land and to lower wheat prices will result in a significant decline in the incomes and capital position of wheat farmers.

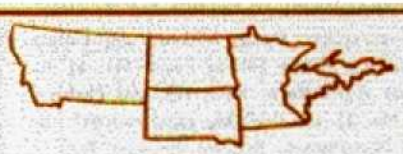
The nonfarm sector, especially in the immediate wheat-producing areas, will not escape the effect of adjustment. Lower valued use of land will put pressures on the tax base of many political divisions. Further, such use of land will affect the purchase of farm supplies, employment and other services now provided in the community.

As was stated in the beginning of this article, the wheat problem is highly complex. The complexity of the problem, indicated by the variety of alternative programs, suggests the difficulty in developing a program that is generally acceptable. As yet, it is up to the farmer to make his choice of how he wants it. How the farmer votes in the coming referendum will likely play an important role in all future wheat programs. It is important, however, that the farmer should make his decision knowledgeably, fully recognizing the implications of his choice.

RICHARD HERDER

Copies of the reports, **Upper Midwest Agriculture: Alternatives for the Future (Study Paper No. 6)** and **Upper Midwest Agriculture: Structure and Problems (Study Paper No. 3)** are available upon request from the Research Department, Federal Reserve Bank of Minneapolis, Minneapolis 2, Minnesota.

These reports, which concern the agricultural situation in the Ninth Federal Reserve district, are part of a joint undertaking under the auspices of the Upper Midwest Economic Study and the Federal Reserve Bank of Minneapolis.



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