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Income Payments Versus Price Supports

IN THE short period of two years, farm prices and farm income have skidded down approximately one-fourth. This means that the farmer now has about three dollars of current income to spend where he had four dollars two years ago.

It would therefore seem in order to revive for further consideration an alternative plan whereby the farmers are not severely penalized for producing abundantly and efficiently the products of the soil.

This plan, which may be called the "income payments plan," has been advocated now and then by students of agricultural economics, but it has never been tried. It might be fruitful to appraise it in the light of the apparent disadvantages of the present farm program.

The average farmer would not feel too badly about the current situation if it promised to be the end of the decline in his purchasing power. He feels, however, that perhaps the worst is yet to come. He sees billions of dollars spent to support farm products, and at the same time an ever-growing mountain of farm surpluses—corn, wheat, cotton, eggs, potatoes, lard, dried milk, dried beans, etc. He sees a decline in the foreign demand for American food and fiber. He also sees farm production continuing at recent record levels unless an unusual drouth occurs or the government steps in with severe production controls.

The average farmer is made aware every day that the farm problem is back with us again—bigger and more formidable than ever. Stated as simply as possible, the farm problem is: what to do with actual and potential surplus farm production in order to keep farm prices and farm income in a reasonable relationship with non-farm prices and incomes.

This problem is far from new. It has cropped out from time to time—in fact, in all recorded history. It

has been attributed to many causes, and the farm problem has been attacked in various ways within the last 100 years.

VARIOUS HISTORICAL DEVELOPMENTS BLAMED FOR FARM PROBLEM

About a century ago, the economic disparity between agriculture and industry was attributed to free land on the frontier and to the development of railroad transportation to areas of over-abundant farm production. Surplus farm production broke farm prices and incomes to low levels at that time.

During this era the solution to the farm problem was thought to be a reduction in freight rates and the issuance of cheaper money, which would help debtor-farmers, as contrasted with dearer money, which would benefit their creditors.

Later, around the turn of the century, the big cry was that eastern capitalists were exploiting western agriculture. A suggested solution to the farm problem at that time was "trust busting" to reduce the more or less imagined strangulation influence of Wall Street in monetary policy. Another suggested solution was to establish government credit facilities on favorable terms to farmers.

In the 1920's following World War I, agriculture was again afflicted with surpluses, low prices, high costs, and a heavy debt load. One solution suggested at this time but never tried was the McNary-Haugen proposal, which in effect was a two-price sys-

tem. Producers, under this proposal, were to get one price for domestic consumption and another price for export quantities.

Another proposal tried in the 1920's was the farmer's own cooperative marketing system designed to give the farmer a larger share of the consumer's food dollar as well as to raise the general level of farm prices by government purchases of farm surpluses in years of large crops.

Along in the early 1930's, the great depression hit the nation and the agricultural situation really became serious. It was at this time that the farm problem was recognized to be of national concern, to be dealt with more or less directly by government action.

Government-inspired solutions to the farm problem took several forms, including the present-day concept of parity prices for agriculture, the AAA, commodity loans, soil conservation, increased government-sponsored agricultural credit facilities, and free school lunches. Agricultural production was to be curtailed and the market expanded in order to give the farmer a larger share of the national income.

However, the effort by the agricultural adjustment administration to control production did not yield the results expected of it in the 1930's. Farmers became more efficient. They farmed more intensively. They produced more rather than less. They received about the same proportion of the national income in the Thirties as was received by them in the Twenties.

Farmers began to enjoy greater prosperity only when the whole

By FRANKLIN L. PARSONS

economy was stimulated by the initiation and development of war programs with attendant huge government spending, including foreign-aid expenditures.

Today, after a hundred years or more of wrestling with the problem there seems to be no certain or positive solution to agriculture's ills. The emphasis at the present time is on support of farm prices at high levels. Several methods whereby high-level farm prices might be achieved have been suggested or tried in recent years.

The present farm program is designed to get higher prices and to maintain farm incomes by government-sponsored monopoly methods. In other words, the present plan is designed to control—regulate production or destroy—and give away farm products until the market price approaches the price fixed by law or edict.

SOME ADVANTAGES TO HIGH-LEVEL FARM SUPPORTS

The advocates of a high level of price and income supports as a solution to the farm problem cite certain advantages, namely:

- 1) Stripped to essentials, the basic purpose of a price support program is to prevent farm prices and incomes from collapsing as they did in the early 1920's and in the 1930's.
- 2) Those who argue for a high level of price support say the farmer is entitled to a fair share of the national income. Because of the characteristics of the agricultural enterprise, it is claimed the farmer can get his fair share only with government assistance.
- 3) Stabilized farm prices and incomes are said to be in the national interest. In the past, according to this reasoning, agriculture has often been the culprit in leading the country into depression. Therefore, it is in the public interest to maintain a prosperous agriculture.
- 4) It is claimed that support of farm prices insures abundant production of farm products at prices that are fair to both consumers and producers. Furthermore, support prices along with an ever-normal granary program are said to promote stabilized livestock production operations.
- 5) It is pointed out that the farmer

is up against rigid and administered prices on goods and services bought by him. Examples of this are found in fuel oils, machinery, labor, transportation, and equipment costs of all kinds. Other producers set their prices, why shouldn't farmers do likewise?

HIGH-LEVEL PRICE SUPPORTS HAVE SOME DISADVANTAGES

The benefits to the average farmer from a high-price support plan are immediate and apparent. It means higher prices and it means a higher income in the current year if there are no drastic production controls. If production is curtailed, net farm income may be no larger than it would be with free prices and no controls.

The disadvantages of high-price supports are often less obvious. Several specific disadvantages to high-level price supports may be listed.

- 1) As a rule, higher prices for farm products encourage increased production. At the same time, higher prices discourage consumption. The result often is surpluses. This happened in 1929 under actions of the Federal Farm Board and again in the 1930's, under the AAA activities. The same consequences have followed present-day policies as the demand for food and fiber has been lessened and the supply has been stimulated by high prices.

High price support programs have a tendency to perpetuate surpluses, and there is no easy way to get rid of surpluses once accumulated. They must not be allowed to come back into the regular markets and depress prices. They must be used in relatively expensive nonproductive ways, destroyed, or dumped abroad.

- 2) A second disadvantage to high-price supports is forceful restriction of output. At first, acreage allotments are imposed. When they fail to do the job, a sales quota to each farmer is likely to be fixed. If the quota is exceeded, stiff penalties may result. Having taken these actions, the next step—telling the farmer what to produce and how to operate his farm—might be taken.

Until recent years, the existence of farm surpluses in certain lines resulted in a decline in prices which in turn induced greater

consumption and lower production. The farmer made production adjustments in a hurry, otherwise he soon went bankrupt. Thus the wasteful use of land, labor, and capital for the production of commodities not wanted by consumers was prevented or minimized.

Potatoes and eggs have been overproduced in recent years. Over \$200 million was spent in 1948 to get rid of 1948 potato surpluses and perhaps \$100 million in 1949. Several million dollars were spent this past summer to get rid of low-quality eggs. Resources will continue to be used in potato and egg production as long as taxpayers foot the bill to pay farmers a high price and then pay additional costs to distribute them. At the same time consumers pay a relatively high price at retail.

In a recent issue of a farm paper a commentator wrote that trying to hold prices high when there is a surplus is about like the man who raised a heavy crop of nuts. (Maybe they were tung nuts, since they are under mandatory price support.) He didn't want them to fall down where the pigs could eat them, so he tied each nut securely to the tree. The next year an even bigger crop came along and he worked very hard again to tie each nut to the tree. This went on for several years until finally the load got so heavy the tree broke down. It was a big crash. His pigs became sick from eating too many nuts. The man lost his tree and when it fell he got a big bump on the head.

Perhaps this will be the story with corn in spite of acreage allotments. The government corn bins are practically bursting at the seams and more surplus corn may be produced again in 1950. In the meantime, corn prices are held up to a point where desirable expansion in production of livestock may be discouraged over a period of years. Artificially high price supports on feed grains, therefore, encourage farmers to raise greater grain crops and discourage livestock production and feeding.

- 3) A third disadvantage of a high-price support program is that it

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BUSINESS

Winter Business Holding Up Well

BARRING unusual economic developments, the volume of January business often serves as a clue to the volume that may be expected in the months leading up to the Easter season. Businessmen therefore are given to watching closely the level of activity in what is ordinarily, after heavy holiday sales, a slack business month.

Looking to bank debits* as a measure, the volume of business has held up well. In this district, January bank debits fell only 4% below the total for January 1949. Since the decline in prices is a factor in the smaller amount of debits, it is evident that the volume of business transacted at the beginning of this year was close to the volume of a year ago.

The decline in total debits was somewhat greater in North and South Dakota and on the Upper Peninsula of Michigan than in the other states, but the difference was not enough to reflect any pronounced trend.

CONSUMER BUYING STAYS AT HIGH PEAK

Department store sales, which reflect a wide segment of consumer buying, for January in this district were 7% below the dollar volume of a year ago. In North and South Dakota, the sales were down as much as 12% and 14% respectively.

Inclement weather generally has some bearing on January sales. The average temperature for the month this year was materially below normal, but the western part of the district a year ago was subject to one of the most severe snowstorms in history. The contraction in farmers' purchasing power from the very high postwar level may be the chief factor in the larger percentage decline in department store sales.

At the beginning of the year, many retailers are inclined to review the trend of sales to guide them in formulating future policies. In this district, the peak in sales was reached in the latter half of 1948. In 1949, sales were down approximately 5%. January sales were down about 15% from

the peak after an adjustment was made for the usually slack business conditions during the month. On the basis of the percentage decline in dollar sales, it is evident that consumer buying is still quite high.

STOCKS IN LINE WITH PRESENT SALES

The stocks held by department stores in this district at the end of January were noticeably less than the amount held during 1948 and during the first half of 1949. The index, adjusted for the normal monthly fluctuation in stocks, was 301% of the 1935 to 1939 base period. At the present time, stocks are approximately at the same level in relation to sales as they were prior to the war.

National figures reveal that inventories held by retailers at the end of 1949 were 9% lower as compared with the amount held a year ago, according to a report recently issued by the U. S. Department of Commerce.

Stocks of new cars, building materials, and hardware held by retailers decreased significantly during the fourth quarter of 1949. The sharp

**As with other measures of business activity, bank debits must be interpreted carefully. Bank debits constitute the total dollar amount of checks charged against the accounts of individuals, firms, corporations, and governmental units. As such, they include checks which do not represent business transactions.*

For example, heavy purchases of government securities in July and August of 1949 boosted total debits materially above the amount for former months while business activity remained fairly stable.

Activity in the government securities market in January of this year and in January 1949 was quite comparable. Consequently, a comparison of the amount of bank debits for the two months provides an approximate measure of the level of business activity.

▶ **January trade continued high. Bank debits were down only 4%, department store sales 7%, as compared with a year ago.**

▶ **Although there has been some rebuilding of department store stocks, they were still down at the end of January, as compared with a year ago.**

▶ **January residential contracts awarded were over four times the pre-war average.**

▶ **A gradual decline in prices has been arrested in recent weeks.**

▶ **With industry caught up with deferred demand, the number of unemployed workers has increased.**

decline in stocks of new cars was due to model change-overs.

Inventories held by manufacturers of durable goods and of wholesalers distributing such items also were down at the end of the year as compared with a year ago; those held by manufacturers were down 9%, and those held by wholesalers were down 2%.

HOME BUILDING INDUSTRY ANTICIPATES BIG YEAR

It now appears that 1950 may develop into another boom year for residential construction. Contracts awarded for residential building, as reported by the F. W. Dodge Corporation, for this region in December set a new record. After an adjustment was made for the usual decline in activity during the month, the dollar amount of contracts awarded was 60% larger than in November, and the dollar amount in November was much above the average for the year.

The adjusted index of contracts awarded for residential building in January stood at 413% of the 1935 to 1939 base period. On the basis of this information, it appears that home building is off to a good start.

In previous numbers of the "Monthly Review," reference has

been made to the large number of rental units under construction in the larger cities of this district. Apartment house building has been promoted by section 608 of the Housing Act of 1948, which provides for insurance of the investments made in such projects.

Furthermore, this may prove to be a big year in the building of owner-occupied dwellings. A large number of prospective home owners during these winter months are seeking advice on their building plans, according to the Minneapolis Home Builders Association. In fact, the return of mild weather during the spring season may set off a flurry of home building.

The building boom has progressed to a point where building materials

Sales at Ninth District Department Stores*

	% Jan. 1950 of Jan. 1949	Number of Stores Showing Increase Decrease	
TOTAL			
DISTRICT	93	80	191
Mpls., St. Paul, Duluth-Superior ..	94	5	22
Country Stores	91	75	169
Minnesota (city and country)	94	27	64
Minn. (country)....	94	22	46
Central	87	0	8
Northeastern	101	3	2
Red River Val....	85	0	4
South Central	90	3	12
Southeastern	98	4	6
Southwestern	95	12	14
Montana	95	13	19
Mountains	92	3	8
Plains	98	10	11
North Dakota	88	20	27
North Central....	103	5	4
Northwestern	110	4	2
Red River Val....	84	7	10
Southeastern	76	3	10
Southwestern	(2)	---	---
Red River Valley—			
Minn. & N. Dak. 84	7	14	
South Dakota	86	5	36
Southeastern	86	1	12
Other Eastern	84	2	23
Western	117	2	1
Wisc. and Mich....	92	14	41
Nor. Wisconsin..	96	5	10
W. Cent. Wisc....	92	6	22
Upper Peninsula			
Michigan	86	3	9

* Percentages are based on dollar volume of sales.

1 January 1950 compared with January 1949.

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

Northwest Business Indexes

(Adjusted for Seasonal Variations—1935-39 = 100)

	Jan. '50	Dec. '49	Jan. '49	Jan. '48
Bank Debits—93 Cities.....	301	292	310	338
Bank Debits—Farming Centers.....	352	371	368	401
Ninth District Department Store Sales.....	247p	293	265	281
City Department Store Sales.....	273p	308	289	296
Country Department Store Sales.....	220p	279	241	267
Ninth District Department Store Stocks.....	301p	292	307	307
City Department Store Stocks.....	267p	255	265	276
Country Department Store Stocks.....	329p	322	342	332
Country Lumber Sales.....	121	244p	136	164
Miscellaneous Carloadings	108	94	93	130
Total Carloadings (excl. Misc.).....	83	92	100	118
Farm Prices (Minn. unadj.).....	210	213	240	306

p—Preliminary.

again are in a tight position. In addition to the large volume of private residential building, public housing has added materially to the drain of materials.

Although practically no public housing is in progress in this district, such projects in other parts of the nation have reduced the quantity of materials available to contractors in this area. According to the Minneapolis Home Builders Association, building materials in this region are becoming increasingly tighter and tie-in sales once more are appearing in the market.

REVERSAL NOTED IN TREND OF PRICES

The gradual decline in prices experienced through most of 1949 in the past month and one-half has been interrupted by a general firming of prices.

The coal and steel strikes have had a bearing on reversal of the price trend, especially commodities fabricated of steel. The strong demand for building materials has raised the prices of such items since the first of December. In recent weeks, prices of farm products have gone up slightly.

UNEMPLOYMENT INCREASES AS INDUSTRY ADJUSTS TO CURRENT DEMANDS

Following the December holiday peak, employment in non-agricultural industries fell by the usual seasonal amount. The severance of temporary holiday workers from pay rolls in retail stores and the post office has caused most of the decrease in employment.

It has been evident for several months that the number of unemployed workers is larger, since industry has caught up with the accumulated demand for merchandise which grew out of the war. Industry now adjusts its production to the current demand for its products. Since the demand for innumerable products is subject to some cyclical variations, the concomitant variations in production often result in temporary layoffs.

In Montana, employment in non-agricultural industries in January was almost 3% above the total of a year ago, the Unemployment Compensation Commission reports. As compared with a year ago, the expansion has found more individuals working in the manufacture of both durable and non-durable goods, on construction projects, in wholesale and retail trade, in finance and insurance firms, in hotels, rooming houses, and tourist camps, in repair shops, and in government services.

On the other hand, fewer individuals were employed in mining, transportation, and public utilities.

In Minnesota, which is more industrialized, employment in non-agricultural industries in January was 2% below the level of a year ago. On the basis of the recent report issued by the Minnesota Division of Employment and Security, decline in employment is traced primarily to a smaller number of workers employed in manufacturing concerns.

END

BANKING**Bank Profits Showed Gain in 1949**

NINTH district member banks experienced a better year in 1949 than was generally expected. Their gross current earnings rose to \$86.9 million—up 7% over 1948.

Both reserve city and country member banks turned in reports of 7% gains in operating earnings, but different stories lay behind these equal percentage changes. Earning assets—the mainspring of current income—followed somewhat diverging courses in reserve city and country banks in 1949.

In reserve city banks in 1949, the volume of total loans averaged an edge below that of 1948. Commercial and industrial loans slipped sharply, while real estate and consumer loans—which carry a higher rate of interest—increased. Moreover, interest rates on loans generally stiffened slightly from a year ago.

Earnings-wise the result was an increase in income on loans from \$12.0 million in 1948 to \$12.9 million in 1949—an 8% gain.

In country member banks the vol-

ume of total loans averaged moderately higher in 1949 than in 1948. As in city banks, real estate and consumer loans increased. Moreover, farm production loans rose substantially, reflecting the squeeze on farmers of lower income and relatively high costs.

Demand for commercial and industrial loans slackened off in country areas as well as in the reserve cities. However, such loans represent a comparatively small share of country bank loan portfolios.

Income from loans in country member banks rose 17% in 1949 to \$26.8 million.

INVESTMENT RETURNS STABLE IN CITIES, DOWN IN COUNTRY

Interest on government securities ran second to loan income as a source of operating earnings. In reserve city banks in 1949 interest on government issues contributed \$8 million to the current earnings pie—roughly the same dollar volume as in 1948.

Two factors influenced the current

► **Increased earnings on loans were the main factor in a 7% rise in gross current earnings of Ninth district member banks in 1949.**

► **Net current earnings advanced 5% in 1949 to a record high.**

► **Transfers to reserves for bad debts were less than in 1948 but sharply above 1947.**

► **Net profits after taxes totaled \$18.1 million, 21% above 1948.**

income derived from holdings of government securities. On the one hand, total portfolios averaged somewhat above those of 1948, reflecting primarily the investment in government securities of funds released by lower reserve requirements.

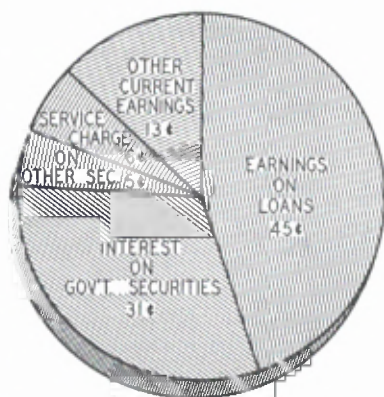
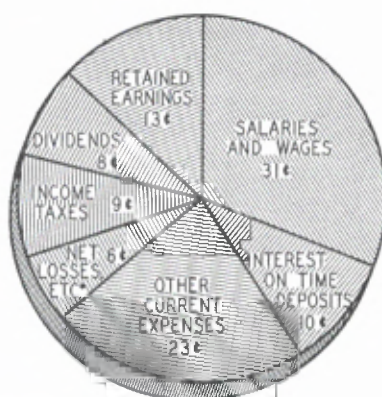
On the other hand, the pattern of holdings shifted toward shorter-term issues, yielding lower incomes. In part, this resulted from the Treasury's program of refunding maturing securities with one-year certificates.

In country member banks, earnings on government security portfolios declined 2%, dropping to \$18.9 million. This decline was due partly to the lower average volume of securities held in 1949, compared with the previous year. While country bankers invested freed reserves in government securities, they did so to a lesser extent than the city bankers.

In country areas freed reserves were also absorbed by increased loans, were used to build up balances in correspondent banks, and in some cases, used to meet deposit withdrawals, occasioned by the slide-off in farm income.

In addition, as in city banks, the pattern of country bank holdings shifted toward shorter-term issues.

Current earnings in both reserve city and country banks were boosted in 1949 by increased interest and dividends on municipal and high-grade corporate securities and by larger income from service charges on deposit accounts.

SOURCES AND DISPOSITION OF THE INCOME DOLLAR OF NINTH DISTRICT MEMBER BANKS IN 1949**WHERE IT CAME FROM****HOW IT WAS USED**

OUT OF EACH DOLLAR of current income, 64 cents was spent on operating expenses, 8 cents was distributed to stockholders, and 13 cents was added to total capital accounts.

*Net losses, charge-offs, and transfers to valuation reserves.

GROSS CURRENT EXPENSES CONTINUED TO RISE

Gross current expenses of Ninth district member banks increased 8% in 1949 to \$56.1 million.

Salaries and wages, which accounted for approximately half of total current expenses, were again the major reason for the increase, as they have been in previous postwar years.

While current expenses have risen steadily in recent years, it is significant that they have absorbed an almost constant share of current earnings. In other words, the rise in expenses has been paced to the rise in earnings. Since 1946, current expenses have annually amounted to about 65% of current earnings.

Net operating income—that is, current earnings minus current expenses—totaled \$30.8 million in 1949, pushing 5% over 1948 to reach a new high.

NET NONRECURRING LOSSES DECLINED

To determine taxable profits, banks adjust their current incomes for non-recurring recoveries and losses on securities and loans.

Since 1947, nonrecurring items have resulted in charges against current income. In the years just prior to 1947, bank profits were favored by net recoveries and profits on securities and net recoveries on loans. In 1947, however, actual losses and transfers to reserves for such losses exceeded recoveries, resulting in a charge of \$2.2 million against current income.

In 1948 this charge ballooned to \$7.7 million. This reflected primarily the fact that many banks adopted the reserve method for providing for future losses on loans according to the Treasury ruling of December 1947.

Under the specific charge-off method, generally in use prior to the Treasury ruling, losses on loans are charged off as they occur. Under the reserve method, transfers are made annually to the reserve for bad debts based on the average loss experience of the past 20 years. Hence with actual losses on loans relatively small, the adoption of the reserve method meant a sharply increased charge against current income in the form of transfers to reserve accounts.

In 1948, in many cases, banks adopting the reserve method included

Disposition of Ninth District Member Bank Earnings

(In Millions of \$)

	1948	1949	% Change
Gross Current Earnings.....	\$81.1	\$86.9	+ 7%
Gross Current Expenses.....	51.9	56.1	+ 8
Net Current Earnings.....	\$29.2	\$30.8	+ 5
Net Losses, Charge-offs and Transfers to Valuation Reserves.....	7.7	5.0	-35
Profits Before Taxes.....	21.5	25.8	+20
Taxes on Net Income.....	6.5	7.7	+18
Net Profits	\$15.0	\$18.1	+21%
Dividends	6.3	6.9	+10
Retained Profits	8.7	11.2	+29

Gross Current Earnings of Ninth District Member Banks

(In Millions of \$)

	1948	1949	% Change
Interest and Dividends:			
Government			
Securities	\$27.2	\$26.9	- 1%
Other	3.6	4.3	+19
Earnings on Loans.....	34.9	39.7	+14
Service Charges on			
Deposit Accounts	4.8	5.6	+17
Other Earnings.....	10.6	10.4	- 2
Total	\$81.1	\$86.9	+ 7%

Gross Current Expenses of Ninth District Member Banks

(In Millions of \$)

	1948	1949	% Change
Salaries and Wages	\$25.5	\$27.7	+ 9%
Interest on Time			
Deposits	8.5	8.7	+ 2
Other	17.9	19.7	+10
Total	\$51.9	\$56.1	+ 8%

transfers applicable to 1947, as well as to the current year. Since the ruling was made in December of 1947 the time limit allowed for filing applications with the Treasury to change to the reserve method was extended into the early months of 1948. (At the present time such applications must be filed at least 30 days prior to the end of the current taxable year.) Thus some transfers based on 1947 loan volume were charged against income in 1948.

In 1949 net nonrecurring losses amounted to \$5.0 million—down 35% from last year. The drop was mainly in transfers to reserves for bad debts, reflecting the fact that such transfers applied to the current year only. Compared with 1947, however, net charges against current income had more than doubled.

NET PROFITS AFTER TAXES INCREASED

The combination of increased net operating earnings and decreased charges against these earnings boosted taxable profits in Ninth district member banks to \$25.8 million—up 1/5 over a year ago.

Taxes increased from \$6.5 million to \$7.7 million, reflecting the higher taxable income. The result was net profits after taxes of \$18.1 million, scoring a 21% edge over 1948.

This increase in net profits permitted a rise in both dividends and retained earnings. However, the share of net profits distributed to dividend holders was whittled down slightly. In 1948 dividends of \$6.3 million, represented 42% of net profits. In 1949 dividends of \$6.9 million were 38% of net profits.

END

January Banking Developments

A DECLINE in total deposits reflecting January 15 tax collections highlighted Ninth district banking developments during January. Pressure on reserve positions was somewhat eased by the post-holiday return flow of currency in circulation.

Total deposits in district member banks declined \$33 million this month as income tax payments channelled funds out of private deposits into the Treasurer's account at the Reserve bank. Down less than 1%, however, this month's decline was considerably milder than that of January in 1948 and 1949, when total deposits dropped roughly 4%.

Tax collections this year were slow due partly to the fact that the

deadline for tax payments by farmers was extended to the end of the month.

Moreover, the Treasury made the initial payment of insurance dividends to World War II veterans in January, partly offsetting the deposit drain incident to tax collections. In the first six months of this year the Treasury will distribute nationally approximately \$2.8 billion in dividend checks.

Government security portfolios advanced \$19 million in January. City banks accounted for the entire increase. These banks purchased mainly short-term issues, using, in part at least, funds drawn from balances in correspondent banks.

On February 1, maturing certificates were rolled over into 1 $\frac{1}{4}$ % 20-month notes. On February 14 the Treasurer announced the issuance of new 1 $\frac{1}{4}$ % notes, maturing July 1, 1951, to refinance 1 $\frac{1}{4}$ % certificates maturing on March 1 and April 1 of this year; and the issuance of new 1 $\frac{1}{2}$ % Treasury notes maturing March 15, 1955, for 2% bonds callable on March 15 and 1 $\frac{3}{8}$ % Treasury notes maturing on April 1 of this year. The amounts of the four maturing issues total over \$9,400 million.

These refunding operations are moves in the direction of slightly firmer interest rates on Treasury shorter-term securities.

Total loans in Ninth district member banks increased \$12 million in January to \$902 million. For the district as a whole loans were 1 $\frac{1}{2}$ % above a year ago. However, in country banks loans surpassed last year by 5%, while in city banks they were 2% under January 1949. **END**

¹ Call Report figures.

² This table 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 semi-monthly reports 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 the other liabilities are extrapolated from call report data.

Assets and Liabilities of Twenty Reporting Banks (In Million Dollars)

	Dec. 28, 1949	Jan. 25, 1950	Feb. 15, 1950	\$ Change Jan. 25- Feb. 15
ASSETS				
Comm., Ind., and Ag. Loans.....	\$ 214	\$ 214	\$ 211	.....
Real Estate Loans.....	72	74	74	+ 2
Loans on Securities.....	11	11	10	.....
Other (largely consumer) Loans.....	143	139	147	- 4
Total Gross Loans & Discounts..	\$ 440	\$ 438	\$ 442	- 2
Less Reserves	6	6	6	.....
Total Net Loans & Discounts....	\$ 434	\$ 432	\$ 436	- 2
U. S. Treasury Bills.....	30	38	25	+ 8
U. S. Treasury C. of I.'s.....	166	180	178	+ 14
U. S. Treasury Notes.....	72	72	87	.....
U. S. Government Bonds.....	437	438	438	+ 1
Total U. S. Gov't Securities.....	\$ 705	\$ 728	\$ 728	+ 23
Other Investments	113	113	118	.....
Cash and Due from Banks.....	430	409	422	- 21
Miscellaneous Assets	15	15	16	.....
Total Assets	\$1,697	\$1,697	\$1,720	.....
LIABILITIES				
Due to Banks.....	\$ 298	\$ 308	\$ 283	+ 10
Demand Deposits, Ind., Part., Corp... 831	815	835	835	- 16
Demand Deposits, U. S. Gov't.....	40	57	80	+ 17
Other Demand Deposits.....	149	135	142	- 14
Total Demand Deposits.....	\$1,318	\$1,315	\$1,340	- 3
Time Deposits	252	253	255	+ 1
Total Deposits	\$1,570	\$1,568	\$1,595	- 2
Borrowings	7	10	6	+ 3
Miscellaneous Liabilities	17	17	17	.....
Capital Funds	103	102	102	- 1
Total Liabilities & Capital.....	\$1,697	\$1,697	\$1,720	.....

Assets and Liabilities of All Ninth District Member Banks

(In Million \$)

	Dec. 31, 1949 ¹	Jan. 25, 1950 ²	\$ Change Dec. 31, 1949 Jan. 25, 1950	\$ Change Jan. 26, 1949 Jan. 25, 1950
ASSETS				
Loans and Discounts.....	\$ 890	\$ 902	+ 12	+ 14
U. S. Government Obligations.....	1,724	1,743	+ 19	+108
Other Securities	238	243	+ 5	+ 44
Cash and Due from Banks and Res....	858	800	- 58	- 49
Other Assets	31	30	- 1	+ 1
Total Assets	\$3,741	\$3,718	- 23	+118
LIABILITIES AND CAPITAL				
Due to Banks.....	\$ 348	\$ 351	+ 3	+ 45
Other Demand Deposits.....	2,221	2,185	- 36	+ 57
Total Demand Deposits.....	\$2,569	\$2,536	- 33	+102
Time Deposits	934	934	.....	- 5
Total Deposits	\$3,503	\$3,470	- 33	+ 97
Borrowings .....	.....	10	+ 10	+ 6
Other Liabilities	23	23	.....	+ 4
Capital Funds	215	215	.....	+ 11
Total Liabilities and Capital.....	\$3,741	\$3,718	- 23	+118

INCOME PAYMENTS VERSUS PRICE SUPPORTS

Continued from Page 18

is costly. Just how costly, it is difficult to say. Reports indicate that the CCC has about \$2 billion tied up in 1948 crops and another \$2 billion may be used for 1949 farm price supports. The CCC is now asking another \$2 billion for 1950 supports. How great will be the net loss to American taxpayers depends on the returns from the disposition of the products held by the CCC.

The CCC may have over \$1,000 million tied up in corn supports by next July 1, with almost \$600 million in wheat. If something happens to bring strength to the market, the losses on these operations may be small. If the market weakens, the losses may be large with the chance of complete loss.

At best, high support prices on specific farm products (for example, the six so-called basic crops) benefit only a certain group. This benefit is often achieved only at the expense of other groups. For example, high corn and other feed grain prices represent high costs for livestock feeders.

- 4) Still another disadvantage of high farm prices is that substitute products threaten to diminish the demand for farm products. Cotton is a good example. Much of the cotton market has been lost to substitutes—rayon and nylon. Much of the foreign market for cotton is lost also. Such markets once lost are difficult to regain.
- 5) Farm surplus accumulations dumped on foreign markets are usually not appreciated by farmers in those countries. They retaliate with higher tariffs or import quotas. Also, the U. S. must keep its tariff rates high in order to keep these "dumped surpluses" from coming back upon our own domestic market. This does not promote international cooperation. Rather it promotes economic nationalism.

EXPANDING ECONOMY IS KEY TO SOUND FARM PROGRAM

Regardless of attempted solutions to the farm problem, farmers have never really prospered in this coun-

ty except under conditions of high business activity and relatively full employment. Perhaps this is the key to a sound and permanent farm program.

In fact, so long as business activity is high and unemployment remains less than four or five million persons, the commercial farmers of this country—and they are only about half the total number of farmers as listed by the Census Bureau—do not need expensive government subsidies. They should be able to take care of themselves along with other good businessmen.

It follows that the long-time farm program should be one of encouraging business activity and expansion in the economy.

But suppose a depression comes? Is the commercial farmer then entitled to assistance? If there is large unemployment, declining business activity, and curtailment of production in industry, then there appears to be real justification for subsidies to commercial farmers provided they maintain full production.

Farmers, by the nature of their business, hold up output in both good and bad times. This eases distress during depression times for the mass of the people, but it often puts farmers in a difficult price situation. How then should financial support be given farmers in depression times?

INCOME PAYMENTS A REWARD FOR FULL PRODUCTION

Protecting farmers' incomes in depression times by flexible price supports on individual farm products is one answer to the problem. However, along with its obvious advantages as a stop-loss arrangement, it has certain disadvantages that cannot be disregarded.

Artificial price supports, no matter at what level, are likely to interfere with free market prices. A free market system is perhaps the most important element in a voluntary free enterprise economy. A competitive free enterprise system is a major goal and part of the American way of life.

There is no substitute for free market prices as an efficient regulator of production and consumption. Competitive prices insure efficiency, keep costs low, and give consumers the most for their money.

The moment prices are set artificially by one means or another,

regulation of production becomes a clumsy stop-and-go affair. The result is often a waste of resources—waste of such things as potatoes, eggs, butter, lard, and taxpayers' money, to say nothing of misuse of natural resources, labor, and capital.

Whenever price is set too high, there must be controls to reduce supply as in the situation today. Whenever price is set too low, or under the market price, then the supply must be rationed, as it was during the war.

What is a fair price? Where should the price of wheat, corn and hogs be set? By one group the answer is given as 10% more than the prevailing price. Prices never seem to be satisfactory to everybody. What is price to one group is cost to another. Hence, to another group, price ought to be 10% less. There is, therefore, constant conflict over the level of prices between different producers in agriculture.

If farm prices cannot be manipulated equitably and fairly to all farmers and for the general welfare, why not let them seek their real market level and compensate agriculture on some other basis in depression periods?

According to the suggestion made at various times in the past by students of agricultural economics, one way to do this is by making income payments to farmers adjustable to changes in general economic conditions. That is, the more serious the depression, as measured by unemployment or some reliable business index, the larger the payment to farmers. In good times, payments to farmers might be discontinued altogether.

The method of making such payments will not be discussed here, but such payments might be based on farm production, number of acres farmed, or perhaps on a "per farm" basis. It would have no relation to price in any manner.

Such a system of payments would protect the farmers' income just as effectively as price supports above the natural market level. At the same time the consumer, and particularly the unemployed and low-income group, would get food at real market prices.

Furthermore, income payments may be geared to good farming practices. This would be politically acceptable in depression periods to con-

sumers, particularly if they understood that the farmer was getting payments for maintaining production. The general public would, therefore, likely be sympathetic to such payments in depression times.

Consumers are not likely to be sympathetic to artificially high-level farm price supports when millions are without jobs. Curtailment of food production or dumping of accumulated surpluses here or abroad probably would boomerang against farmers in depression periods, and economic help for agriculture would be jeopardized for years to follow.

An income payment program geared to depression conditions would in a sense parallel the benefits now available to industry as unemployment compensation. Such a program might be sold to the public on that basis.

LOW-INCOME FARMERS NEED SPECIAL CONSIDERATION

There are several million farmers in the U. S. who produce little if anything for the market. Some of these farmers operate only on a part-time basis; others are operators of farms which are largely subsistence in nature. A high-price support program means little to these people. In fact, it may tend to make their situation worse by increasing the costs of food and other things they buy.

Neither would income payments be sufficient on many of these small

farms to give enough help if payments were based on production or size of farm. The problem here is how to develop programs, educational in part, that will help them to join the ranks of self-sufficient commercial farmers.

Failing this, these small and oftentimes marginal farmers should be given whatever training or financial help is necessary to move them out of agriculture into more productive lines of work.

SUMMARY OF INCOME PAYMENT PLAN FOR SOUND FARM PROGRAM

(1) This suggested program for agriculture would keep agricultural prices flexible and free to adjust quickly to real market needs as measured by consumer choices. Adjustments in use of resources would come quickly.

(2) It would encourage efficiency. Excess farm population would be encouraged to move into other lines of economic activity rather than to stay on farms. This is a desirable adjustment if the most efficient use is to be made of the nation's resources.

(3) Such a farm program would fit in with an expanding economy established on the principle of free enterprise, competitive prices, and low-cost production—a system that gives consumers the most for their money.

(4) It would encourage foreign

trade in foreign markets on a realistic market level and thus encourage world peace.

(5) Income payments adjusted to changing economic conditions would be a reward to farmers for continuing full production in times of depression. It would appeal to the general public if properly explained.

(6) In brief, it would do away with burdensome surpluses, price subsidies, and controls which are laden with obvious weaknesses both from the farmers' viewpoint and from the viewpoint of the national welfare.

INDIRECT ATTACK ON FARM PROBLEM HOLDS PROMISE

It would seem, therefore, that the basic long-time solution to the farm problem lies in achieving full industrial employment and high industrial production. Should this result somehow be achieved, there would be adequate purchasing power for farm products and there would be jobs for excess farm population. Good farmers can operate successfully without government subsidy under such conditions.

An indirect attack on the farm problem would therefore take the form of generating and maintaining the economy at high economic levels. Although it is beyond the scope of this article to suggest methods of achieving a stable high level of employment and general business activity, it seems appropriate to suggest that progress toward this objective might be made by:

(1) Expanding both domestic and foreign markets for farm products.

(2) Directing fiscal and monetary policies toward conditions of high economic activity.

(3) Continuing efforts to purge the economy of price and production rigidities that exist in industry and in labor. Certainly, it is a mistake to match rigidities in agriculture with rigidities in other segments of the economy and expect everybody to have more of everything.

The foregoing comments leave out many other indirect attacks on the farm problem in the direction of better rural living. Such measures include rural electrification, educational aids, medical facilities, employment services, and better economic information to assist farmers in planning their operations.

END

Average Prices Received by Farmers in Ninth District*

Commodity and Unit	Jan. 15 1937-41 Avg.	Jan. 15 1949	Jan. 15 1950	Parity Prices ¹ United States Jan. 15, 1950
Crops				
Wheat, bushel	\$0.85	\$1.97	\$1.93	\$2.13
Corn, bushel .....	.56	1.14	1.04	1.55
Oats, bushel .....	.31	.67	.62	.914
Potatoes, bushel .....	.61	1.49	1.25	1.67
Livestock and Livestock Products				
Hogs, 100 lbs.....	7.18	19.69	14.81	18.70
Beef Cattle, 100 lbs.....	6.84	18.85	18.77	16.90
Veal Calves, 100 lbs.....	8.49	25.46	23.94	19.00
Lambs, 100 lbs.....	7.67	21.80	21.23	18.60
Wool, lb. ....	.26	.51	.46	.50
Milk, wholesale, 100 lbs.....	1.63	3.46	3.21	4.31
Butterfat, lb. ....	.32	.68	.66	.690
Chickens, live, lb.....	.115	.261	.167	.284
Eggs, doz. ....	.175	.391	.258	.492

*Source: Data compiled from USDA Agricultural Prices—January 31, 1950.

¹ The term parity as applied to the price of an agricultural commodity is that price which will give to the commodity a purchasing power equivalent to the average purchasing power of the commodity in the base period, 1910-14.

National Summary of Business Conditions

COMPILED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, MARCH 1, 1950

INDUSTRIAL output increased somewhat further in January but was reduced by work stoppages in the early part of February. Construction activity was maintained at very high levels for this time of year. Personal incomes were supplemented by large payments of insurance dividends to veterans. Value of department store sales was close to last year's level and sales of automobiles were considerably larger. Prices generally remained stable.

INDUSTRIAL PRODUCTION

—The Board's seasonally adjusted index of industrial production rose 3 points in January to 183% of the 1935-39 average—the highest level since March, 1949. In February, industrial output has apparently declined about 5 points, largely as a result of work stoppages in the coal and automobile industries.

Production of durable goods increased 3% in January, reflecting a large expansion in output of automobiles, and smaller gains in non-ferrous metals and iron and steel. Following model changeovers, automobile production by mid-January regained the record rate of last fall. Beginning January 25, however, auto assembly operations were reduced about one-fifth by a labor dispute at the plants of a major producer. Output at steel mills increased to 95% of capacity in mid-January but subsequently decreased as a result of coal shortages. For the month of February, ingot production was scheduled at about 89% of capacity but during the week beginning February 27 it dropped sharply to 74%. Lumber production declined in January from the exceptionally high December level.

Output of nondurable goods in January was maintained at earlier high levels. There were small increases in cotton consumption, rayon deliveries, paper and paperboard production, and chemicals output. Production of most other nondurable goods showed small declines or little change from the level of the preceding month.

Minerals production showed a slight decline in January and in Feb-

ruary was curtailed sharply further, as a result of work stoppages at coal mines. Output of petroleum showed little change, while metals production increased.

EMPLOYMENT—Employment in non-agricultural establishments, seasonally adjusted, was little changed in January as a sharp drop in employment at coal mines was more than offset by increases in construction and in plants manufacturing durable goods. Employment in most other lines showed little change. Unemployment rose to 4.5 million persons in January, up 1.8 million from January, 1949.

CONSTRUCTION—Value of construction contract awards declined seasonally in January but was more than one-half larger than a year earlier. The number of new residential units started in January was estimated by the Bureau of Labor Statistics to be 80,000 as compared with 79,000 units in December and 50,000 in January, 1949.

DISTRIBUTION—Value of department store sales showed somewhat more than the usual seasonal decline in January and the Board's adjusted index was at 282% of the 1935-39 average as compared with 293 in December and 276 in November. Sales during the three weeks ending February 18 were maintained at the same level as in the corresponding period last year. Sales of apparel at department stores remained below year-ago levels, while sales of most durable goods were in greater volume. Sales of new automobiles were exceptionally large for this season of the year. The payment of insurance dividends to veterans beginning the middle of January is providing an important supplement to personal income at this time, tending to increase retail sales.

Shipments of railroad revenue freight rose somewhat in January, after allowance for seasonal changes, as increased loadings of most manufactured goods and ore more than offset declines in grain and forest products. Freight carloadings

dropped sharply in early February, reflecting mainly the curtailment of coal and coke production.

COMMODITY PRICES—The general wholesale price index rose somewhat from mid-January to the third week of February, reflecting largely increases in prices of cotton, hogs, and pork. These changes resulted in part from seasonal reductions in supplies. Prices of lumber and some other building materials also were advanced in this period. On the other hand, prices of some textile and chemical products and automobiles were reduced.

The average level of consumer prices declined further by .4% from December to January owing to small decreases in retail prices of foods and most other groups of goods and services, except fuels and rent, which continued to increase.

BANK CREDIT—During January and the first half of February, holdings of government securities at member banks in leading cities and Federal Reserve banks combined declined by about \$1.5 billion, indicating substantial purchases by non-bank investors. Federal Reserve banks sold large amounts of Treasury bills and a substantial volume of bonds in response to a strong market demand, but purchased certificates and notes. Reporting member banks purchased bonds while reducing their holdings of shorter-term securities.

Bank holdings of corporate and municipal securities increased further in January and February, and real estate loans expanded moderately. Business loans did not show the usual seasonal decline. Adjusted demand deposits at reporting banks declined substantially, while Treasury deposits increased.

Member bank reserves showed little net change from late December through the first three weeks of February. Decreases in money in circulation and in Treasury deposits supplied reserves, which were largely absorbed by the decline in Federal Reserve holdings of government securities.