

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date December 11, 1942

To Chairman Eccles

Subject: Economic Stabilization Board

From Martin Krost

Meeting, December 11, 1942

I. Policy Regarding Subsidization of the Cost of Living.

A. Wickard's Statements

Summary

1. A real shortage of food is expected.
2. A single comprehensive rationing program covering all scarce essential food products should be put into effect.
3. Greater financial incentives to farmers are required to obtain adequate production of some commodities.
4. Subsidies are superior to prices as a means of obtaining required production, although Congress and the farm organizations are strongly opposed to subsidies.
5. Farmers are at a disadvantage relative to urban workers:
 - (a) 1942 per capita farm income is only about two-fifths of non-farm income per capita.
Farm income is a smaller proportion of national income now than in 1918.
 - (b) Farmers are losing 15 to 20 per cent of their workers annually.
 - (c) Farm equipment production has been cut.
 - (d) Farmers work longer hours and have less attractive working and living conditions than urban people.

Analysis

1. Appears reasonable
2. Probably correct if a comprehensive workable program can be devised soon enough.
3. Unquestionably true but it misses the major problem.
Net income of farm operators this year is the largest in history. It is 45 per cent above 1941 and more than double 1940.
The real problem is not one of low total farm income. The real problem is one of differential incentives for producing alternative crops. Differential incentives should be such as to encourage farmers to produce things needed most and to discourage them from producing things less essential. Proper differentials cannot be obtained by indiscriminate price increases or by the parity concept which aims to restore the differentials of 30 years ago.
4. Subsidies are clearly superior to higher prices in the agricultural field for these reasons:
 - (a) The Department of Agriculture, the farmers, the public, and the Treasury are accustomed to subsidization of agriculture. An experienced,