BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 21, 1943

To Chairman Eccles

Subject: Economic Stabilization Board Meeting, January 22, 1943

From Martin Krost

I. The Relation between Agricultural Prices and Food Production

By December, 1942, the index of all farm prices had advanced 24 per cent from December, 1941, while prices paid by farmers had increased 8 per cent. Farm prices had advanced 102 per cent from August, 1939, while prices paid by farmers had increased 24 per cent. In December, 1942, the price index was 115 per cent of parity. Net income of farm operators was the highest in history last year; it will be even higher this year. The rise in farm prices helped to bring about the large increase in farm production in 1942.

Further increases in farm prices unaccompanied by other measures will not be sufficient to bring about further expansion in production; in some cases, they are not necessary. This year financial incentive to produce is not the only limiting factor; physical obstacles to production are more important. Labor is scarce and inexperienced. Farm machinery is scarce. Tires, gasoline, and trucks are scarce or hard to get from the ration boards. Assurance that sufficient labor will be on hand at harvest time is as important as the price of such labor.

Some of the farm leaders have created the misleading impression that concern over labor shortages and similar problems can be solved by higher prices. Most farmers probably think their prices are high enough; they want assurance prices will hold and costs will not rise too much.

The primary problem this year is not inadequate farm prices in general. The main problem, if food production is to be increased, is the relationship among prices of farm commodities. Prices of farm products should be such as to encourage the production of the more essential, and discourage production of less essential products.

Such incentives can be provided by raising prices for selected products, while keeping most prices stable. These selective increases should be small. It is unlikely that distribution costs can be squeezed much. If farm prices rise, retail food prices will rise. Wage rates cannot be kept stable if the cost of food advances sharply. Organized labor has accepted the rise in food prices which has occurred in recent months, but this acceptance cannot be expected to continue.

II. Farm Wages and Farm Labor Supplies

Wages of hired farm workers have risen 34 per cent in the last year and 90 per cent since July 1939. Nevertheless, workers have left the farms in large numbers to obtain jobs in war industries. However, total farm employment was only moderately lower on January 1, 1943 than on January 1, 1942. Women, inexperienced and older men, and youths have replaced the men who have left the farms.

Some farm wages are clearly substandard. For the nation, the average farm daily wage without board, was only $2.83, or about 28 cents an hour on January 1, 1943. Among various states, farm wages ranged from $5.70 a day in California to $1.35 in South Carolina. Average hourly earnings in manufacturing in October were 89 cents. By industries, earnings varied from $1.24 in aircraft engines to 37 cents in cottonseed oil factories. Even the lowest paid industries pay their workers more than most hired farm workers are paid. Unskilled nonagricultural workers usually earn more than semi-skilled or even skilled farm workers. On the whole, farm workers probably earn about one-third to one-half the amount urban workers receive.

To keep labor on farms, wages of farm workers must increase substantially. Deferment from armed service, or even job freezing, cannot keep workers on farms if wages are too far out of line. Moreover, to freeze workers on farms at wages of $1.35 or $2.83 a day would be highly inequitable and create resentment which would destroy efficiency.

Most farmers can afford to pay higher wages. Hired labor constitutes only a small part of costs of production for most farmers. Even very high wages, if paid for only a few weeks at harvest time, would not reduce net profits of farmers significantly.

The attached table shows average wages of hired farm labor by states for January 1943 and January 1942.