

*Mr. Deming  
Mr. DeVos*



NOVEMBER, 1945

FEDERAL RESERVE BANK  
OF ST. LOUIS  
1946 JAN 8 AM 10 43  
RECEIVED SECRETARY TO  
HENRY H. HARRISON  
VICE PRESIDENT

LIBRARY  
JAN 9 1946



# BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO



# 1946 Agricultural Prospects Favorable

## *Farmers Expect Another Year of Good Incomes*

Based upon a favorable outlook for a high level of economic activity throughout most of 1946, the prospects for agricultural prices and farm income are indicative of another good year for American farmers, even if only average conditions prevail during the growing season.

It is generally expected that, in spite of reconversion difficulties throughout the economy as a whole, consumer expenditures will show little or no reduction below the 1945 level. The change-over from war to peacetime jobs is involving unemployment, but present indications are that while the volume of unemployment will rise to a considerable figure, it will be substantially below estimates made immediately after V-J Day.

### FARM OUTLOOK BASED ON UNSATISFIED DEMANDS

During the war years the all-important factor in sustaining consumer demand for farm products as well as other available goods has, of course, been the huge expenditures made by the Federal Government to meet the needs of the war. These have been declining rapidly since V-J Day, and by the middle of 1946 will probably be down to one-third their peak volume achieved in 1945 when they absorbed over half of the total national product. It is expected that this Government demand for goods and services will be replaced by vigorous requirements from civilian consumers. The basis for these expectations is largely the huge backlog of unfilled needs accumulated during the war. Purchasing power to implement these needs is generally in the hands of consumers, and will be augmented by the reduction in personal income taxes prevailing in 1946 and the probable reduction in the rate of savings out of incomes. During the war years savings reached an all-time high rate in excess of 40 billions of dollars annually. It is probable that when goods and services become increasingly available, consumer rates of saving will return to more normal rates, permitting consumers to maintain and possibly expand their expenditures. In addition to reduced taxes and lower rates of savings, consumers have established from the high wartime volume of savings a cushion of reserve funds from which they can and presumably will draw, especially for consumers' durable goods, such as housing, automobiles, radios, and household appliances.

As a result of these demand factors it is expected that a satisfactory level of economic and industrial activity will on the average prevail in 1946, permitting a high level of employment, and therefore a demand for farm products close to the high levels of 1945. The demand for most foods was considerably in excess of rationed supplies during the year, and the removal of restrictions on nearly all foods is alone considered by some students to be sufficient to support consumer demand at present

levels. The decline in Government purchases of food for the military forces cannot be regarded as a gross reduction in demand for food products. The armed forces are being rapidly demobilized, and it is expected that about nine million will have been returned to civilian life by the middle of the year. While there may be some minor reduction in the demand for some types of foods due to the return of veterans to somewhat less "vigorous" peacetime pursuits (in terms of food energy requirements), it should be obvious that returning to civilian life results mostly in food requirements for service personnel being transferred from military to civilian channels.

With the end of lend-lease, Government requirements for export under the program ended, but Government agricultural officials expect that exports of food and other agricultural products will continue large during 1946. It is stated by them that the needs exist for all that can be produced in 1946, although the needs are apparently for commodities not important to the agriculture of the Seventh Federal Reserve District, particularly wheat and cotton. The critical condition to be met with regard to these exports of American farm products is the satisfactory working out of the necessary financial arrangements to replace lend-lease, and otherwise to permit the meeting of acute foreign needs. Some countries have already made arrangements for credits to finance relief and rehabilitation through the Export-Import Bank, and while not yet approved in either country, the British loan in excess of \$4 billion is counted on to permit the financing of food exports to Great Britain.

Needs for the United Nations Relief and Rehabilitation Administration programs bulk large in terms of the reported urgency of the job to be done in relieving distress and preventing starvation in the reoccupied countries of Europe and the Far East. At this writing funds for the 1946 programs of UNRRA had been in part appropriated. These and probable additional appropriations will mean that these needs will add to the total of exports of farm products for 1946.

### DECLINES IN PRICES AND INCOMES EXPECTED

With a probable high level of demand for farm products thus indicated for 1946, it is anticipated that the peacetime readjustments in agriculture will result in only minor reductions in farm prices and farm incomes below the high levels of 1945. Assuming normal production conditions (weather, etc.), U. S. Department of Agriculture officials suggest that farm prices as a whole will remain firm until 1946 harvested crops begin to move to market. In terms of averages for the year, they expect the 1946 farm commodity price level to be moderately, within

*(Continued on Page 8)*

# Reconversion in the Seventh District-II

## *"Watchful Waiting" Retards Transition Progress*

During the four months since Japan sued for peace, considerable progress has been accomplished in the physical aspects of industrial reconversion in the Seventh Federal Reserve District, but complex problems with respect to relationships of prices, wages, and profits have now culminated in extensive labor-management-Government controversy and a period of "watchful waiting" which seriously impedes expansion in employment and production. It is now anticipated, moreover, that regardless of labor disputes, unemployment as well as employment in this District will continue to rise until at least the spring of 1946 as the increasingly large number of veterans returning to the civilian labor force continues to exceed the number of job openings.

While Seventh District employment, income, production, and expenditures are still well above prewar levels, and the shock of the sudden ending of the war has been less pronounced than generally anticipated, much of the reconversion speed and some of the confidence evident immediately after V-J Day currently appears to be lacking. The broader economic and social aspects of the transition to peace have now generally assumed greater importance than the technical problems of industrial conversion which loomed so large before hostilities ceased. The principal danger now seems to be that some of the economic and psychological factors present at V-J Day, highly favorable to a swift and successful changeover from war to peace, may be dissipated before solutions are reached to pending controversial price-wage-profit issues. While a comparatively small fraction of industry and labor in the Seventh District is directly involved in current disputes, the vast majority are indirectly affected, and certainly all will be influenced by the decisions reached in these controversies, whether by negotiation initiated privately or by Government intervention, or by sheer test of economic strength.

### TRANSITION RECORD TO DATE

Since mid-August when the war ended, in the Seventh Federal Reserve District, comprising most of Illinois, Indiana, Michigan, and Wisconsin, and all of Iowa—

1. The vast majority of manufacturers have completed their physical reconversion tasks, although many of the largest plants which produced vast quantities of war materials still face extensive rebuilding and retooling which may require several months more to complete.

2. The period of large scale, post V-J lay-offs was clearly ended by the close of September in this District, and the peak of unemployment arising from war contract cancellations seems now to have been reached.

3. Manufacturing employment, which declined 15 per cent between mid-August and mid-September, has now

advanced 2 per cent to a level roughly equal to that of mid-1940.

4. To a noticeable extent, the backlog of demand is being converted into a backlog of actual orders, particularly for consumers' durable goods, many orders being accompanied by substantial deposits or down payments.

5. Conversion expenditures have, in general, created few serious financial problems for war contractors, hardly any firms requiring special termination financing assistance.

6. Available evidence indicates that while manufacturing payrolls are currently about 13 per cent below the end of the war level, over-all income payments probably have declined by only half or less of this amount, with numerous instances of post V-J wage and salary increases for many groups, including some white collar workers.

7. Consumer expenditures as measured by retail sales have not only failed to decline since the end of the war, as widely expected, but actually are now at least three per cent above a year ago, indicating that newly discharged veterans are again spending in the civilian markets and also that many workers confidently expect reduced post V-J incomes to catch up fairly soon with their expenditure levels.

8. The monthly volume of war savings bond redemptions rose sharply as an offset of payroll decreases during September and October, commonly exceeding sales but remaining at roughly one per cent of total outstandings. Since early in the Victory Loan drive in November, however, sales have exceeded redemptions, and the latter have also declined in both number and amount.

9. Supplies of a few basic raw materials, notably petroleum and rubber, have improved significantly, but shortages in semi-finished products continue intense.

10. Numerous sales of, and active bidding for, industrial war plant facilities have occurred, but to a much larger extent for structures than equipment so that large supplies of surplus materials are continuing to accumulate.

### MANY PROBLEMS PERSIST

**Prices-Wages-Profits**—The primary reconversion problem in the Seventh Federal Reserve District as in the nation concerns the levels and relationships between (a) prices of manufactured goods, especially consumers' durable items; (b) wage rates and take-home pay of employees in these industries; and (c) profit levels of manufacturers. Most, but of course not all, of the present deterrents to reconversion progress may be traced to this basic problem for which no final solution now appears imminent. The conflict currently is being resolved principally in terms of the economic strength of labor and management and the determination of the Office of Price



Administration to hold the line against general upward price adjustments.

Although the entire prices-wages-profits problem is a matter of intense national concern and interest, the problem is perhaps even more important to the Seventh District, the center of the nation's durable goods production. Two of the District's principal industries, automobiles and steel, moreover, provide the focal point for the current controversy. The Seventh District has about 75 per cent of all automotive workers and 19 per cent of all steel workers. These two industries together in turn account for 22 per cent of all manufacturing workers in the Seventh District states, 28 per cent of wage income, and 25 per cent of industrial output. Prolonged work stoppages in automobile and iron and steel manufacturing will, of course, have much larger and more far-reaching secondary effects upon the District economy.

The issues in the prices-wages-profits dispute are fairly clear-cut, but settlement has not been forthcoming principally because of the strength and basic principles of all the groups involved. In addition, there is full recognition that whatever decision is reached in the controversies between labor and management in the automobile, petroleum, and steel industries will set a strong precedent for price-wage-profit adjustments throughout much of the District's and the nation's manufacturing industries.

#### CONFLICT OF BASIC ISSUES

From the labor standpoint, the key question is the re-attainment of wartime take-home pay as essential to the maintenance of living standards, particularly in light of rising living costs—an issue on which there is strong labor unity and one on which extensive compromise probably cannot easily be reached.

To management, the issue is generally conceded to be at least twofold: (1) ability to pay at present prices, and (2) sanctity of management prerogatives, especially disclosure to unions of company financial data. The question of ability to pay "how much" has proved to be far from an easy one to resolve, although General Motors and several other durable goods managements have offered a 10 per cent wage increase. While the financial status of manufacturing companies differs widely, some of the leading manufacturers have gained considerable economic strength through Federal tax laws, especially the excess profits and carry-back of losses provisions which minimize actual financial losses under current conditions. Without fear of serious short-run financial losses, and holding firmly to established principles, management may also be expected to resist extensive compromise measures in the future.

To Government, the issue is also twofold: (1) resist inflationary price advances, and (2) speed reconversion and production so as to provide as many jobs as possible for returning veterans and displaced war workers. This position realistically assumes the distinct possibility in the immediate period ahead of inflationary dangers in certain lines, e.g., some consumers' durable goods, clothing, and housing; and at the same time deflationary dangers in

other lines where surpluses may soon appear, e.g., foods, and from large numbers of unemployed who will not be among the same groups who are exerting the inflationary pressures upon limited supplies of certain goods.

The only real solution to the principal domestic economic issue lies in expanding production, but for the reasons given earlier this is not now forthcoming, and here the prices-wages-profits controversy lies. The steel workers have called a strike to begin January 14, 1946. Some Presidential fact-finding boards have been appointed but without full legal authority to act, and in general there has been little tangible evidence of progress toward immediate agreement.

How long this "watchful waiting" will continue is a matter of sheer speculation, but so long as it does, the Seventh District, national center of consumers' durable goods industries, can expect only moderate production, reduced incomes, and growing unemployment. It now seems quite likely, however, that labor-management disputes in these key industries arising from the current economic impasse cannot be prolonged too far into the new year before public reaction will force some at least temporary solution which will allow production to be resumed.

#### MANY IDLE FROM STRIKES

**Labor Disputes**—The Seventh District, as would be anticipated from the industries involved thus far, has been affected more extensively from labor disputes than any other district. During the last week in November, an estimated 175,000 persons in the Seventh Federal Reserve District were idle as a result of labor disputes, constituting probably one-third of the national total, compared with the District states having about 20 per cent of all manufacturing employment in the nation. With large-scale strikes impending in the steel, electrical machinery, and building trades industries, among others, there is every indication that the number of workers idle from labor disputes may rise noticeably in the District after the first of the year, and almost certainly if the current wage controversy in the automobile industry is not settled before mid-January 1946.

While it is fairly evident that whatever wage increases are agreed upon in the automobile, petroleum, and steel industries will quickly become a pattern for similar adjustments in many other industries, it is not to be expected that such adjustments will be made without further labor disputes and work stoppages. For this reason, there is widespread belief that the first half of 1946 will be marked by continued labor-management controversies in the Seventh District, with a sharp wave of actual and threatened strikes following any appreciable settlements reached in the automobile, steel, or temporarily suspended petroleum disputes.

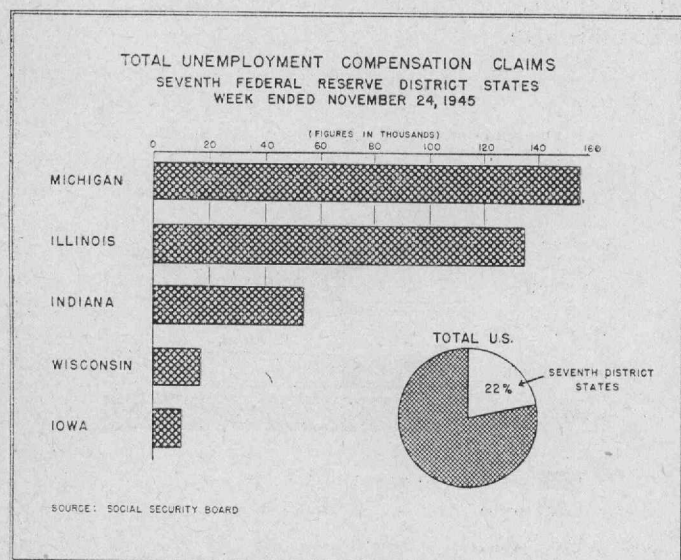
**Employment and Unemployment**—As indicated, employment in the Seventh Federal Reserve District has already begun an upward movement after the sharp break, particularly in the aircraft and ordnance industries, which followed the end of the war with Japan.



Manufacturing employment in the Seventh Federal Reserve District states in October 1945 was about two per cent above the post V-J low of 2,400,000 in September, but 14 per cent below the mid-August level, and 34 per cent under the wartime peak in November 1943.

The number of unemployed persons in the District states, measured by their active status on unemployment compensation rolls during the week ended November 24, was 372,000. These were distributed among the states as follows: Illinois, 135,000; Indiana, 54,000; Iowa, 10,000; Michigan, 156,000; and Wisconsin, 17,000. An analysis of the unemployed shows that well over half are women, most of whom are displaced war workers who have not been able to find employment comparable to their wartime jobs and wages. Largely in contrast, there is currently throughout the District a distinct shortage of male workers, particularly with skills suitable to the mass production of civilian durable goods items. Labor shortages are especially acute in the textile, iron and steel products, construction, and service industries. In many instances, male seniority lists are reported to have been exhausted for production line work, and women are being re-employed.

Discharged veterans are currently returning to the Seventh District states at a rate estimated at about 200,000 men and women per month. The total number of discharges since V-J Day is expected to reach 1,600,000 by the end of June 1946 according to announced military and naval demobilization schedules. Returning veterans are generally expected to contribute substantially to the number of unemployed workers in this District during the coming months and particularly until spring. To find enough suitable employment opportunities for these veterans still remains a real problem in the Seventh Federal Reserve District. Further evidence is appearing, moreover, that job-income security is becoming an increasingly important factor in the acceptance of job openings by unemployed persons, particularly non-veterans who fear the competitive effects of increasingly large numbers of discharged veterans in the labor market.



The future course of employment, particularly in manufacturing industries, in the Seventh District as elsewhere, is certain to be influenced substantially by labor disputes. Hence, there can be no defensible basis for anticipating District employment trends during the first quarter of 1946 when steady gains in the number of employed might otherwise be expected.

#### MANUFACTURING OUTPUT LAGS

**Industrial Production**—The ordinary lag between the flow of goods on the market and employment is being observed as Seventh District manufacturers continue the task of reconverting and expanding their plants for peacetime goods. The estimated value of industrial production in the Seventh District states has fallen from an annual rate of about 34 billion dollars to roughly 27 billion at present where a distinct leveling tendency is evident, probably continuing at least until the end of the year when several retarding factors, including material and component part supply shortages, and tax considerations, may be somewhat less operative. Comparatively little production for specialized war purposes continues in the Seventh District in contrast with conditions in a few other districts where some diminishing war work, particularly in shipbuilding, depresses total production. It might be expected, therefore, that barring prolonged labor disputes an upturn in District industrial output will be achieved somewhat ahead of the nation as a whole because of the District's earlier resurgence of civilian goods and little offsetting decline remaining in war goods.

Reports have been heard in some of the District's industrial centers that, despite controversies and work stoppages, relatively little production loss has actually been sustained thus far because of the many time-consuming problems in production and distribution which have had to be resolved before large-scale output of many civilian goods could be achieved. There appears to be considerable support for these views as far as the physical aspects of reconversion are concerned, but nevertheless it cannot be denied that uncertainties as to future costs, prices, and profit margins have delayed the placing of many orders and contracts as well as acceptance of the same. Moreover, work stoppages in certain areas have shortly thereafter caused shutdowns in others because of interruption in the flow of component parts essential to final production.

**Housing**—Except for the present prices-wages-profits problem, there is probably now no other problem more acute in the Seventh Federal Reserve District than urban housing, and to many communities and individuals this is currently the principal matter of concern. The District and the nation, as a result of the war, in effect, have experienced a larger-than-normal increase in the number of families, witnessed a huge rural-to-urban population movement, and had an upgrading of housing demand. Moreover, lack of extensive residential building during most of the prewar decade is now being felt to an increasing extent. As a result, a serious housing crisis has now occurred which seems certain to intensify for at least a



year before new and adapted housing construction can be expected to begin to ease the situation.

## AREA RECONVERSION TASKS

Although all Seventh District industrial areas are affected by each of the foregoing problems, the pace of reconversion and the degree of seriousness of these problems, of course, differ among individual areas. Chicago's economic activity reflects most of the major aspects of industrial reconversion, but the size of the area and the wide diversity of its industries currently tend to diminish the relative importance of any single problem arising from the transition to peace. Labor strife in the automobile industry, of course, dominates Detroit, center of national automotive production. The General Motors-UAW controversy has affected Indianapolis to a lesser degree, and manufacturing employment is now rising slightly after a sharp post V-J decline. Milwaukee has passed through the initial reconversion period without serious difficulty, but while the immediate industrial transition problems are not critical compared with some other District areas, an urgent need is apparent for long-range industrial planning to minimize as much as possible the area's primary dependence upon the cyclical pattern of heavy goods manufacturers. Des Moines industrial reconversion problems are complicated by the fact that much of its specialized wartime production now appears to have limited reconversion prospects.

The Chicago industrial area provides a cross-section of the nation's reconversion problems, such as complicated technical readjustments, limited employment opportunities for women, who constitute an abnormally large proportion of the unemployed, a heavy wave of returning veterans, material and component parts shortages, innumerable price-wage-profit controversies, and some strikes. Labor disputes, however, have not been a serious handicap to production to date. The steel strike planned for January may provide more severe difficulties than have existed before in the Chicago area, both directly because of strike lay-offs among the steel workers and indirectly because steel is a necessary component of numerous manufactured items of other industries locally and throughout the District and the nation. The Chicago labor market area is currently classified by the United States Employment Service as having a "loose" labor supply. The adjoining Gary-Hammond-South Chicago area, however, is reported to have a "balanced" labor supply with the dominant steel industry still needing skilled manpower. An extremely critical problem in the Chicago area is the growing housing shortage.

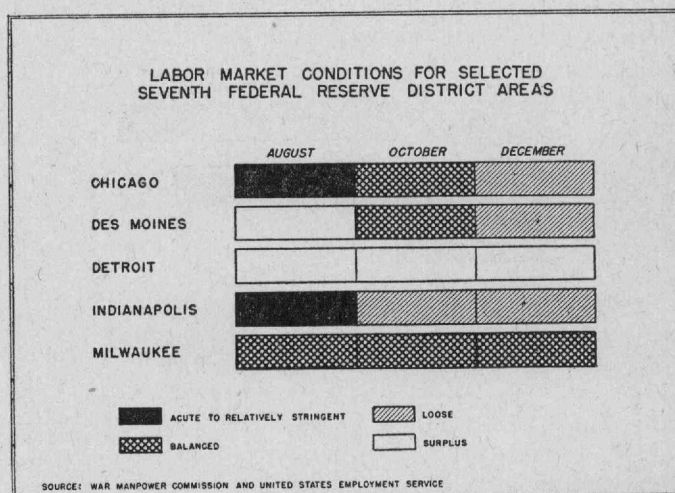
Current work stoppages resulting both directly and indirectly from strikes have sharply accentuated Detroit's serious unemployment problem created earlier by heavy

war contract cancellations in the face of a war-swollen labor force. While physical reconversion has progressed well, as reflected by completed automobiles coming from the assembly line, mass production is still several months away. Labor strife rather than retooling has become the primary hindrance to production, but output schedules have also been adversely affected by certain material shortages. Retail sales in the Detroit area are currently averaging about their level of a year ago, or relatively lower than in other major industrial areas of the Seventh District. This situation reflects both earlier and heavier war contract cutbacks and the greater-than-average incidence of labor disputes.

## MILWAUKEE REPORTS PROGRESS

Virtual completion of physical reconversion, general anticipation of a high level of business activity and employment as soon as the prices-wages-profits controversies are settled, moderate transitional unemployment at present but anticipated greater idleness during the winter as veterans return, few labor disputes and work stoppages to date, and increasingly acute housing stringencies summarize current reconversion conditions in the Milwaukee industrial area. Male workers are not now available in adequate numbers, but returning war veterans should soon alleviate this situation in many industries. Manpower shortages in less desirable and relatively low paying employment, e.g., foundries, nevertheless may persist.

Transition from war to peace in Des Moines in many respects differs from conditions in other more industrialized centers of the Seventh District. Specialized ordnance production was Des Moines's principal war manufacturing task, with the result that wartime production has been curtailed and thus far not extensively converted to peacetime goods. The local labor supply is described by the United States Employment Service as in Group III, or "loose." A "critical" housing shortage also confronts this area.





# Agriculture in the Legislative Hopper

## *Problems Stimulate Congressional Proposals*

The present session of Congress has before it many proposals dealing in one manner or another with agriculture. Most of these proposals are in the form of Senate or House bills that have been referred to committees for further study and action. Probably many of these bills will never come out of committee and will die there with the end of the session. This is common procedure in the handling of proposed legislation. But others have some prospect of becoming law.

The nature and scope of many of these legislative proposals are such that an examination of them throws considerable light on the trend of thinking in influential quarters and on the nature of current agricultural problems. Space does not permit a careful appraisal of the important issues involved in these proposals. The following sections present a general sketch of some of the most important measures.

### FERTILIZER POLICY AN ISSUE

Strengthening of soil fertility is proposed in two bills, one in the Senate and the other in the House, known generally as the National Fertilizer Policy bills. The aims of these bills are to formulate a national fertilizer policy and program, and as a first step to provide for more adequate phosphates and to survey the total reserves of potash in this country.

The bills also provide for the building at Government expense of one phosphate plant and one potash plant, and for the experimental operation of these plants for a period up to five years, after which they must be sold or leased to farmer cooperatives. The proposals contemplate three regional farm fertilizer cooperatives, one to serve the eastern seaboard, one the Mississippi valley and Gulf states, and one the western area of the country. In addition the legislation would foster a fertilizer education program under the guidance of state agricultural colleges.

Although there is little objection to the general objectives of developing farmer use of sufficient kinds and quantities of fertilizers to maintain, restore, and add to the productivity and fertility of the soil, serious opposition has been raised to the proposals by many of the nation's fertilizer manufacturers, who charge that the measure will provide ruinous Government competition within the industry. The industry maintains it is able to meet the needs of agriculture.

However, the American Farm Bureau Federation and other farm groups have come out in support of the proposals. The Farm Bureau in support of the legislation presented a research report indicating that in 1944 losses in fertility from the ten major crops were only partly replaced; only 12 per cent of the nitrogen, 48 per cent of the phosphorus, and 23 per cent of the potassium removed

were replaced that year. Last year was one in which abnormally large amounts of fertilizer were used, but even so these replacements were at only about one-half of the rates recommended in the report as desirable.

### ATTENTION FOCUSED ON ELECTRICITY

Improvement of living conditions on the farm is the object of several bills introduced in both houses. One bill proposes the establishment of a Rural Telephone Administration to provide local and nation-wide telephone service for rural areas presently lacking these facilities. An appropriation of 50 million dollars is asked for this program, plus the power for the agency to borrow an additional 50 million dollars from the Reconstruction Finance Corporation at low interest rates.

While this program is similar to that of the Rural Electrification Administration, it differs from the latter in that the bills providing rural telephone service would presumably offer assistance to *any* responsible group interested in extending rural service rather than to only farmer cooperatives as in the REA programs. One House bill is aimed at the same objective but would provide that half of the funds appropriated for the REA be diverted from electrical power extension and utilized to expand rural telephone systems.

Similar to the telephone proposals are the bills dealing with the Rural Electrification Administration. One House bill is aimed at reestablishing the REA as an independent agency of Government. The Lucas Bill, known as the REA Planning Act of 1945, has passed the Senate and has been referred to a House committee. This bill proposes a three-year extension program for rural electrification projects and provides for about 500 million dollars in loans from the RFC to finance the expansion.

It has been said of the bill that the three-year program contemplated would bring electrical power to virtually all of the nation's rural communities. If passed, the program would be the most ambitious ever undertaken by REA, and its proponents state that it would permit REA to go a long way in laying out well-integrated systems rather than proceeding with piece-meal developments made necessary by the present practice of year-to-year appropriations. Of the total appropriations, 5 million dollars is asked for planning of the expansion over a three-year period.

An important issue in discussions of the bill has been the question of restoring the independent status of the REA that it originally had under the 1936 Act. It has been argued that the development of the program would be sounder if the agency were not under the control of the Department of Agriculture or any other Governmental department headed by executives "appointed for



partisan political reasons." The bill as passed by the Senate makes the REA an independent agency and authorizes expenditures of 520 million dollars during the next three fiscal years.

#### SUBSIDIZED CONSUMPTION PROPOSED

One very interesting and significant development in Congress has to do with plans for handling agricultural surpluses if and when they again become burdensome. Most important of several pending proposals is the National Food Allotment bill, introduced by Senators LaFollette and Aiken. The rationale back of the bill is that, given low standards of nutrition among a significant proportion of the American population, the proper way to deal with agricultural surpluses is to facilitate the disposal of such surpluses by subsidizing food consumption of low income families, thus improving their nutrition.

Under the bill it is proposed to set up a "basic food allotment" of specific foods so compounded as to provide a "minimum adequate diet." Government funds would then be used to expand the consumption of the subsidized families up to this standard. Eligibility to participate would be determined on the basis of the income of the family.

In its present form the bill proposes what is known as a "40 per cent rule." By this it is meant that the family benefited would be expected to spend 40 per cent of its income for food.

For example, if a family of four had an income of \$20 a week they would be expected to spend \$8 per week on food. At current prices the "minimum adequate diet" would cost probably about \$3.50 per person, or \$14 per week for the family. Under the bill as proposed, the family would buy \$14 worth of coupons for \$8, thus acquiring free additional quantities of specified foods in the amount of \$6. It is proposed that up to one-third of the value of such coupons may be restricted for use only on specific commodities which may be from time to time and in certain areas declared to be in surplus, or desirable from a nutritional point of view.

Estimates of the cost of this subsidy to food consumption vary over a wide range from 400 million dollars to 2½ billion dollars annually, depending on the level of business activity and the amounts of employment and income. Proponents state that about 22 million persons would be eligible to participate in the plan during the reconversion period, and that it would result in permanent increases of 30 to 50 per cent in the consumption of important "protective" and "resistance" foods, such as dairy products and tomatoes, for those families receiving the subsidy.

Preliminary estimates by Department of Agriculture economists on the effects of the bill are said to indicate that the program would maintain the farm prices of meat animals, dairy products, poultry and eggs, and most fruits and vegetables above the support level of 90 per cent of parity during the reconversion period even in the face of substantial unemployment and falling national income. It is further argued by the proponents of the measure that

by restricting the use of up to one-third of the value of food coupons to the consumption of only certain designated foods, the task of supporting prices would be further reduced.

There are two important difficulties which such a program would face. With several million families participating in a program involving multiple transactions in many foods, there would undoubtedly be a burdensome administrative job of policing the program to assure that the subsidies granted to the participating families are used for commodities intended, rather than for increasing consumption along other lines that might appear more attractive to the benefited families.

The second difficulty is more general in nature and relates to the inevitable conflict that would arise from the pursuit of two different objectives, the raising of nutritional standards on the one hand, and the disposal of surplus commodities on the other. If the nutritional objectives were made the sole criterion of the program, its long range effect would probably be a salutary one in redirecting agricultural production. However, it seems probable that under the operations of the program considerable pressure would be successfully brought to bear to include surplus commodities having a low priority in terms of nutritional standards.

#### CONTINUATION OF SCHOOL LUNCH PROGRAM

Similar to the proposals for subsidizing low income consumption are House and Senate bills providing for a school lunch program. This would be a continuation of programs previously in operation to utilize agricultural commodities in raising nutritional levels by subsidizing lunches for school children. The Senate bill provides for 100 million dollars per year to be matched by state funds. The House bill provides 50 million dollars. The general scheme of this legislation is to apportion three-fourths of the appropriation among the several states on the basis of the number of school children in each state and the need for assistance in each state as measured by the relationship of per capita income in the state to the national average.

The Senate bill provides that beginning in 1946 the states would be compelled to contribute state funds to the program, rising to a point after 1951 when the states would contribute \$3 for each \$1 of Federal funds. The House bill contains similar provisions but steps the requirement of state funds up more rapidly, to the point where \$4 for each \$1 of Federal funds would be required after 1950.

Both bills provide that in the case of "poor states" the state contribution shall be reduced by the same percentage by which the state's per capita income is below the national average. Under these bills the school lunch program is linked to the surplus farm commodity problem by requiring that as far as possible each school is to use in its lunch program the commodities designated from time to time by the Secretary of Agriculture as being surplus or in abundance.



## REORGANIZED FARM CREDIT FACILITIES PROPOSED

Several bills are in various stages in the House and Senate dealing with farm debt and agricultural credit. One bill in the Senate, now in committee, would amend the National Housing Act by authorizing the insurance of farm mortgages up to \$16,000 or 80 per cent of the approved value, whichever is lower, providing the maturity of the mortgage does not exceed 20 years from the date of insurance of the mortgage.

Several bills have been introduced to amend in one form or another the Farm Tenant Act and to extend it beyond 1945.

Reorganization of agricultural credit facilities is proposed in the Agricultural Credit bill, more commonly referred to as the Flannagan bill, introduced into the House and at present in the hands of the House Committee on Agriculture. The purpose of this bill is to centralize all agricultural credit activities of the Federal Government in one agency. Under this bill the Farm Credit Administration and the Farm Security Administration would be abolished. Similarly, the offices of the Land Bank Commissioner, Production Credit Commissioners, Cooperative Bank Commissioner, and the Intermediate Credit Commissioner would be abolished.

The bill would provide for a new Agricultural Credit Agency to consolidate all Government activities in the field of agricultural credit. The Agency would be managed by an agricultural credit board responsible only to the President made up of seven members with 14-year rotating terms. It is provided that this is to be a bipartisan board by requiring that at least three members of the board shall be chosen from each of the two major parties leading in votes in the last general election.

One of the purposes of the bill is to eliminate overlapping and duplication in the granting of farm credit under the existing set-up. The placing of responsibility for the proposed agency in an independent board is to give the Agricultural Credit Agency a strong and independent status divorced from considerations of political party. It is further argued by proponents of the bill that the administration of all credit in the hands of one agency and under one supervision would permit the extension of the type of credit best fitted to each particular case and would make for a unified farm credit policy.

The measure has enjoyed the support of the American Farm Bureau Federation, the National Grange, and the National Council of Farmer Cooperatives. Opposition to the measure has developed from the Farmers Union on the grounds that it would result in the activities of the Farm Security Administration, among which agency's clients the Farmers Union has a large membership, being operated on "too conservative" a basis. Representatives of the present Farm Credit Administration have also spoken out against the proposed bill in objection to the full-time policy-making board on the grounds that a board with such a long tenure would tend to make the operations of the agency undemocratic.

One highly controversial provision of this bill is that providing for the setting up of a public appraisal system for farm real estate. Although appraisal by this agency presumably would not be compulsory, it would, it is expected, be regarded as a standard in determining loanable values. Some non-Governmental agencies extending farm credit have expressed apprehension that such a system would be used as an instrument of policy, or as a "policing" technique.

## FARM PRICE LEGISLATION SUGGESTED

Several measures covering a wide range of possibilities have been introduced with the aim of affecting farm prices in the postwar years. Such proposals include schemes to use import duties to subsidize agricultural exports. One measure recently introduced would "forgive" or refund import duties to importers providing they would buy and export agricultural surplus commodities in an amount equivalent to the value of imports.

Another measure would raise from 30 per cent to 90 per cent the proportion of customs receipts to be used for the encouragement of export or domestic consumption of agricultural products. At least two bills are in the legislative mill requiring compulsory price supports on all agricultural products equal to the cost of production, including farm labor. One Senate bill recently introduced would require the extension of the price guarantees on farm products from the present minimum of two years under the Steagall Amendment to a required five years.

The Pace Bill in the House and the Thomas Bill in the Senate have progressed to the stage of hearings in the Senate Committee on Agriculture and Forestry. These bills vary a little in detail, but their general purpose is to raise the calculated parity prices for farm products by requiring the inclusion of farm labor costs, including family labor, in the computation of parity. The Thomas Bill would also shift the base period for computing parity prices from 1909-14, its present base, to the period 1919-29. The effect of these bills would be to raise the parity level about 30 per cent.

The highly controversial fight over oleomargarine taxation, which raged during the 1944 sessions in Congress, appears scheduled for another airing. Companion bills in the House and Senate would repeal or remove the special taxes on the manufacture and sale of oleomargarine.

The above legislation represents only a few of the several dozen bills dealing directly with agriculture pending in one status or another before the present Congress. The diversity and scope of many of these bills serve to illustrate well the complexity of the current problems of agriculture and to point up the disparity of views on these problems in the minds of members of Congress and of those interests in the country able to obtain Congressional recognition of these views.



## 1946 AGRICULTURAL PROSPECTS

*(Continued from Inside Front Cover)*

10 per cent, lower than the 1945 level. Prices of feed crops may be expected to decline to lower levels as the harvest season approaches if the 1946 crops are as large as in 1945. Prices for oil crops are expected to decline if imports from foreign sources materialize into significant quantities. It is expected that strong demand conditions will sustain the prices for livestock and livestock products, but that prices of eggs and some of the milk products may decline materially, especially during the season of flush production. Greater declines are looked for in the prices of fruits and vegetables, truck crops, and eggs than in other farm product prices.

Government commitments to support "basic" and other farm commodities would not prevent some declines, and at best would serve to check those prices which might happen to fall to support levels. Prices of many products are above the support levels, and some declines in these commodities are possible before support measures are obligatory.

Government agricultural officials put all these indications together to get an estimated gross cash farm income in 1946 about 10 per cent below the receipts from marketings in 1945. Operating and production expenses are not expected to decline as much as gross income, and may not even decline significantly. This, therefore, leaves for 1946 a probable decline of about 15 per cent in the nearly \$13 billion net cash farm income reached for 1945. This would be something more than double the level of pre-war years. As to production expenses, hired labor costs may decline below the 1945 record high costs, and seed, feed, and food prices may be lower. But the prices of transportation and power equipment, farm machinery, and building materials will probably be higher in 1946, and charges for maintenance and depreciation may similarly rise. Interest and taxes will probably show little change.

### PRODUCTION GOALS CALL FOR HIGH OUTPUT

The 1946 agricultural production goals as announced by the U. S. Department of Agriculture call for continued high output of those commodities for which it appears that demand is to continue heavy and for readjustments to peacetime levels for other commodities. Goals for cultivated crops, hay, and seed crops are set at 356 million acres for 1946 compared with slightly under 351 million acres planted in 1945. Largest single crop increase requested is for sugar beets, with a step-up of 31 per cent shown in the goal. A three per cent increase over last year is asked in the planted acreages of corn and grain sorghums, and a nine per cent expansion in barley acreage is indicated. The goal for oats acreage is the same as in 1945. Feed crops have given way to food crops during the war years. As a result the carryover stocks of feed grains are below normal, and the expanded acreage is sought to restore the feed situation to its normal relationships.

A reduction of 10 per cent in the acreage planted to soybeans is recommended. Two reasons for the readjustment are apparent. The first is the need to move toward a better balance between cultivated crops, small grains, grasses, and legumes. The second is that the prospects are for some restoration of foreign sources of oil-bearing crops by 1947 when the 1946 soybean crop will, in the main, be processed.

A slight increase of one per cent is asked for dry beans, but a reduction of 10 per cent in the 1946 dry pea acreage planting is recommended. Acreages planted to potatoes would be reduced five per cent if the goals are to be met. Little change is asked in the acreages put into truck crops for the fresh market, but a reduction of about four per cent is suggested for truck crops grown for processing. Tame hay acreages would be about the same as in 1945, according to the goals, but plantings of hay seeds and cover-crop seeds would be expanded about 15 per cent if the recommended acreages are planted.

The recommended goal for milk production is set at 120.5 billion pounds, the same as the 1945 goal, but slightly less than the 1945 production of 123 billion pounds which exceeded the goal because of the favorable pasture conditions and the high rates of feed input, giving a record milk production per animal.

A decline of 15 per cent in egg production is suggested for 1946. The ending of lend-lease shipments and the decline in military requirements are not expected to be offset by demands from other sources. Similarly, a reduction of 17 per cent in the number of chickens raised is recommended, along with a 10 per cent decline in the number of turkeys raised. An easing of the meat supply situation in 1946 and the decline in military requirements for poultry indicate the readjustments recommended.

Hog production goals were not set for the entire year of 1946. Recommendations were made as to spring operations, but the goals for fall operations are to be set this coming spring. An increase of two per cent in the number of sows to farrow in the spring is indicated by the goals, and an increase of one per cent in the spring pig crop is suggested, a total of 52,000,000 pigs saved, compared with the total of 51,687,000 reported as the 1945 spring pig crop.

A mild liquidation of cattle inventories is implied in the Department's goals for cattle and calves. A reduction of three per cent in the number of beef cattle on farms by the end of 1946 is recommended. The goals carry no recommendations as to inventories of milk cows on farms, but the suggested goals on "cattle and calves" show a decline of only two per cent. This would seem to imply that no changes are recommended for the inventories of cattle other than beef animals.

In planning the 1946 production goals, attention and recognition were given to the necessity in peacetime of providing a better balance between soil-depleting and soil-conserving crops than could be achieved during the wartime farm production emergency.



# NATIONAL SUMMARY OF BUSINESS CONDITIONS

BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM

Industrial output declined somewhat further in October but in the early part of November production in important basic industries increased. Value of retail sales continued to advance considerably in October and early November reflecting in part small increases in prices.

**Industrial Production**—Output at factories and mines continued to decline in October reflecting a further curtailment in munitions activity and reduced production as a result of industrial disputes in some industries. The Board's seasonally adjusted index decreased 4 per cent in October and at 164 per cent of the 1935-39 average the index was at the same level as in the middle of 1941. In the first half of November output in such basic industries as coal, coke, petroleum, iron and steel, and automobiles was above the October level.

Activity in the machinery and transportation equipment industries showed only small declines in October in contrast to the sharp reductions in recent months when most of the war production in these lines had been terminated. Activity at automobile factories rose substantially in October and there were also important increases in output of civilian products in other reconverted factories.

Steel production was reduced in October as a result of a temporary curtailment in coal supplies but since the end of October steel mill operations have increased considerably. Wage-rate disputes in the West Coast lumber region resulted in a reduction of 18 per cent in total lumber output in October.

Output of nondurable goods as a group was maintained in October. Further reductions in output of explosives and aviation gasoline and other products used for war purposes were offset by increases in output of many peacetime products.

Output of coal and crude petroleum decreased sharply in the early part of October as a result of industrial disputes. Since the last week of October production of these minerals has increased considerably; in the early part of November bituminous coal production was at the highest rate since the spring of 1944.

**Employment**—Employment in munitions industries and in Federal war agencies declined further in October, while in most establishments engaged in civilian activities employment increased. Employment at automobile factories gained about 10 per cent in October, and there were important increases in some other manufacturing lines, in construction, and in the trade and service industries. Employment at coal mines dropped temporarily as a result of work stoppages.

**Distribution**—Distribution of commodities to consumers continued to increase in October and the first half of November. Sales at retail stores selling both durable and nondurable goods were about 15 per cent higher than a year ago. At department stores sales advanced 8 per cent from September to October, according to the Board's seasonally adjusted index, and, on the basis of the rate of sales during the first half of November a new peak is indicated this month.

Railroad shipments of revenue freight have increased since the early part of October, although they usually decline during this season, and in the middle of November they were almost as large as in the same period a year ago. The increased number of carloadings has reflected a sharp rise in coal shipments since the miners have gone back to work as well as a steady expansion in shipments of merchandise for civilian use.

**Commodity Prices**—Wholesale prices of farm products and foods continued to advance from the middle of October to the middle of November and reached the previous peak levels prevailing in June. Prices of cotton, grains, and various other products were above the June levels, while prices of fresh fruits and vegetables were below the earlier seasonal peaks. Butter prices rose to the new maximum level after the subsidy was discontinued in October; the subsidy on flour was increased for the month of November.

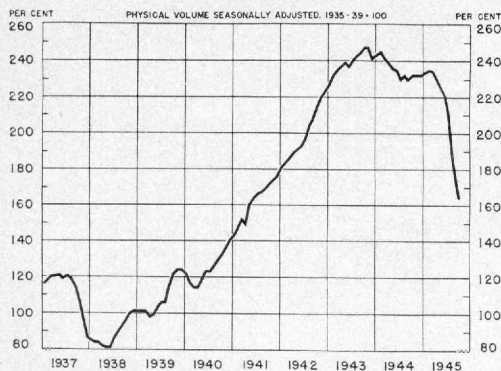
Maximum prices for cotton goods, building materials, and various other industrial products were raised somewhat further, while in certain other cases, like nylon hosiery, reductions in maximum prices were announced. The prices announced for new passenger cars were close to 1942 levels, which were substantially above 1939 prices.

**Bank Credit**—Since the end of hostilities the rate of monetary expansion has slackened, reflecting reduced Government expenditures. Government war loan accounts at member banks in leading cities were reduced 5.1 billion dollars between August 15 and November 14, compared with a decline of 7.8 billion in the same period last year. Adjusted demand deposits at these banks increased 2.1 billion in the three months, compared with 4.5 billion last year. The growth in time deposits was only slightly less than in the same period a year ago. Currency in circulation has also grown at a much slower rate; during the past three months the increase was less than half that of the same period last year.

With reduced expansion in member bank required reserves and in currency, Reserve Bank credit has increased more slowly than in previous interdrive periods. A part of the increase has been in advances to member banks. Member bank excess reserves have increased somewhat and at 1.2 billion dollars are larger than usual at this stage of war loan drives.

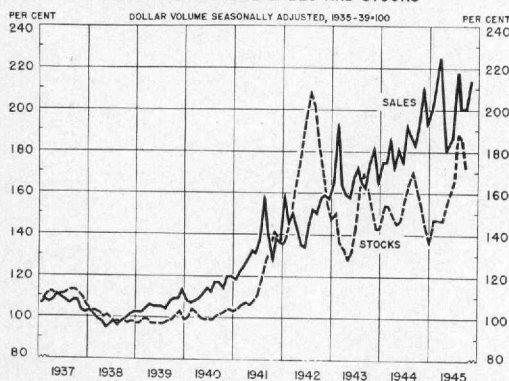
Commercial loans at reporting banks, both those in New York City and outside, have increased somewhat more than the usual seasonal amount. Since the beginning of September these loans have grown 650 million dollars compared with 340 million during the same period of 1944. Loans for purchasing and carrying United States Government securities, though contracting as usual in periods between war loan drives, continued well above previous interdrive levels. By mid-November such loans both to brokers and dealers and to other customers were already starting to expand in connection with the current drive.

## INDUSTRIAL PRODUCTION



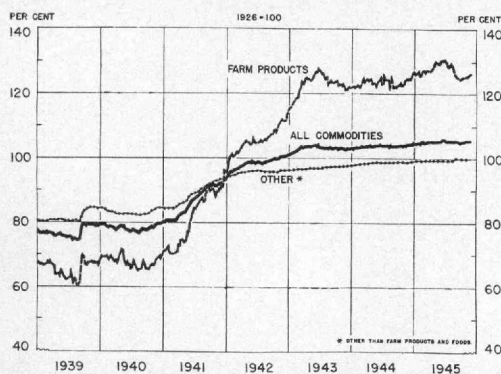
Federal Reserve index. Monthly figures; preliminary for September and October 1945.

## DEPARTMENT STORE SALES AND STOCKS



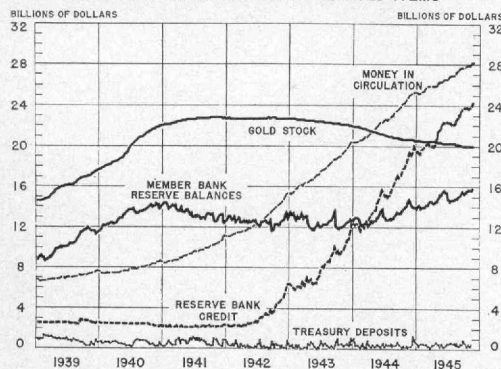
Federal Reserve indexes. Monthly figures; latest sales figures shown are for October 1945, latest stock figures shown are for September 1945.

## WHOLESALE PRICES



Bureau of Labor Statistics' indexes. Weekly figures; latest shown are for week ending November 17, 1945.

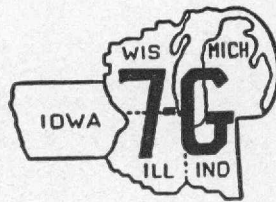
## MEMBER BANK RESERVES AND RELATED ITEMS



Wednesday figures, latest shown are for November 14, 1945.



**SEVENTH FEDERAL**



**RESERVE DISTRICT**

