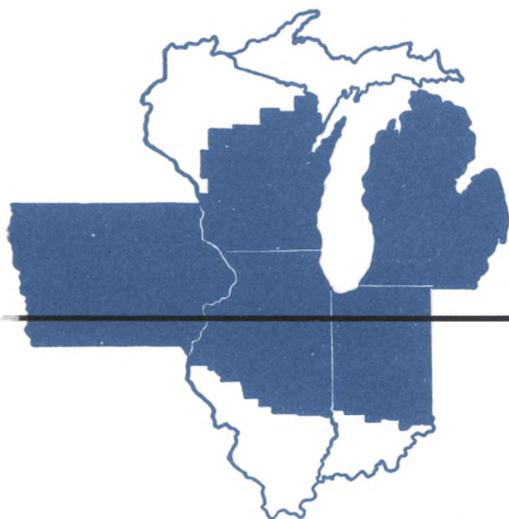


A review by the **Federal Reserve Bank of Chicago**

# Business Conditions

1956 August



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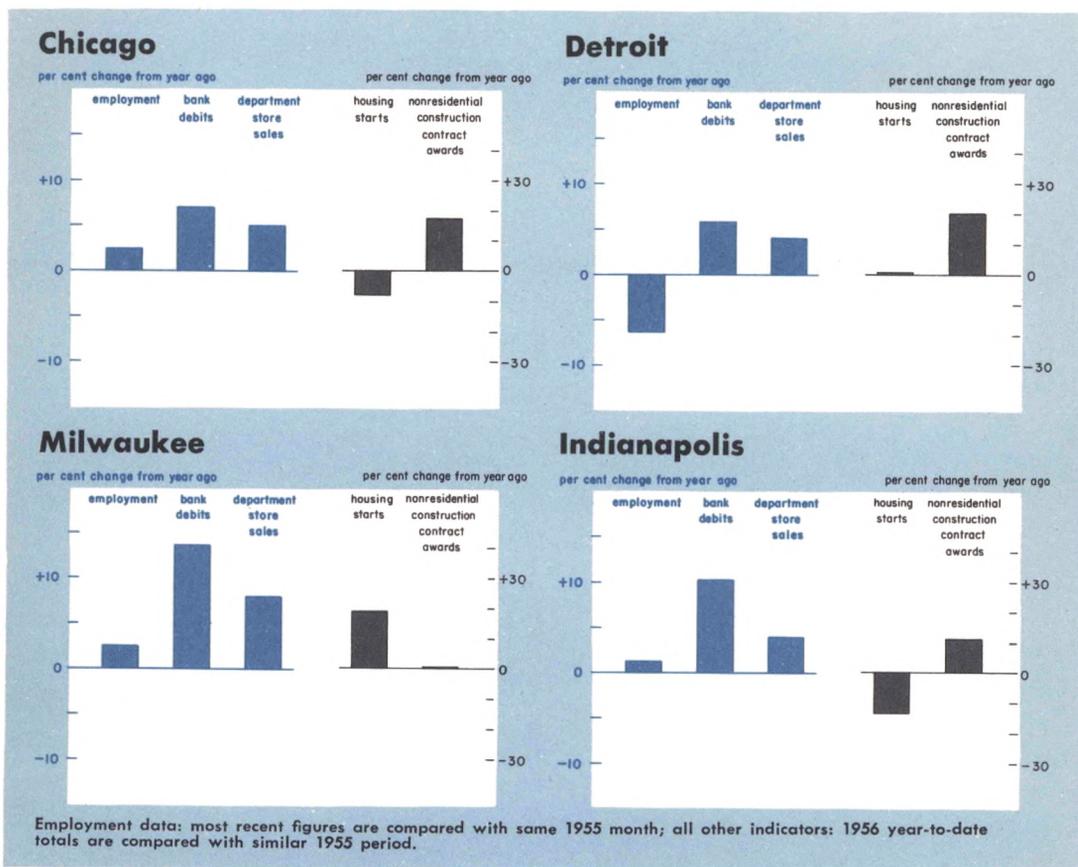
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# THE Trend OF BUSINESS

The nation's output of goods and services, measured in dollar terms, has continued to move upward over the past half year. Gross national product during the April-June period is estimated at 409 billion dollars, annual rate, 6.5 billion above the end-of-1955 figure. This represents a boost of 51 billion dollars, or 14 per cent, from the early 1954 low.

A sizable portion of the 1956 gains, however, reflects the rise in prices that has taken place. The wholesale price index in the second quarter, for example, averaged about 2 per cent above the level of the final 1955 quarter.

The physical volume of goods produced in the nation's mines and factories, as measured by the Federal Reserve index of industrial pro-



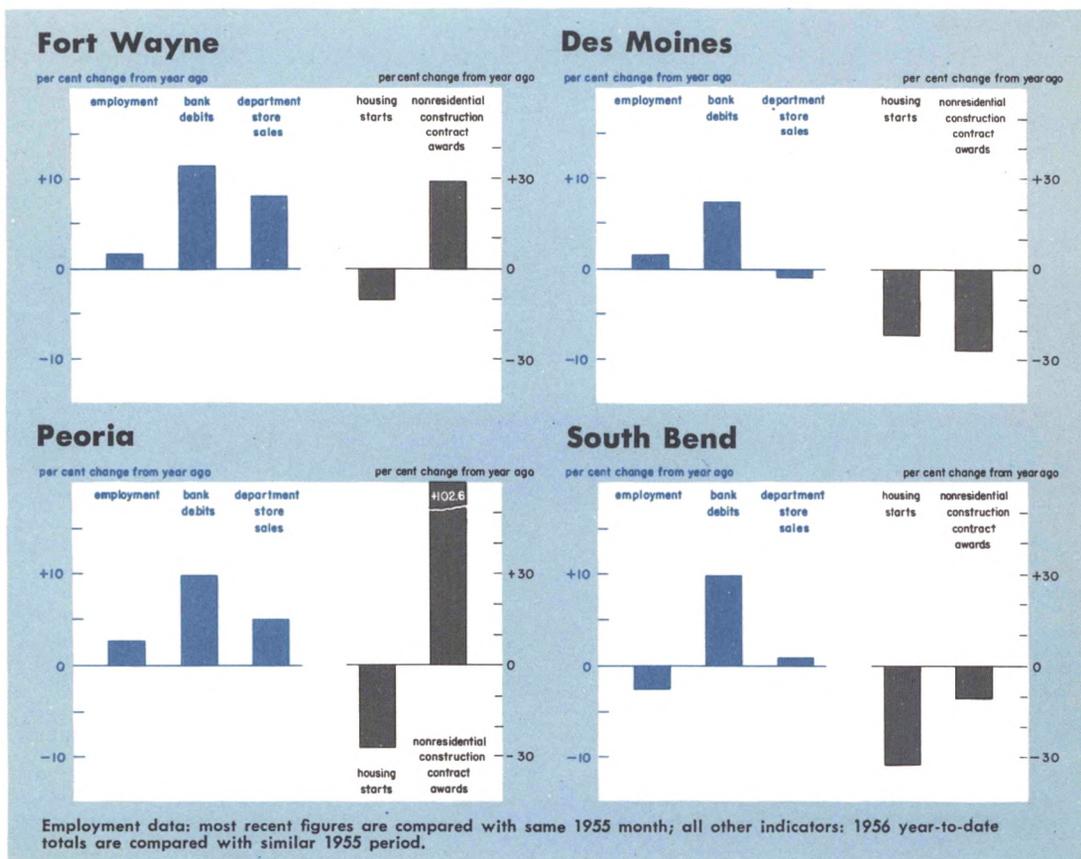
duction, has been relatively stable through the first half of 1956, staying within the narrow 141-143 range. The figure for June dropped to 141, compared with 142 and 143 in the previous two months. The major factor behind this slide-off was the decline in steel production as furnaces were banked in anticipation of the strike. The July index should reflect more fully the effects of the steel work stoppage — the impact early in the month reducing the rate of total industrial production about 4 per cent.

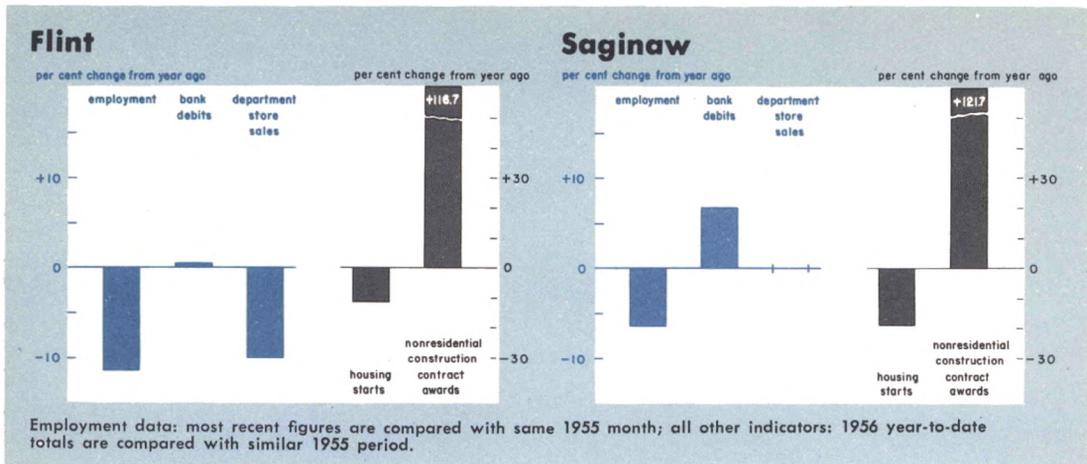
Employment in June rose 1.3 million, to a record level of 66.5 million persons. More than half of this gain came in agricultural workers. However, the number of nonfarm employees increased slightly more than usual during June, to a level on a seasonally adjusted basis about

500,000 above the year-end figure. Construction workers account for 40 per cent of this gain. On the other hand, after allowance for seasonal influences, manufacturing employees have declined in number over the past few months and in June were 150,000 below the December level.

The virtual stability in over-all business, of course, has been the product of divergent movements within various sectors of the economy. As the accompanying charts indicate, these movements have created substantially different patterns of economic activity among major Midwest cities.

In each of the three measures of business conditions charted — employment, bank debits and department store sales — Milwaukee, pre-





dominantly a heavy goods center, either leads or follows closely on the heels of the city recording the biggest gain over the comparable 1955 period. Similarly, Peoria and Fort Wayne also rank high in each of the three measures.

The major auto centers, in contrast, generally fall at the other end of the scale. Flint, for example, with over 40 per cent of its labor force working in the automotive field at the end of 1955 shows the largest drop in employment and department store sales and is the only city recording less than a 6 per cent gain in check clearings. Detroit ranks near the bottom, as

measured by changes in the employment and debits figures, although department store sales have held up quite well. Saginaw, a big auto parts manufacturing area, has fared very poorly relative to most other Midwest centers.

In almost all of the Seventh District cities, however, the national pattern in construction activity has prevailed. With few exceptions, the number of new homes begun during the first part of 1956 was well below the same period last year. Contract awards for nonresidential construction, on the other hand, exceeded the 1955 performance by a substantial margin.

## Attack on farm surpluses renewed

Farm surpluses have continued to snowball during the last several years despite the effects of a variety of programs designed to halt the expansion and bring farm output into line with consumption. Earlier attempts to close the gap took the form of a three-pronged offensive.

Lower support prices to restrain production and stimulate consumption have tended to bring

about those results, but the tendency has not been strong enough to stem accumulation of stocks. The nature of supply and demand for food products is such that a larger drop in prices would be required to elicit an adequate adjustment in production and consumption.

Vigorous domestic and export disposal programs have been set in motion to attack one

flank of the surplus problem. In spite of some success along this line, surpluses still have poured into the CCC faster than they could be mopped up through disposal operations.

The other flank of the problem has been assaulted through the use of *production control measures* like acreage allotments and marketing quotas. These failed to attain their objective for two reasons: output per acre has been boosted by technological developments, and allotments, for the most part, merely shifted land from one crop to another — the land was not taken out of production.

### **Reinforcement**

The *soil bank* reinforces, rather than replaces, other programs on the farm front. It is designed to do a more effective job of production control. Specifically, it is intended to reduce current output to a level which will permit existing surpluses to be channeled back into their "usual" markets without depressing farm income. The technique employed is to pay farmers an annual "rental" for withholding land from the production of harvested crops. This rental is to provide a "normal" income for cropland that is left idle or diverted to "conservation" uses. Annual outlays of 1.2 billion dollars were recently authorized by Congress for this program.

The soil bank funds are in addition to other outlays for agricultural aid. For example, the CCC recently requested that Congress increase its borrowing authority from 12 to 14.5 billion dollars in order to continue its price support and surplus disposal activities. During the last year, total CCC stocks increased about 1.3 billion dollars even though 2.6 billion of surplus commodities were moved out of inventory through disposal operations. The higher levels of support announced for some 1956 crops will tend to increase CCC's future obligations.

The prime objective of the soil bank is to reduce the production of supported commodities. If it succeeds, "rentals" would substitute for at least part of the expenditures under current programs.

As adopted by Congress and now being put in operation by the U. S. Department of Agri-

culture, the soil bank consists of two parts: (1) *acreage reserve* and (2) *conservation reserve*. Most 1956 crops were planted and growing when the Soil Bank Act was signed by the President on May 28. Furthermore, as with any new program, considerable time is required to develop the necessary administrative decisions and operating procedures. However, the program is available to those farmers who can and wish to comply with its provisions this year. Meanwhile, officials have urged farmers to contact their County Agricultural Stabilization and Conservation Committees before taking actions intended to qualify for soil bank payments.

Major emphasis in 1956 is on the *acreage reserve* feature. Annual outlays of 750 million dollars are authorized for this part of the soil bank. The *conservation reserve* with its longer-term commitments and goals will develop more slowly, although it may in time come to be the more important feature.

### **Acreage reserve**

The *acreage reserve* program authorizes payments to farmers who grow less than their allotted or base acreages of corn, wheat, cotton, rice, tobacco or peanuts. Payment rates are announced as specific prices per bushel, pound, etc., for the normal yield of the acres placed in the reserve. The U. S. average rates for corn and wheat, the only allotment crops widely grown in the Midwest, are 90 cents and \$1.20 a bushel, respectively. Since participation in the program is optional, "rental" payments must be set at levels which provide an attractive alternative to the growing and marketing of crops if it is to be effective.

To qualify for "rental" payments, farmers must enter into contracts specifying the tracts of land put into the reserve. The contracts may be for one or more years. Annual contracts, of course, permit farmers to put different tracts of land into the reserve each year and thereby "rotate" the idled area around the farm. No crop is to be harvested from the reserve acres, and in general the land may not be grazed.

This year, due to the late date at which the program became available, compliance may be

either "intentional" or "accidental," but in 1957 and later years presumably there must be a clear intent to comply if payments are to be received. Since most of the land going into the acreage reserve this year will come from underplanted allotments and damaged crops, the program will not have a large effect on total output although a considerable amount of money may be paid out.

Corn Belt farmers growing the usual crops — corn, oats, soybeans, wheat, hay and pasture — have a number of alternatives available. A farmer will qualify for acreage reserve payments if he grows at least 10 per cent less than his base acreage of corn or his acre allotment of wheat and harvests no crop from a corresponding acreage of cropland. Reserve acres may include land planted in 1956 crops if the crop is plowed under or clipped to prevent maturing.

### A Corn Belt example

The application of the program may be illustrated by reference to a typical 220 acre north-

### Value of crops, 220 acre northern Illinois farm

Crop	Acres	Yield	Value of crops produced in 1955		
			Per unit	Per acre	Total
Corn .....	80	70 bu.	\$1.58	\$110.60	\$8,848
Soybeans .....	20	28 "	2.30	64.40	1,288
Oats .....	40	70 "	.65	45.50	1,820
Hay and pasture..	60	2½ T.	20.00	50.00	3,000
					<u>\$14,956</u>

ern Illinois farm complying with its corn acre allotment. The farm includes 200 acres of tillable cropland; the remainder is occupied by roads, buildings, fences, etc. The 1955 acres, production and value of crops are shown in the table above.

The same acreages were planted in 1956 prior to the date the soil bank was authorized. The corn acreages represent the allotment in effect at the time the crop was planted. (Possibly 40 per cent of Corn Belt farmers planted no more than their allotted acres of corn so as to qualify for the \$1.50 per bushel price support loan announced earlier in the year.)

—continued on page 14

## Bank credit for small business

The vast majority of U. S. businesses are "small" by almost any standard. The activities of these small local enterprises are familiar to everyone, and they are traditionally recognized as a vital component of the American way of life. Protecting the interests of these firms has been a matter of growing public concern throughout the last half century.

One of the vital nutrients of any business is

money with which to operate and expand. A small enterprise cannot usually tap the major credit sources, such as organized investment banking, used by the nation's industrial giants. Nonetheless, it typically has access to a wide variety of sources of capital and credit. Equity capital, initially from owner savings and later through retained earnings, meets a large part of the long-term financial needs of most small

businesses. This is frequently supplemented by credit from friends or relatives. Trade suppliers extend both long- and short-term credit to their small customers, commonly through open book accounts. Factoring and finance companies also lend extensively to some types of producing and distributing firms. Finally, commercial banks are a major direct source of short- and intermediate-term small business credit and also contribute indirectly through lending to commercial finance companies.

Some clues as to the dimension of direct bank financing of small business in the Midwest have recently become available. Data obtained through a survey of business loans of all District banks last fall, and through quarterly

reports of new business loans extended by the largest Midwest banks, provide at least partial answers to some pertinent questions. How many loans, and in what amounts, go to small enterprise as compared with large? Which banks are the principal suppliers of such credit? Has small business been able to hold its own in the credit market during the past year? This information is the more timely since it covers a period when the over-all availability of credit was taxed by booming business and a restraining monetary policy.

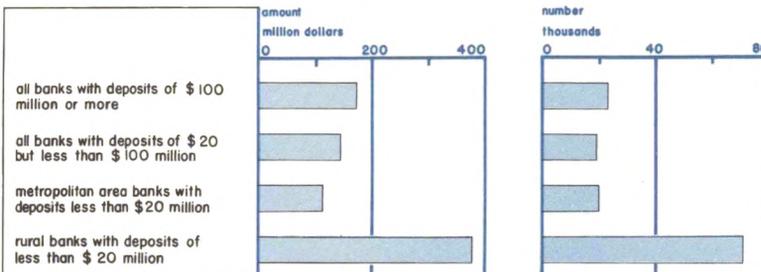
### Share for small business

As the discussion on the following page suggests, there are a variety of ways of defining "small business." From a credit standpoint, size of loan is a convenient basis for defining business size. Some pertinent characteristics of credit—notably interest rates—tend to vary with loan size. Loans in the \$25,000 range or less may reasonably be regarded as being to small business.

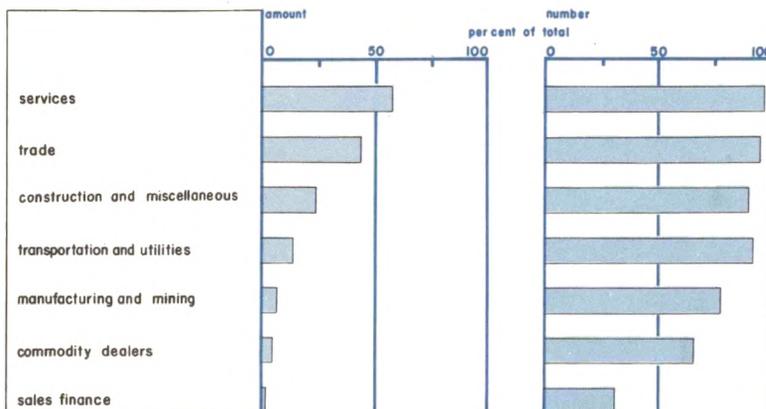
On the basis of this definition, the overwhelming number of District bank loans go to small borrowers. The proportion varies by industry and by kind of bank, but 90 per cent of all outstanding loans are to the smaller businesses (chart). In dollar amounts, of course, their share is much less because of the differences in loan size between large and small firms.

The proportion of loans going to the small

### Most of the Midwest bank credit for small businesses is extended by small rural banks . . .



### but the small business share of loans in all District banks varies by industry



## How small is small?

What is a "small" business? It all depends on your point of view. The connotation of the term varies among industries and according to the purpose for which business sizes are being compared.

For purposes of its own operations, the Small Business Administration has defined "small" business in different ways for different lines. Some examples: any manufacturing firm employing an average of 250 or fewer employees; retailers with annual sales of \$1 million or less; trucking firms with annual receipts of \$2 million or less — all are "small" businesses. The S.B.A. uses no uniform yardstick for all lines of activity.

Searching for a common measuring rod, the Federal Reserve staff, after consultation with the S.B.A., developed working definitions based on total assets. Manufacturing and mining concerns, commodity dealers, sales finance companies and utilities with assets of less than \$1 million were designated as "small," those with assets of \$1 - 5 million as "medium," and those with assets in excess of \$5 million as "large." The comparable dividing lines for other industries were set at \$50,000 and \$250,000.

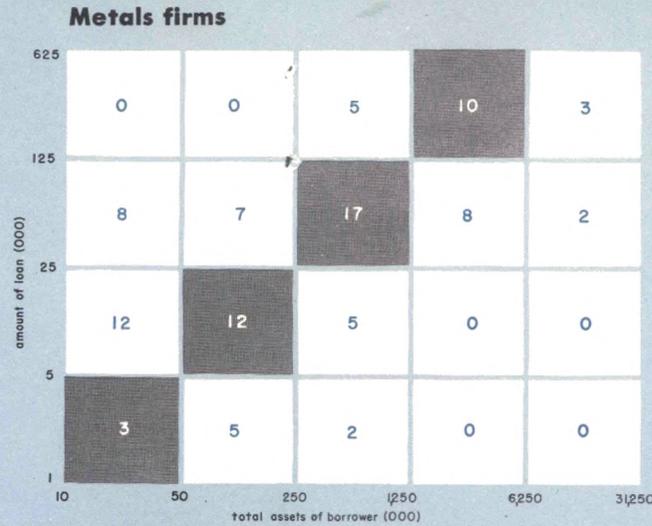
From a credit standpoint, by far the most practicable basis on which to classify business size is the amount of the individual loans granted to firms by their banks. It is recognized that businesses vary in the way they use bank credit, and a single loan may represent only part of a firm's total bank indebtedness. Nevertheless, it is unlikely that big businesses borrow in units as small as say \$25,000 or, conversely, that small businesses could borrow hundreds of thousands of dollars at a time.

As a rough rule of thumb, loans of \$38,500 or less (a figure which neatly divides the two conventional loan denominations of \$25,000 and \$50,000) have been regarded as loans to small business for purposes of this article. Because of the roughly proportional relationship between loan amount and asset size, this method gives much the same results as would be achieved from use of the asset-size yardstick outlined above.

The relationship of loan amount and asset size in four industries is charted at the right. The figure in each square denotes the percentage of total loans to the industry which are of the specified amount and to firms of the indicated size. The chart scales are arranged to show equal percentage increases in loans or assets from any one box to the next higher box.

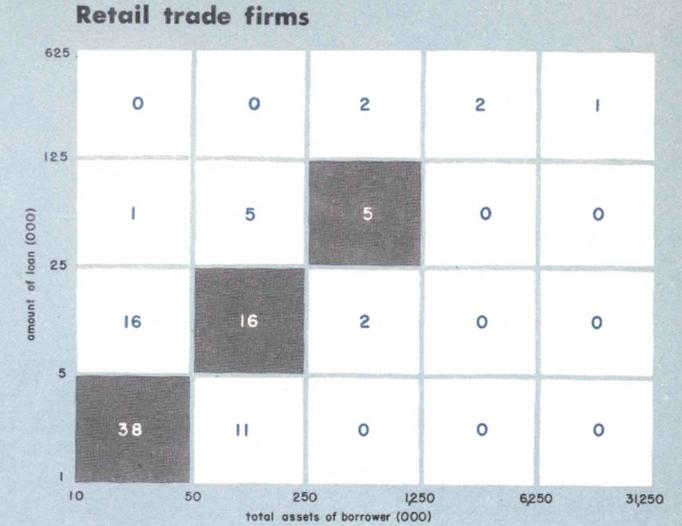
### Amount of loan is an effective indicator of business size

Percentage distribution of loans to:



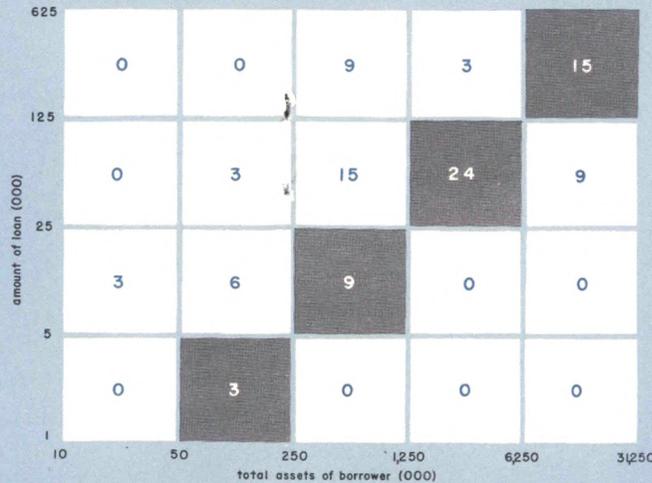
Metals firms and sales finance companies are typically large-scale enterprises; most of their loans exceed \$25,000

Percentage distribution of loans to:

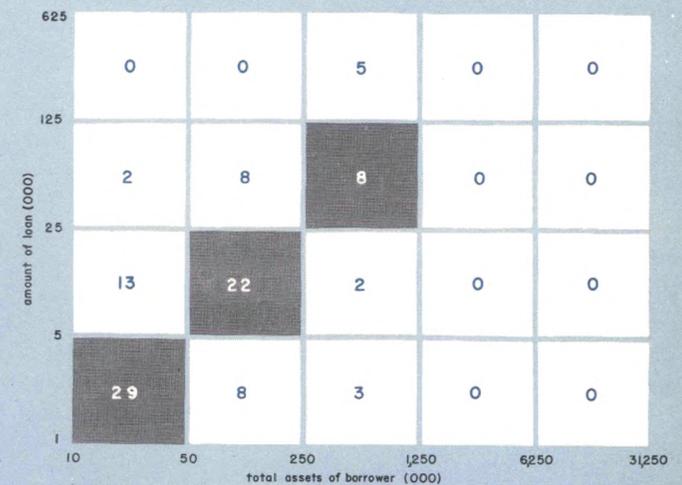


Retail trade and service firms, on the other hand, are typically locally oriented, small-scale firms; the bulk of their loans are \$25,000 or less

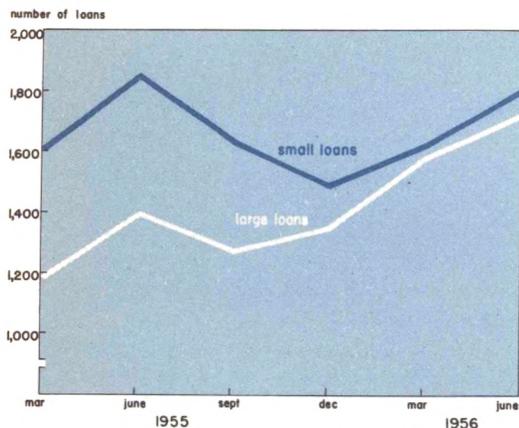
### Sales finance companies



### Service firms



## Small loans outnumber large credits at the big banks



firms varies by industry. For example, loans to sales finance companies average about a quarter million dollars, and small loans account for only 2 per cent of the industry total. Among service establishments, where loans average about \$7,500, the smaller firms get 58 per cent of the dollar volume and 97 per cent of the number of loans. Even in manufacturing and mining, where there are many big firms using a huge volume of bank credit, small loans outnumber large ones by more than three to one.

Small customers are accommodated in banks of all sizes. Even in the largest banks — those with deposits over \$100 million — more than three-fourths of the loans, totaling some 5½ per cent of their dollar volume, go to small borrowers. These large banks extend relatively more of their small loans to manufacturing lines — particularly metals firms — than do smaller lenders. In the small banks, retail trade and service firms are most important.

### Small banks and small business

Small banks obviously cannot service large customers completely. However, the many banks outside the metropolitan areas — themselves small businesses — provide nearly half of Midwestern bank credit for their commercial

and industrial counterparts. Small businesses typically borrow locally, perhaps by choice as well as by necessity. Small banks probably represent their most flexible source of credit. For the most part local bankers are thoroughly familiar with the borrowers and their circumstances and are willing and able to furnish advice about financing problems. Small firms are largely unknown outside their own communities, and borrowing from established local credit sources provides the path of least resistance in securing needed funds.

### Interpreting the trend

The past fifteen months have witnessed the greatest upsurge in business credit on record. As competing demands for funds have forced banks to be more selective in the use of increasingly limited resources, how has small business fared creditwise? The loan survey showed that of a total of about 150,000 loans outstanding on the books of District banks last fall, 133,000 loans aggregating 807 million dollars were to small customers. These are impressive totals, but they reveal nothing about the growth or decline of this sector of credit. The only evidence available on this question is derived from the quarterly reports of new loans extended by the largest District banks. From March 1955 to this spring there was little change in either the number or amount of new loans of \$30,000 or less made by these banks. But growth in borrowings by large firms — partly due to heavier 1956 tax borrowings — caused the smaller operators' share of new loans to drop from 57 per cent to 51 per cent of the number of all new loans. Taking a slightly shorter view, the smallest loans — those under \$10,000 — have actually shown a more than proportionate increase in about half the industry groups since last September.

Perhaps the most significant fact which emerges from a look at these big banks is that there has been no absolute curtailment in their small loans as the economy has shifted from the early postwar sellers' market to more competitive levels and, recently, to tight money.

If these large banks have continued to serv-

ice their small customers, it seems reasonable to conclude that small businesses have continued to be served also by the smaller banks where they are relatively much more important customers.

### About credit "needs"

It should be emphasized that no definitive conclusions can be drawn as to whether business, either large or small, has access to all the credit it *needs*. No yardstick for measuring credit needs has yet been developed. Furthermore, within the area of small business both credit needs and availability are intimately associated with the reasons why an individual firm is small. Is it small because it is poorly managed and therefore a poor competitor; because it is in a line where firms are characteristically of moderate size; or because it is newly established and, if so, does it have a doubtful or a promising growth potential?

An added factor complicating the credit-worthiness of numerous small firms is the need

for additional equity capital to increase their borrowing base as well as to provide long-term funds. If sufficient earnings for this purpose cannot be retained in these businesses, the sale of stock or partnership interest is the only alternative source of equity money. However, many small operators are reluctant to dilute their control in this way.

Obviously, credit needs, creditworthiness and the over-all willingness of a lender to accept an application for a loan all depend on the category into which the small enterprise fits. To a bank loan officer the size of a business is a far less important consideration than the basic soundness of its present and planned operations. Undoubtedly the most appealing customer is one who exhibits signs of attaining a solid standing in his industry and his community in the long run and is thus a potentially permanent customer. Especially in times when credit is relatively scarce, these considerations loom large in determining the standards of credit accommodation.

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## How banks finance farm machinery

**M**achinery — and a lot of it — has become a necessity on any well-run Midwest farm. But while the long-run business advantages of mechanizing farm production are easy to visualize, the cost of acquiring machinery can occasionally pinch rural pocketbooks. Modern farm machines carry big price tags, and the profits returned on such investments are realized only over a span of years. Furthermore, machinery must be replaced periodically as it wears out or is made obsolete by the development of new and more efficient implements.

Because of these influences most farmers are recurrent customers of local machinery dealers, and this is one of the major activities bringing them to their local banks for credit. This is

amply borne out in the recently inaugurated reports on lending activity by over 100 country banks in key District farming areas.

Last spring, for example, one dollar out of every three loaned to farmers by banks in the fluid milk area of southeastern Wisconsin went to buy machinery. In other sections where farm incomes and operating expenses are more variable, machinery credit provided a smaller part of total agricultural loans. In the corn-hog and cattle areas of Illinois and Iowa, only about 10 per cent of the credit was for this purpose.

The difference stems in part from the fact that over one-fourth of Corn Belt banks' loans to farmers were to finance feeder cattle, a use of funds totally absent in most banks in the

Dairy Belt. Added explanation can be drawn from the diverse trends in farm income and the resulting curtailment of machinery purchases. In much of the Corn Belt, net income declined 25 to 50 per cent during the past year compared with a drop of 15 per cent or less on Wisconsin dairy farms. Reflecting these differences, country banks in early spring reported that farm machinery sales were lagging year-earlier levels by more than 25 per cent in many Corn Belt areas but less than 10 per cent in Wisconsin.

### Coming to terms

Because of the comparatively large and long-lived investment which machinery represents, farm loans to finance such purchases tend to carry different terms than the average short-term production loan. Among machinery loans

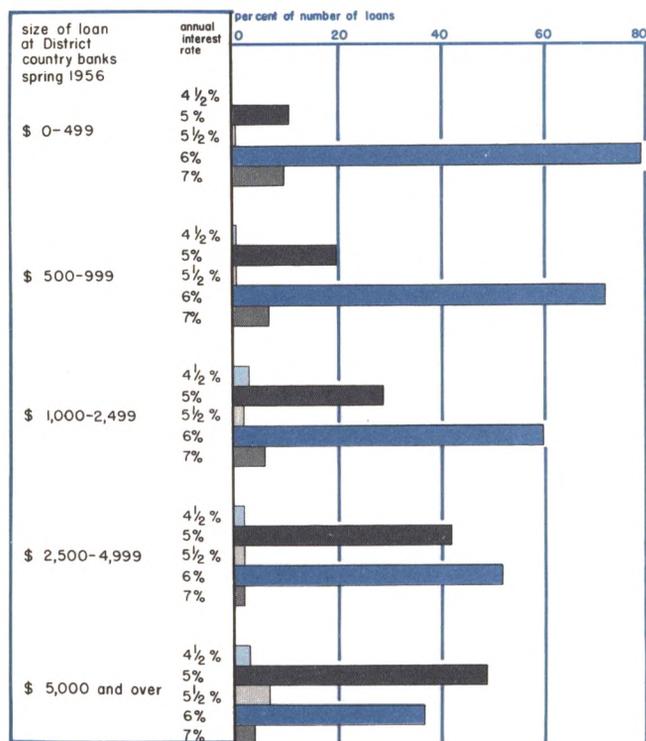
made by reporting banks last spring, over one-half were indicated to be outstanding for a year or more. Of these "intermediate-term" machinery loans, slightly more than half were written at the outset for one year or longer, while the remaining number achieved this status by renewal of the original loan, i.e., extending its maturity. As would be expected, the larger loans tended to have the longer maturities.

As farm equipment financing becomes more important in the years ahead, it is likely that more loans will be made at the outset for a longer term. This arrangement has the key advantage of assuring the borrower that adequate credit will be available over the period required to repay the loan. The Board of Governors of the Federal Reserve System has pointed out that there are no laws or rulings that prevent commercial banks from making agricultural loans on an intermediate-term basis, and such loans are not considered undesirable by the examining authorities merely because of their term.

Nevertheless, the practice of renewing machinery loans, as well as other short-term loans to farmers, is expected to remain an important method whereby lenders adjust payments to coincide with the farmer's realized income. Country bankers know from experience that unexpected price changes or abnormal weather, disease or insect damage often upset the best laid plans of farm borrowers. The practice of renewing or extending loans provides an accommodating flexibility in repayment terms that cannot easily be duplicated in the contractual terms of farm loans at the time they are made. No doubt this is one reason that the great bulk of the machinery loans at reporting banks are scheduled to be repaid in a lump sum.

On hog, cattle and cash-grain farms of the Corn Belt where in-

## The larger farm machinery loans carried lower interest rates



come is received in rather sizable amounts and at infrequent intervals nearly 80 per cent of the machinery loans are scheduled to be paid in one payment. If the proceeds from sales are insufficient to pay the entire loan, it is a common practice to make a partial payment with the balance carried for an additional period.

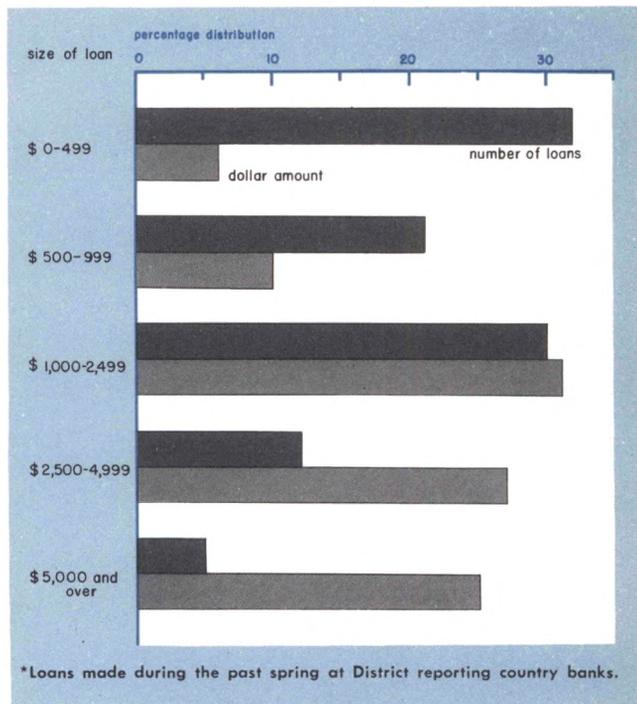
Instalment loans to purchase farm machinery are widely used only by banks lending to dairy farmers whose main stream of income is relatively even through the year. Some 70 per cent of the farm machinery loans over \$1,000 made by banks in the dairy area are scheduled to be paid in instalments. Even here, however, well over half of the smaller machinery loans are scheduled to be paid in a single payment.

### Interest rate, size, security

Generally speaking, interest rates on farm machinery loans did not vary a great deal. Two-thirds of the machinery loans made last spring carried an annual interest rate of 6 per cent. The next most common rate was 5 per cent, which occurred most frequently on the larger loans. Security had little noticeable effect on the rate charged although the large endorsed loans tended to have somewhat lower rates than other loans of similar size. Most of these represented loans on new equipment, endorsed by dealers.

Loans to purchase farm machinery are more commonly secured than are other short-term farm loans, possibly reflecting the high priority of machinery purchases in the budgets of even the low income farmers. About 45 per cent of all machinery loans were secured by chattels as compared with 35 per cent of all non-real estate loans to farmers. In addition, 25 per cent of the machinery loans were endorsed, compared with about 10 per cent of all non-real estate loans to farmers. More of the larger loans were se-

**Only one-sixth of farm machinery loans were over \$2,500 in size, but they accounted for over half of the machinery credit granted\***



cured than of the smaller loans, although even among those over \$5,000 nearly one-fifth were unsecured.

Compared with some other types of farm lending, bank loans for farm equipment purchases did not run particularly large. About half of the new and renewed farm machinery loans granted during the past spring were under \$1,000 in size. In part this small size may reflect the slowed pace of farm machinery sales.

### The role of banks

In 1947 the U. S. Department of Agriculture estimated that banks extended about half of the credit used to finance retail sales of new and used farm machinery. Available evidence indicates that banks have at least maintained that portion of the farm machinery paper outstand-

ing. This stands in sharp contrast to the earlier years of farm mechanization when the farm equipment manufacturers and distributors carried the great bulk of the farm machinery paper. While some of the manufacturers still maintain credit facilities, the volume is generally regarded as small compared with the total. Nevertheless, the existence of these facilities indicates that some manufacturers are prepared to finance machinery sales in volume should they feel that the need has again arisen.

Though farm equipment is standardized, the financial needs and resources of individual farmers are not. Credit arrangements, even for the same implement, are most constructive when tailored to the individual borrower situation. The country bank, with its close contact with local conditions, is in an unparalleled position to appraise such situations and therefore to continue to play an important role in financing the further mechanization of American agriculture.

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### **Farm surpluses—***continued from page 6*

But the Soil Bank Act established a *base* acreage for corn which is about 18 per cent larger than the corn acre *allotment*.

The farm is thereby provided with a corn *base* of 94 acres, 14 above the amount actually planted to corn. Hence, the farmer has accidentally met the key requirement for participation in the soil bank: he is growing at least 10 per cent less than his base acreage of corn. But the farmer must forego harvesting any crop from an equivalent 14 acres on his farm before he qualifies for *acreage reserve* "rental" payments. And he does so without disturbing his current corn crop in any way.

In addition, there is a 5-acre area across the end of one corn field, portions of which were flooded briefly last spring. This land was replanted, but the crop is far behind schedule, the stand is sparse and it's doubtful if it would come within 20 bushels of reaching its normal yield. These 5 acres can be put in the reserve if the corn plants are destroyed. Meanwhile, the land can be seeded to a green manure crop to be plowed under (permissible under the *acreage reserve program*), and thereby improve the tilth of the soil and boost the yield of succeeding crops somewhat.

These 19 acres clearly are candidates for the *acreage reserve* because the farmer stands to increase his income by joining the program. To put any additional land in the reserve in 1956,

corn which promises to make a good yield would have to be destroyed.

The "rental" payment per acre for "corn land" with an average yield of 70 bushels would amount to \$63 (70 x \$0.90). This is clearly a very attractive alternative as compared with harvesting oats, even if the oats crop showed promise of a good yield. Thus, our farmer decides to clip 14 acres of oats and to disk up the 5 acres of corn. The soil bank payment for these 19 acres would amount to \$1,197 (19 x \$63).

This year's output of our typical farm has been reduced somewhat through participation in the program — corn production is trimmed by possibly 250 bushels and the output of oats is down some 600 bushels. However, the gross (and net) income is a few hundred dollars higher. The farmer derives additional benefits in that his labor requirements and other costs of harvesting are reduced and he is free to carry on soil improving practices on the land in the *acreage reserve* through the application of measures to eradicate weeds and improve fertility or drainage or other measures.

If our farmer had preferred to harvest his oats, he could have qualified by leaving a corresponding acreage of hay or pasture (on tillable land) unharvested.

It is too early to make definite decisions relative to 1957 — too early in the sense that not enough is known about the programs that will be available. Except for wheat, price support

programs for 1957 crops are not yet determined, administrative regulations and "rental" rates for the acreage reserve program are almost certain to be modified in the light of 1956 experience, and details of the conservation reserve program are still to be announced.

### Conservation reserve

The conservation reserve is similar to the acreage reserve program in that it authorizes annual "rental" payments to farmers for cropland withheld from its normal use or diverted to "conservation" uses, including establishment and maintenance of protective stands of grass or trees, water storage facilities or other approved uses. In contrast with the acreage reserve program, which is limited to six crops, any land regularly used in the production of crops, including tame hay and pasture which do not require annual tillage, may be placed in the conservation reserve. Also, the land must be left in the reserve for a minimum of three years, and contracts may be written for as long as 15 years in the case of tree crops — 10 years for other approved uses. Crops may not be harvested from the land while it is in the reserve and, in general, it cannot be grazed.

The annual "rental" payment is based on a number of factors including the value of the land, the prevailing rates of cash rentals for similar land in the area and the incentive needed to obtain contracts covering an adequate acreage. Such payments are estimated to average about \$10 per acre for the U. S. but must be significantly higher in the Corn Belt if much land in that area is to be put under the program.

In addition to the annual "rental," farmers are reimbursed most of the cost of improving the land by planting trees, hay or pasture crops, providing water storage or other "conserving" measures. Such payments may amount to as much as 80 per cent of the actual costs for labor, seed, trees, fertilizer, lime and other items.

No limits have been announced as to maximum acreages individual farmers may put into the conservation reserve. However, the Secretary of Agriculture is directed to announce a national conservation goal each year and to

allocate the acreage goal to state and crop production regions. Annual expenditures of 450 million dollars are authorized for the conservation reserve program.

### A look to '57

Although details of the 1957 programs are not yet known, a few possibilities may be considered at this time. For example, a farmer might think of putting the maximum amount of land in the *acreage reserve* next year and taking on a part-time job while at the same time taking steps to boost the future productive capacity of his land. Our "typical" farm could put a maximum of 50 acres of "corn land" in the *acreage reserve*, providing a total payment of about \$3,150 (50 acres x 70 bushels per acre x 90 cents per bushel). This would be about one-half the net income that might be expected from the entire farm with normal yields and prices supported at current levels. Furthermore, soil bank payments are assured whereas crop income remains uncertain until the crops are actually harvested and marketed.

In addition, land could be put in the *conservation reserve* for a minimum of three years with the cost of establishing acceptable cover crops being borne largely by the Government. How attractive this alternative will be depends largely on the "rental" rates for "conservation" acres and the maximum acreages allowed individual farms. If entire farms could be blanketed into the acreage and conservation reserves taken together, the program would have maximum appeal to many farm owners.

An additional possibility is to utilize the "rental" income to "purchase" surplus grains from the Commodity Credit Corporation and thereby maintain or expand livestock production. The Act provides that grain be made available at prices which will encourage farmers to accept payment in grain rather than cash, to the extent that this can be done without materially impairing market prices for grain.

In the final analysis, of course, the major factor determining the amount of land withheld from harvested crops under the soil bank program is the amount of payment made *per acre*.

## The soil bank program — requirements and payment rates for the "acreage reserve"

Commodity	Maximum acreage	Minimum acreage	Payment rate per acre*
<b>Corn</b>	10% of base acreage or 5 acres, whichever is larger	50% of base acreage or 50 acres, whichever is larger	\$0.90 (per bushel) X normal yield
<b>Wheat</b>	10% of allotted acres or 5 acres, whichever is larger	50% of allotted acres or 50 acres, whichever is larger	\$1.20 (per bushel) X normal yield
<b>Cotton</b>	10% of allotted acres or 2 acres, whichever is larger	50% of allotted acres or 10 acres, whichever is larger	\$0.15 (per pound) X normal yield
<b>Rice</b>	10% of allotted acres or 5 acres, whichever is larger	50% of allotted acres or 50 acres, whichever is larger	\$2.25 (per 100 pound) X normal yield
<b>Tobacco</b>	10% of allotted acres or 1 acre, whichever is larger	50% of allotted acres or 5 acres, whichever is larger	\$0.08 to \$0.19 (per pound) X normal yield
<b>Peanuts</b>	10% of allotted acres or 1 acre, whichever is larger	50% of allotted acres or 10 acres, whichever is larger	\$0.03 (per pound) X normal yield

\*Based on U.S. average yields for 1951-55, payment rates per acre would average: corn, \$34.78; wheat, \$21.50; cotton, \$48.91; rice, \$57.12; tobacco, depends on type but may not exceed \$314.00 per acre; peanuts, \$22.34 but no payments on Virginia and Valencia varieties in 1956.

The announced payment rates *per bushel* of wheat and corn, for example, should prove attractive. But the payments per acre are dependent also on estimated normal yields — averages for the past five years. Reasonably accurate estimates are available for county average yields of corn and wheat. But most farmers probably think in terms of their best years as average and may be quite amazed to discover how low average yields in their area actually have been. Furthermore, there are limits to how far the administrators of public programs can deviate from the area average to make the program attractive to farmers who regularly obtain far more than average yields. Such programs almost always are most attractive to the lower grades of land and the less ably managed farms. The payment rates, of course, can be adjusted, and the limited experience gained with the program this year will prove helpful in setting rates as well as administrative procedures for subsequent years.

Over the longer run, the productivity of much of the land placed in the soil bank will be

improved, and to the extent that market or support prices of commodities are raised, farmers will be provided an incentive to use their "free" acres more intensively — fertilize more heavily, accelerate investment in irrigation equipment, apply more effective disease and weed control measures. Thus, the race between expanding output per acre and growing population will continue. And it remains to be seen whether the soil bank program as now visualized will soon liquidate current surpluses and bring output and consumption into balance.

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