

**BUSINESS, DOLLARS, AND COTTON**

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## BUSINESS, DOLLARS, AND COTTON

This morning I propose to discuss the general business situation, but without, I hope, completely overwhelming you with statistics and figures. My comments, and such conclusions as I may draw, will be beamed, so to speak, toward <sup>the</sup> ~~limited~~ matters of interest to cotton shippers and dealers, and will be grouped around these main points: (1) the domestic business and banking situation in general; (2) the international <sup>situation</sup>, with some consideration of the prospects for convertibility; and (3) the cotton situation and outlook.

### General domestic business and banking situation

When you are asked, "What is the state of business?", where do you turn for an answer? It is implicit in the question that an over-all viewpoint is wanted - not just the state of affairs, for instance, in the corner grocery store, which may have certain unusual circumstances affecting its particular business. Adoption of an over-all point of view does not rule out consideration of important divergences from the typical in certain geographic areas or in certain substantial functional segments - say, coal miners, or railroad workers, or cotton shippers and dealers. Nor does the over-all point of view represent a callous disregard for non-typical distress cases. Rather, emphasis on the over-all state of business is necessary, because it sets a tone, a background for all business and for all individual incomes.

One of the best measures of the state of business is the total volume of spending by individuals, businesses, and governments for the nation's output of goods and services. On that score, nothing but a bright picture

can be painted now. Gross expenditure at this time is running at the rate of about one billion dollars a day. In the last quarter of 1952 (latest data available) total spending in this country was at the annual rate of \$360 billion. Suppose we break that down a bit. Personal consumption expenditures were at the rate of \$220 billion: \$120 billion for nondurable goods, \$30 billion for durables, and \$70 billion for services. Government at all levels was spending at the rate of \$80 billion: \$50 billion by the Federal Government for national security, and the balance by Federal, state, and local governments for all other purposes. Expenditure by business for new plant and equipment and for inventories, together with other spending for residential, nonfarm, construction was running close to \$60 billion a year.

Construction activity continues to be a strengthening factor in the economic picture. The physical volume of work put in place has decreased less than seasonally since January, and contracts awarded continued substantially larger than a year ago. The substantial increase in industrial and commercial building contracts awarded so far this year over the comparable period of 1952, together with the expansion in machine tool orders since relaxation of priorities in January, suggest that private investment is an important element in the high level of business activity. And it is significant that much of the business investment in plant and equipment is for civilian uses rather than defense mobilization. An official survey of capital budgets, conducted during February and early March of this year, indicates that if present plans materialize new plant and equipment expenditures by business in 1953 will exceed those in 1952 by 2 per cent.

Along with this high level of spending we currently have high levels of employment. Nonfarm employment in the nation increased slightly from January to February, 1953, although that is usually a time of stability in employment statistics. Unemployment was virtually unchanged from the January level, but was substantially less than a year earlier. Less than 2 million of the 63 million people in our civilian labor force are unemployed.

The levels of spending and employment which we have just noted result in substantial volumes of personal income, some \$280 billion per year, according to the latest data available. This level of personal income is undoubtedly a factor inducing widespread confidence in consumers concerning their financial positions. The preliminary findings of the Eighth Annual Survey of Consumer Finances, taken in January and February of this year, confirm the existence of this confident attitude. The survey, conducted by the Board of Governors of the Federal Reserve System in cooperation with the Survey Research Center of the University of Michigan, revealed that increases in income during 1952 and in liquid asset holdings early in 1953 were widely distributed among income classes. Increased income, coupled with the steadiness of consumer prices, caused a larger proportion of consumers to hold the opinion that their financial positions had improved during the survey year - a larger proportion held that opinion than in any previous postwar survey. Nonfarm consumers as a group are disclosed as anticipating still larger incomes in 1953. (Similar information is not provided by the survey as to the attitude of farm operators.)

A factor evidently at work in shaping consumer attitudes throughout 1952 and early 1953 was the stability of consumer prices. The Bureau of Labor Statistics' index of consumer prices rose less than one per cent during 1952, in contrast to a 4 per cent rise during 1951 and a rise of about 8 per cent in 1950. Looking forward, most consumers (eight in ten spending units) were found to believe that prices will remain stable or go down. This attitude toward prices is to be contrasted with consumers' attitudes early in 1951 and 1952 when one-half to two-thirds expected prices to rise. Still another factor found to affect buying intentions for this year is the more lenient credit terms available as compared with a year and two years ago.

Other aggregative measures of the nation's business activity currently point upward. Industrial output improved in February. The Federal Reserve Index of Industrial Production for the month was estimated at 239 per cent of the 1935-39 average. Both durable and nondurable output increased. Projections suggest a further small gain <sup>at</sup> likely for this month, reflecting further expansion in automobile output. In February the output of metals, building materials, producers' equipment, and military equipment were maintained at advanced levels. The automobile industry paced the nation, as output rose from an annual rate of 5.5 million passenger cars in January to 6.2 million. Production of major household goods, which had increased more than seasonally in January, continued at high rates. Steel ingot production held close to the record rate achieved in January, and one widely read periodical says this week that "steel mills are a cinch to pour more ingots in March than ever before". Shoe factories and paper board mills

both operated at substantially higher rates in February of this year than in February, 1952.

The moderateness and the direction of recent price changes are significant. Price controls were removed during February and early March, but most prices increased little. Retail food prices, in fact, continued to decline in February, dropping one per cent between January 26 and March 2, largely as a result of the decline in beef prices. Over-all living costs have probably declined, too. At the same time, the long-term downward trend of wholesale and basic commodity prices was halted. Nearly all categories of wholesale prices showed strength after early February, and the index as a whole moved upward slightly from mid-February to the week ended March 10. Prices of farm products, which have been among the weakest in recent months, turned up, while commodities other than farm and food products remained relatively stable.

This is a good place to stop and summarize briefly. Substantial Government purchases of defense and civilian goods and services, an indicated high level of business investment in plant and equipment, the confident attitudes of consumers toward their financial positions, and their expectations of purchasing durable goods and houses in large volume, make the underpinnings of economic activity seem firmly based for the present and the near future.

It should be noted, as of no lesser importance, that the banking situation, over-all, is sound. Total commercial bank credit, expanded after mid-1952 in response to large credit demand, declined after the turn of the year through February. Business and security loans continued to decline,

while real estate and consumer loans rose further. Pressure on the banks over the tax period in mid-March was accommodated without undue strain. So far this year, despite the return flow of funds to the banks in the form of currency, banks' reserve positions have generally remained tight, and the level of member bank discounts with the Reserve Banks has been high. While banks are in position to take care of the seasonal credit demands of industry and agriculture, at the same time there is likely to be no excessive creation of bank credit by the banking system, such as would reactivate the inflationary pressures of a couple of years ago. Monetary and credit controls at the moment are contributing about as much as these controls can be expected to contribute to the continuation of over-all stability in our economy.

Thus, domestically, both general business and banking conditions may be fairly viewed on the favorable side. To cotton men, however, conditions elsewhere in the world are of importance, too. Cotton has a world market, not just a domestic one. Permit me, therefore, some comments with regard to the international economic situation.

International situation and "convertibility"

Viewing foreign economic situations broadly, the significant developments of the past year would seem to be these: (1) there was no resumption of inflation despite increased pressure arising from defense programs; (2) there was improvement in gold and dollar reserve positions; and (3) there was renewed interest in the problem of sustainable, adequate flows of trade based on convertible currencies.

The subsidence of world-wide inflation in 1951 and its containment in 1952 were not solely the result of self-limiting forces within the cycle running their course. The change reflected action taken in most countries to deal with the principal international inflationary dangers. As the Federal Reserve Bank of New York points out in its Annual Report for 1952:

"Government budgets were not all balanced; actually only a few succeeded in that. But there was growing concern over 'budget discipline', and in most countries vigorous efforts were made to finance whatever budget deficits emerged through methods that would exert the least inflationary impact. As a counterpart of tighter fiscal policies, monetary and credit restrictions were much more widely imposed, in 1951 and 1952, than at any other time in the past two decades, thus helping to curb any tendencies toward an insupportably large growth of private investment and spending."

Along with the fiscal and monetary restrictions imposed, the downward revision or stretching-out of defense outlays by Western European countries, as compared with original projections, was another important factor in avoiding inflation in 1952. It might be noted here that, unlike the situation in the United States, this stretching-out or cutting back came before and not after most of the road toward original goals had been travelled. Moreover, Europe, also in contrast with our experience, did not succeed for the year as a whole in raising production significantly to offset inflationary pressures,

although some improvement was apparent in the final quarter of 1952 and good harvests did provide a moderate increase in per capita food production during the year.

A major development of the past year was the improvement in the balance-of-payments and gold reserve positions of most foreign countries. Accompanying this improvement, however, was a moderate decline in trade volumes, not only among the other friendly countries of the world, but also in their combined merchandise trade with the United States. While many countries came close to over-all balance in their accounts and a number succeeded in adding to their aggregate foreign exchange reserves, there was still an aggregate deficit in 1952 of about \$2.5 billion on trade and services account (excluding military aid). This represented considerable improvement in the dollar gap of more than \$11 billion which existed in 1947. It must be realized, however, that this reduction of the dollar deficit in 1952 was achieved in considerable part by increasingly severe restrictions upon imports by countries threatened with imbalance in their international accounts, notably the sterling area group.

In view of the improved gold and dollar reserve positions of foreign countries, even in the sterling area group after mid-year 1952, attention is now being focused on a fresh approach to world trade and payments problems. The new focus constitutes another significant development in the international scene during the past year. In this fresh approach emphasis centers on a progressive replacement of aid by trade that is based on currency convertibility and free international commerce. The clear

implication of the shift in emphasis - so concisely put in the slogan, "trade, not aid", is that foreign countries recognize their basic need to expand productivity and achieve a balanced output of those goods and services for which they possess a comparative economic advantage in manpower, skills, and resources. It should be noted also that this shift of emphasis carries a challenge to the United States as well: that we should ourselves make progress along the road of international intercourse by opening our markets to the products of the rest of the world. The key point of the fresh approach is to be found in the emphasis on convertible currencies and the unshackling of world trade among free nations.

Convertibility as a goal has fairly general acceptance. Few vigorously oppose it as a long-run objective. Differences of opinion, sometimes sharp, come in the area of how and when. Take, for example, the results of the recent Anglo-American economic talks in Washington. According to the joint communique of March 11, it was agreed that the achievement of a workable and productive economic system within the free world would require: (1) sound internal policies "by debtor as well as creditor countries"; (2) "the eventual convertibility of sterling and other currencies and the gradual removal of restrictions on payments"; (3) a "relaxation of trade restrictions and discriminations"; (4) "the creation of conditions both by creditor and debtor countries, which will foster international investment and the sound development of the resources of the free world"; and (5) a constructive use of international institutions to promote these policies. It was indicated, however, that the nature, scope, and timing of specific measures to achieve these ends would require further intensive study, and

that discussions would be necessary with other governments and the various international organizations concerned, including the Organization for European Economic Cooperation. (Emphasis is mine.)

The convertibility problem posed is not as easily solved as was our resumption of specie payments in 1879. In this country people are free to leave one area and go to another in search of their best economic opportunity. Goods can flow with relatively little restriction across state lines. A dollar in Tennessee is worth the same as a dollar in Texas (even though this may be hard for Texans to believe). Such conditions as these do not exist among the sovereign nations of the world, even among the friendly nations. International boundaries are barriers to currencies, to goods, and to people.

Essentially, it seems reasonable to say, we are in this phase of the return to convertibility, - the phase wherein the free nations of the world are adjusting themselves to new production patterns which are necessary to sustain an increasing flow of goods between them. Success in this stage of shifting and enlarging production so that international trade may be increased will require new investments, and, what is probably much more difficult, reallocations of manpower.

The appeal of convertibility of currencies and free markets for trade is great. No better device - consistent with individual liberty and freedom - has ever been invented to allocate capital and manpower than the composite judgments of free markets. But achieving these goals of convertibility and free markets is a slow, arduous process where many sovereign nations are involved. Witness, for example, our own reluctance to open domestic

markets to foreign goods and to lend on private account to other nations.

Notwithstanding the difficulty of attainment, the free world should push ahead toward these twin goals. Perhaps it would be fitting to close this portion of the discussion with the words of an eminent British scholar who said in a 1952 treatise on "The Pound Sterling":

"I have the uncomfortable feeling that unless advocates of free enterprise are converted . . . (to a doctrine of unlimited convertibility of currencies and unlimited assistance from the Central Banks to the money markets in times of crisis), free enterprise in the world will peter out, and that the detailed manipulation of foreign trading relations will grow ever more complex and minute, until we have fastened upon us, not perhaps a totalitarian system, but one equally rigid, the result of jarring bi-lateral bargains." \*/

#### Cotton situation

I enter this field with considerable trepidation because I face here a company of experts on this topic and particularly on the question of foreign demand for our cotton. Doubtless I ought to sit down at this point and let Caffey Robertson take over, but I have decided to plunge ahead with the hope that Caffey will correct me if I need it.

Essentially the current cotton situation is one of world-wide surpluses. Large supplies in the United States, in Brazil, Egypt and elsewhere this side

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\*/ Roy F. Harrod, "The Pound Sterling", page 3.

of the Iron Curtain are dominant forces in the cotton markets of today. The 1952-53 crop year will produce something in excess of 28 million bales of cotton according to estimates based on ginning figures covering a large proportion of the current crop in the Northern Hemisphere and on crop prospect reports from the South American countries. Free world production, presently estimated at 28.2 million bales, is expected to be slightly under 1951-52 production, but when added to the 13 million bale carry-in August 1 (last) gives a total supply of 41.3 million bales - a postwar record. This supply appears sufficient to provide for consumption about equal to that of 1951-52 and to add another 2 million bales to carry-out stocks on August 1, 1953. Further, it seems clear that importers of cotton are inclined to let the exporters carry the burden of the surplus. Stocks will accumulate in the exporting countries.

United States' experience is similar. Adding this crop year's 15 million-bale production to some 140,000 bales of imported and "city crop" cotton then to a carry-in of 2,745,000 bales (made up largely of "free" carry-in with only 239,000 bales under Commodity Credit control), total available supply here should come close to 17.9 million bales. Such a supply would exceed that of the two previous years but would be less than the 21.5 million of 1949-50. In terms of use or "disappearance" of this total supply, it is expected that domestic consumption, despite a set-back in January, will be just slightly better than last year, exports less, and carry-over, particularly in the loan, substantially more.

Exports are the key to the significant difference in disappearance of

total supply this year as against last. Foreign demand for United States' cotton has been curtailed and our exports have been running less than half of last year's rate, having totalled 2.2 million bales through March 14. The decline can be attributed to (1) greater availability of "non-dollar" cotton, (2) the tendency for importers to let the producers carry the burden of the surplus, and (3) the possibility of "dumping" government-held Brazilian cotton on the world market.

Despite a half-million bale decline estimated for free world cotton production in the current crop year as compared with last, production of cotton is currently up in Pakistan, Turkey, Egypt, Anglo-Egyptian Sudan, and other non-dollar areas - excluding India. Exports from these countries, according to the latest available information, are running substantially ahead of year-ago volumes. Thus, even with no change in world--wide supply-demand relationships, United States' exports would be at a disadvantage this year. With the additional leverage afforded importers by the surplus accumulation, the United States - the world's largest exporter of cotton - is under still further pressure.

Reasonable "guesstimates" on United States' exports for the current year range from 4.25 million bales (by an MSA official who started last fall with a 5.3 million figure) through the USDA's latest estimate of 4 million, to that put out in February by a leading spot firm, 3.5 million.

A range of 3.5 million to 4.0 million in exports coupled with, say, 9.3 million in domestic use leaves a substantial carry-out at the close of this crop year - namely 4.5 million to 5.0 million. Such a carry-out compares with 2.7 million bales last year, 2.3 million the year before that, and with

6.8 million in the crop year 1949-50. Perhaps a fair estimate at the moment of the amount of the carry-out that will be found in the CCC pool is a half and half split, again depending on the export volume. The lower this volume, the greater the portion of the carry-out in the loan, and vice versa. The free carry-out will likely range between 2.0 and 2.5 million bales and should represent an adequate supply for the trade.

Now, what of prospects for the coming year? If weather permits, another large cotton acreage appears probable. In the past, cotton producers have seldom reduced acreage more than four or five per cent from the previous year except under unusual circumstances or when acreage controls were in effect. Reports to date suggest that producers will again plant cotton in a big way in 1953, because 1953 acreage would be included in determining individual farm allotments in case of subsequent imposition of restrictions. Further, in many areas, cotton (even at current prices) still provides the greatest net return per acre, considering that prices of most agricultural commodities, along with cotton, have had substantial declines. The area that is in greatest question regarding acreage is again the western section of Texas and Oklahoma, where moisture reserves are low and abundant rainfall will be needed this spring and summer to induce full planting of dry land acreage.

Another factor in the cotton farmers' intentions to plant is that the loan rate on next year's crop will be higher than on this year's, partly because of the spread between 7/8" and 15/16" prices. A loan value of close to 32.50 cents seems likely.

So - I ask myself what I would do if I were a cotton planter. The answer is that I would probably plant cotton, despite the requested voluntary 18 per cent acreage reduction. I would plant cotton just in case others should also ignore the request for voluntary acreage reductions and plant cotton, leaving me behind. The record shows that since 1920 there have only been eleven years when acreage as of July 1 was cut 5 per cent or more from the previous year, and in each instance some compelling force was present: price collapse, adverse weather, labor shortages, or Government restrictions. It will take some such powerful force to reduce acreage this year, in all likelihood.

Earlier March estimates by a leading spot firm support this judgment with a figure of better than 27 million acres to be planted, in contrast with 26,460,000 planted last year - an increase instead of the requested 18 per cent decrease. Further, crop planting intentions in other commodities announced March 17 suggest no major shift to these crops such as could be expected if cotton were to be cut.

Thus with no major change in acreage this year (or even some slight increase) the cotton farmers are reported as feeling that this year represents the last chance before the return of acreage controls. The crop just missed controls for the 1953-54 season. Many in the trade believe that continuation of present trends makes controls a reasonable probability for the 1954-55 crop, unless war or drouth intervenes. Barring these, cotton price prospects would not seem bright.

In conclusion, what I have taken so long to say can be compressed

into three points:

(1) Business is good here at home.

(2) Internationally (except for the alternating war-peace tensions) conditions are fair and improving.

(3) For cotton, prospects are less bright with, export volume down and large production apparently ahead.

My saving thoughts as I have been delivering these comments were, first, that a lot worse outlooks have been successfully faced by cotton shippers and dealers in years past and, second, that if I were always right I would be apt to be out there with you and not up here on the platform in the guise of a Federal Reserve banker.

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