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Adjustments in Cotton Production

THE future of cotton is of vital interest in the Sixth Federal Reserve District. The prosperity of the people as a whole, even if they are not directly connected with agriculture, will inevitably be affected by the economic and political forces affecting the place of the United States, and especially of the Southeast, in the world cotton market.

Some of the basic problems concerned in future cotton production may be foreseen, and some general policies—tentative in nature—may be suggested for solving them. These problems may be analyzed from several points of view. The policies that may be considered practical in their solution will depend upon the political and social framework of the various states; this framework, in turn, is the responsibility of the leaders of the states.

The Postwar Problem of Cotton

Three major factors create serious problems for the postwar cotton economy: world production has expanded greatly, mechanization may reduce costs considerably in some areas, and policies directed at maintaining domestic prices above world prices have been followed.

From 1909 to 1929, the acreage of cotton harvested in the United States increased from 31 to 43 million acres and production increased from 10 to 15 million bales. From 1929 on, the acreage declined, reaching a low point of 23 million acres in 1942. Production did not decline proportionately and in that year, almost 13 million bales were produced, with record-breaking acreage yields. From 1920 to 1942, foreign production increased from about 7 million bales to 14 million bales.

During the last 10 years the development of small power machinery, particularly the small tractor, has been important to cotton. Cotton-picking machines have passed the experimental stage and may be as revolutionary in cutting costs of production in the postwar period as was the cotton gin after 1793.

Since 1940, cotton prices, supported by CCC purchases and loans, have risen rapidly, reaching 20 cents in 1943. The May 1944 parity price was 21.08 cents and efforts to raise cotton goods price ceilings, so that cotton lint will reach parity, have been successful. Furthermore, existing legislation guarantees prices at 92.5 per cent of parity for two full years after the end of the war. The price of Brazilian cotton type 5 at the Sao Paulo market averaged half a cent above the New Orleans price of American middling 15/16 at New Orleans for the 16-year period, 1923 to 1939. Since December 1941, however, the American price has exceeded the Brazilian by 6½ to 11¾ cents a pound and a number of countries have shifted their purchases from American to Brazilian cotton. At the same time that the acreage of American cotton was being reduced, Brazil had almost trebled her acreage of cotton from the 1930-34 average of 2.4 million acres to 6.7 million acres in 1940. With the present large world carry-over, it appears inevitable that at the end of the war the guaranteed domestic price of cotton will be much higher than the world price.

This situation can be met in three ways:

1. Domestic prices can be maintained and production can be drastically cut to supply only domestic needs. Such action would mean a very large cut in the acreage of cotton.

2. The world price of cotton can be accepted and an attempt made to influence this price through a world cotton agreement in which both producing and consuming nations participate. In the light of changing costs of production and the world supply and demand situation, the world price would probably be nearer 10 than 20 cents a pound. With cotton at this price, the high-cost areas could not continue to produce, and cotton acreage would have to be cut. This acreage reduction would depend upon the prevailing world price and the cost structure.

3. Domestic prices can be maintained and an attempt can be made to maintain exports by using a subsidy. Such a procedure should be associated with an international commodity agreement, however, if serious international repercussions that would defeat the desired end are to be avoided. If production were subsidized, it is quite certain that other countries with lower costs would object to retention by the United States of a major share of the world market. The cotton acreage would have to be cut considerably in the light of the expansion of world production and the decline of exports. The reduction of acreage, however, would be less drastic than that required under the first alternative.

If any one of these alternative programs were followed, it could be supplemented by efforts to increase consumption through developing new uses and subsidizing consumption by low-income families through cotton stamp and mattress programs such as those used up to 1942. In the face of the rapid development of competing synthetic fibers and the need for a low-cost raw material in new industrial uses, any rapid expansion of consumption at high prices cannot be expected. The use of subsidies to increase domestic consumption while

maintaining a high domestic price is simply an attempt to offset the reduction in consumption resulting from the maintenance of high prices with a subsidy to consumers to increase consumption. At the same time, however, consumption by the very low income groups may be increased, but the removal of large quantities of lint would be costly. In the year ending June 30, 1940, the United States spent $9,770,000 on the mattress and comfort program; 164,000 bales of cotton were diverted. In the case of the cotton stamp program, an expenditure of $2,000,000 removed only about 5,000 bales in the same year. Because raw cotton represents only a small fraction of the cost of cotton manufactures, the demand for raw cotton is highly inelastic. It seems clear, therefore, that the acreage in cotton will have to be cut quite sharply in the postwar period. The problem that must be solved is where and by what means the acreage of cotton should be reduced.

Reduction of Cotton Production

The acreage of cotton can be reduced in two ways: the price can be lowered so that high-cost areas cannot cover their costs; or acreage quotas can be allocated through direct Government control and price penalties imposed if quotas are exceeded.

A recent study published in the *Journal of Farm Economics* shows that the acreage of cotton in cultivation in any year has been closely related to the average prices of cotton and cottonseed during the preceding year, when these prices are adjusted by the index of prices paid by farmers for all commodities. For the period 1910-33, a one-cent change in prices was followed by a change in acreage of about 880,000 acres. This relationship did not hold after 1933 because of Government controls over the cotton acreage. While the relationship of the period up to 1933 cannot be expected to hold in the postwar years because of changes in costs of production, it can be expected that lower prices will shrink production and that decreased production will occur in the high-cost areas. Such a process, however, would be slow and painful.

Costs of production vary greatly between different areas within states and even between states. The major factors are the quantities of fertilizers used and the acreage yield. The average costs of lint (including rent of land and returns from cottonseed) for the six-year period, 1925 to 1930, were 31 cents a pound where acreage yields were 100 pounds or less; 17 cents where yields were between 101 and 180 pounds; 13 to 11 cents where yields were between 181 and 420 pounds; and 9 cents where yields were 421 pounds or over. Studies made since that time have shown that this relationship still holds true. If the rent of land is excluded, these differences in costs are even larger, because the higher rent allowed for high-yielding lands raises costs on those lands relative to the poorer lands. In general, the river bottom lands produce at much lower costs than the eroded hilly lands and can continue to produce at lower prices. Mechanization will enhance this difference because both tractors and pickers can be used effectively only on level lands. The older eroded hilly areas of the South will inevitably be forced out of cotton production, therefore, if the price is allowed to fall.

In the past, attempts were first made to reduce the acreage of cotton by allocating acreage quotas purely on a historical basis. This practice has had two effects. On the individual farm, the poorest land was removed from cotton and, in many cases, put into soil-conserving crops. At the same time, the acreage on level river bottom lands was also reduced while loans at high rates kept poorer land in cultivation. This acreage allocation and loan program essentially softened the impact of changed economic conditions on a cotton economy that is difficult to adjust to other alternatives; at the same time, it kept in production those areas where high costs and eroded soils made an adjustment most necessary. Later this allocation program was modified to make the acreage allotments conform more closely to the physical resources involved so that smaller acreages of erosive crops were allocated on hilly and poor lands while the better level lands had the acreage increased.

If technological developments make it possible to produce cotton more cheaply on the bottom lands, the continuation of this program may create a reaction from cotton producers in low-cost areas who may wish to expand production at prices that would ruin the high-cost producers. From the standpoint of the welfare of consumers as a whole and the retention of the United States' export position, the most desirable solution would lie in eliminating high-cost production and expanding low-cost production. This would, however, have very serious repercussions on cotton-production areas with a dense farm population, and strong political pressure may prevent it from occurring unless alternative uses for the land and occupations for the people can be developed to provide an alternative means of making a living.

Apart from these economic forces, the physical forces of erosion and fertility depletion are making this adjustment inevitable by continually increasing costs and reducing yields. Slowly and ruthlessly, both land and people are being impoverished; slowly and painfully, the adjustments are necessarily being made. From 1930 to 1940, many counties in the Southeast reduced their cotton acreage between 40 and 60 per cent. Future adjustments should eliminate cotton production almost entirely from some counties and expand it in others.

Resistances to Adjustment

The difficulties and resistances that the high-cost cotton areas face in adjusting their agriculture are extremely complex and difficult to overcome. The first and most obvious one is the fact that cotton production requires a large amount of labor in relationship to land. Hence, cotton-producing farms are small or they employ a large amount of labor. In order to maintain or increase farm income and conserve the soil, more diversified agriculture, with larger numbers of livestock in some areas, is needed; this requires larger farms and means that part of the farm population must move out of agriculture and into other occupations.

A second major problem is that of educating cotton share croppers and farm laborers to handle the more complex problems of mixed farming. Similarly, those moving from agriculture to other employment must be trained in new skills if they are not to swell the ranks of unskilled laborers whose work is being replaced by machines and skilled labor. While this problem is serious for all with little education, it is particularly serious amongst Negroes, where illiteracy is high; for example, 20 per cent or more of the Negro population is illiterate in many areas.

A third problem is that of land tenure. A diversified agri-

culture and conservation program cannot be built upon a shifting population of farm operators; either security of occupancy and investment must be developed for tenants, or a very large increase in farm ownership must occur. In many states in the South, 60 to 70 per cent of all farm operators were tenants in 1930, and many of these would be more comparable to hired labor than to tenants with full rights of occupancy.

Apart from these conditions directly related to the problem of adjusting cotton production are certain less tangible resistances that are difficult to define but of basic importance. One is the difficulty in finding occupations other than jobs using unskilled labor that are open to Negroes. This obstacle appears to be partially associated with the retention of a cheap labor supply without full recognition that cheap labor involves an extremely low level of purchasing power as well as productivity. Furthermore, a rather general feeling exists that low wages give manufacturers in the South a competitive advantage over areas with more abundant resources. This, however, is true only if the employees receiving lower wages are as efficient as those paid higher wages. Low wages associated with a low level of skill and productivity may be more costly than labor paid higher wages but operating with greater efficiency. When these subtle resistances are added to the more obvious problems involved, the difficulties in adjusting the economy with respect to cotton appear insurmountable. On the other hand, neither economic forces nor erosion are static, and some sort of adjustment will eventually take place. It may be more economically and quickly made if a planned program is carried out.

Is Any Solution Possible?

In the past, attempts to solve the cotton problem have been through unilateral national action. These programs have acted as a buffer to prevent an almost complete collapse of the Southern cotton economy. Loans above the world price have been made and the acreage of cotton has been restricted with the result that the world price has been raised slightly, exports have been curtailed, and production abroad has been stimulated. Many claim that the basic problem of adjustment has consequently been made more serious. In the future, therefore, the solving of an international problem by international co-operation might well be tried. Such co-operation would entail an attempt to affect the world price and production of cotton through an international cotton agreement; the foundations of such an agreement should be laid now.

Associated with this international action should be national and state action designed to assist the high-cost cotton areas in adjusting their agriculture to achieve conservation, to reduce permanently the acreage of cotton, and to raise the income of the farm family.

Where the ratio of people to resources is too high, a better balance to increase the productivity of labor can be attained by either moving population to other resources or by moving resources (in the form of capital) to labor. Probably both of these adjustments are needed. In either case, however, a widespread educational program must be developed; the people that move out of agriculture must be trained to new jobs, just as the farmers that remain must be trained to a new agriculture.

At the same time, new jobs and opportunities must be made available. To the extent that a high level of domestic employment can be maintained, people will have opportunities to move to other regions and the problem will be eased by migration. However, the development and expansion of industries in the old cotton-producing regions will probably be more important in attaining a long-run solution than will large-scale migration from these regions. Because of the uncertainty and expense involved in long-distance moving, people do not move to a new environment as readily as they move to a new job nearby. The development of industry in the South would raise the purchasing power of the population and provide the demand for the industrial products, as well as the food products, of a more diversified agriculture.

In addition to education and industrial expansion, a modification of the tenure system, which will result in greater security of occupancy, is also necessary.

Changes such as these do not occur rapidly or painlessly. A program that will prevent the impact of lower cotton prices from causing extreme poverty in the high-cost areas must be carried out. Maintaining a high domestic price for cotton with acreage quotas will simply maintain the present maladjustment, unless arrangements are also made to cut progressively the quota in the high-cost, eroded areas. An alternative would be to reduce the loan rate on cotton each year until it equalled the world price; such a program would permit more gradual adjustments to be made. A third method would be to accept the world price now and have the AAA make payments for the production of alternative crops, conservation practices, and farm reorganization.

A further method that has been suggested to cushion the shock of adjustment is some form of a domestic allotment plan associated with a two-price system. According to this plan, the world price for cotton would be accepted, but a payment to farmers for cotton produced for domestic consumption would be paid. Each farmer would be allocated a quota and would receive the benefit payment only on this quantity; for cotton produced in excess of the quota, he would receive the world price only. This plan would permit farmers in low-cost areas to expand production if they wished.

This plan has two major difficulties. In the first place, this method would probably be interpreted as dumping by other nations, and other producing countries might apply a similar subsidy. Serious international repercussions could be avoided only if a world cotton agreement were made. In the second place, some method by which the quotas allocated to the high-cost areas will be progressively reduced is needed if permanent stabilization of high-cost production and inefficient use of resources are to be avoided.

Regardless of which of these alternative approaches is used to cushion the impact of economic changes on the cotton economy, positive measures to improve the efficiency in the use of resources, both human and physical, will be needed. As mentioned before, these may include conservation payments to assist in increasing the productivity of the land and preventing further erosion and adjustment payments to assist in changing the farm organization. In industry, the development of small manufacturing plants, possibly making more use of the relatively abundant water power, would have the effect of relieving the pressure of the population on the land. In the last analysis, the agricultural problem is closely tied to the problem of developing industry and increasing the productivity of all labor.

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The Problem of Low Income Groups in Southeastern Agriculture

TO AN overwhelming extent the problem of rural poverty is a problem of the southeastern part of the country. This is not to say that poor farmers may not be found in any other section of the country: it merely means that the greatest concentration of rural poverty is found in the Southeast.

The fundamental elements of the South's problem of rural poverty are: (1) a high ratio of population to land resources; (2) the overshadowing importance of the cash cropping of cotton and tobacco in the region's economy; and (3) a land tenure system that represents a more or less incomplete adjustment of the antebellum system of slave labor to the condition of legal freedom imposed upon the South's labor system as a result of the Civil War. These fundamentals, obvious as they may be, are not independent of each other. On the contrary, they condition and reinforce each other while giving rise to certain ancillary problems.

The apparent simplicity of the problem, however, does not make its solution any easier. Indeed, just because these fundamentals are mostly historical products and involve elements of social lag, and, in addition, are colored by prevailing racial attitudes, the problem becomes extremely obdurate.

Population and Land

The relative overpopulation of rural areas is not a condition confined to the South. That 50 per cent of the nation's farmers produce 90 per cent of all farm products sent to market is sufficient evidence that there is a large surplus farm population in the nation as a whole. More people are evidently trying to get a living from the land than can be supported by it on any reasonably satisfactory level of living.

In the South, however, overpopulation is especially acute. With the exception of a few scattered states, the states in the Southeast comprise the only major geographical area in which the reproduction rate of the population exceeds unity, i. e., where more children are being reared than are necessary to maintain a stationary population. With one quarter of the nation's population, the South before the war was furnishing one half of the nation's natural increase in population. Inasmuch as the urban reproduction rate is no higher in the South than in other regions, the conclusion is clear that Southern farms have become the major source of the nation's population.

With respect to farm population, two thirds of the natural increase for the nation in the period 1930-34 occurred in the South where only one half of the farm families were living. Migration out of the region and from farms to cities within the region has served to relieve the pressure of population on land resources to some extent, but not enough to remedy the serious maladjustment implicit in the situation. With approximately 40 per cent of the nation's farm population, the South has only 17 per cent of the total land in farms. Under such circumstances, unless the land be exceptionally fertile and be tilled with exceptional skill, the result can only be a lower-than-average level of living for its cultivators.

The high man-land ratio is naturally reflected in the small average size of farm in the South. Whereas, in 1940, the average size of farm for the United States was 174.0 acres, in the South Atlantic States it was only 90.8 acres, and in the East South Central States it was 75.3 acres. Within the 12 Southeastern States, the average size of farm varied from a high of 127 acres in Florida to a low of 66 acres in Mississippi and Louisiana.

Actually the situation is worse than these figures indicate, for in the South Atlantic States in 1940 nearly half of all the farms were less than 50 acres, and in the East South Central States more than half of the farms were under this size. Moreover, not all farm land is available for cultivation, some of it being in wood lots, some existing as waste land, and some lying fallow. The result is that farms of 15 or 20 acres of crop land per farm family are very numerous throughout the region, and this amount of land does not, in most cases, provide a decent standard of living for a family, under present cropping practices, and where soils are low in fertility.

Cash Cropping

Another fundamental reason for the low farm incomes of the Southeast is the predominance of cash cropping—chiefly of cotton and, to a lesser extent, of tobacco.

It should be said at the outset that there is nothing inherently uneconomic in commercial farming or in specialization in one or more crops. On the contrary, many economies are possible where there is such specialization.

The evils of cash cropping in the South grow out of the relation of such a system to the man-land ratio. In one sense, cash cropping can be said to be the cause of the man-land ratio, and in another sense, it is an effect of that ratio. The two things are parts of a single whole that has its roots in the failure of a historic pattern to adjust to technological and social changes.

Historically, the South was the nation's first great commercial farming area. The cultivation of cotton and tobacco on a commercial basis to satisfy the demands of a world market dates from colonial times. These two crops had one characteristic in common; namely, they were both large consumers of labor time at certain peak seasons.

In a new country, where land is abundant and cheap and where labor is in short supply, it would be natural to expect a large amount of land to be used per unit of labor and to expect that farming would become extensive rather than intensive. These expectations did not materialize in the South as they did in other areas because the character of the labor supply under conditions of slavery made supervision a necessity and prevented the dispersal of labor over very large areas of land. Labor thus came to be concentrated in the form of plantation gangs. A combination of land and labor that would have been uneconomic in a system of free labor, in view of their respective supplies and costs, could be made to pay the landowner financially under a slave system by shifting the cost of the inherent wastefulness of the system

to labor and land—to labor in the form of a subsistence standard of living and to land in the form of the exhaustion of soil fertility. The exhaustion of the soil, however, did not represent any real cost to the individual so long as new land was available to replace that which had been worn out. The entrepreneur planter could shift the labor supply to its most profitable use. This geographical mobility of labor, plus the fact that the remuneration of labor was arbitrarily fixed at a subsistence level and represented no equilibration of supply and demand, made the concentration on cotton and tobacco financially profitable to the entrepreneur planters.

With the legal freeing of the slaves, the planters lost their power to shift the labor supply in accordance with their own interests. Indeed, since slaves had been capital, their emancipation left the planters without capital except for their land. When entrepreneurs who possessed nothing but land confronted a labor supply destitute of land and capital, a way of living was reached in the form of a tenure system that resulted in small tenant holdings. If anything, this system was more exploitive than that of slavery, for the former geographic mobility of labor was lost and the high man-land ratio became more or less frozen into an institutional pattern.

Having lost geographic mobility, the labor supply was compelled, by the economics of its small holdings as well as by the terms under which access to land was secured, to continue the production of cash crops. These crops were still the traditional staples of the South. Cotton remained the crop having the greatest comparative advantage, for any other crop or combination of crops would have implied a more extensive type of agriculture and, consequently, a lower money yield per acre. The immediate economic interest of any individual operator lies in securing the highest net returns per acre. Whether he gets enough to maintain a desirable level of living, however, depends upon how many acres he has at his disposal.

For example, the gross value of farm products per acre is higher in the Old Cotton South than it is in the newer cotton-producing areas in the Southwest. In Alabama in 1940, this figure was $6.25 per acre—the lowest in the Southeast. In Texas, the value of farm products per acre was $3.70; in New Mexico, it was $1.23; and in Arizona, it was $1.64. Nevertheless, the value of farm products per farm amounted to only $522 in Alabama in 1940 as compared with $1,246 in Texas, $1,455 in New Mexico, and $2,370 in Arizona. The higher money yield per acre in the Old South was more than offset in its influence on the level of living by the small average size of farm which, in turn, was the result of the disproportion of population to land resources.

Cotton and tobacco, as well as the corn that is commonly raised for stock feed and farm consumption, have another characteristic in common that works to the disadvantage of the Southern farmer—their tendency to impoverish the soil. These three crops are all intertilled and facilitate a rapid runoff of water in rainy seasons. The top soil, never having been very thick in the South, is thus subject to a heavy annual loss through erosion. The "Report to the President" by the National Emergency Council in 1938 called attention to the fact that 61 per cent of the nation's badly eroded soil is found in the Southern States. At least 22 million acres of once fertile soil, it was estimated, has been ruined beyond repair. In order to make such abused and worn-out lands produce, heavy applications of fertilizer must be made. In 1942, the South Atlantic States and the South Central States purchased nearly 6 million tons of commercial fertilizers—three fourths of the nation's total. Meanwhile, it is estimated, 27.5 million tons of nitrogen and phosphorus compounds are leached out of the soil annually.

Exhaustion of the soil and the necessity for heavy fertilization implies higher costs of production, and rising costs place the Old South at a disadvantage in competition with newer producing regions where land is fresh and fertilization is less necessary. In South Carolina, for example, the yield of cotton in 1941 was 166 pounds per acre and the cost of production was 16.6 cents per pound of lint, the cost having risen from 8.7 cents per pound of lint in 1934. In Arkansas, by way of contrast, the 1941 yield was 342 pounds of cotton per acre—double that of South Carolina—and the cost of production per pound of lint had fallen from 9.9 cents in 1934 to 7.9 cents in 1941.

The Tenure System

If population pressure on the land and the system of cash cropping are two aspects of the strait jacket in which the Southern rural economy finds itself, the land-tenure system is a third aspect growing out of, but at the same time reinforcing, the others.

The predominant characteristic of this tenure system is the high tenancy rate. Tenancy, as has often been pointed out, is not necessarily bad in itself. It may represent a stage in a farmer's climb up the ladder to full ownership of his farm. On the other hand, it may represent a step downward from full ownership to a lower status.

In 1935, 41.4 per cent of all farm tenants in the United States were to be found in the cotton belt and 8.9 per cent in the tobacco belt. Tenants in these areas are of two kinds—cash tenants who pay a fixed cash rent or a fixed amount of cotton lint, and croppers who pay rent in the form of a share of the crop, the size of the share varying widely from one case to another and depending upon the amount of feed, fertilizer, and equipment that is furnished by the landowner.

There is a marked difference in the distribution of these classes of tenants as between white and colored farmers. In 1935, 44 per cent of white cotton-belt farmers were owners or part owners, 15 per cent were croppers, and the remainder were mostly cash tenants. Of Negro farmers in the cotton belt, however, only 16 per cent were owners or part owners, while 50 per cent were croppers, and the remainder were cash tenants.

Theoretically, cash tenants partake of the nature of entrepreneurs, as do owner-operators, in that it is possible for them to control the disposition of their labor and land as among various alternative uses. Practically, however, this freedom of action is limited by the small average size of tenant holdings. The necessity of raising the cash to pay rent, taxes, and other fixed charges, as well as to provide items in the family living that are not produced on the farm, causes the small tenant farmer to squeeze his few acres for their maximum cash yield. Since cotton still possesses the greatest comparative advantage for the small farmer, the cash cropping of cotton comes to be perpetuated. Where acres are few, none can be spared for crops that involve more extensive forms of agriculture.

Economically speaking, the share cropper partakes more of the nature of a wage laborer—a laborer, however, who, while being assured of a year's employment, is assured of no definite wage for his year's work. His wage—his share of the crop—is sharply affected by the yield of the crop and the price at which it is sold, as well as by the rate of interest charged by furnishing merchants and landlord on any advances that have been made to him. Moreover, since the landlord usually wants his return in the form of an easily marketed commodity, and no other Southern commodity so readily lends itself to a division between owner and tenant as does cotton, the cropper must perforce plant his land to cotton. Thus, without an entrepreneur's freedom of choice, the cropper is really a wage worker who must share entrepreneurial risks.

Since leasing arrangements are typically made for a year at a time and are often merely verbal agreements, there comes about a restless milling about from farm to farm by the tenants at this lower end of the scale. Tenants move more frequently than do owners, and croppers move more frequently than do cash tenants. In 1940, 22 per cent of the croppers in the 12 Southern States had moved to the farms they then occupied within the three months preceding April 1; 41 per cent had been on their farms less than 15 months.

This instability of tenure, of course, involves a social cost. A tenant moving from one farm to another each year has little incentive to maintain the tenant house or other farm buildings in good repair. He has little incentive to care for the land beyond his own short-run needs. He has no incentive to plant and cultivate a year-round garden that might serve to improve the quality of the family diet.

The decade 1930-40 witnessed some spectacular changes in the institutional pattern of farm tenure in the South. In the first place, an increase in farm ownership occurred. This increase, however, was entirely in the ranks of white owners, for the number of Negro owners declined. A sharp decline in the number of tenants of all classes, both white and colored also took place. Since the decline in tenancy greatly overbalanced the increase in farm ownership, it did not represent any improvement in the position of Southern farmers. Indeed, the net effect of these changes was for the worse, for it meant that tenants and share croppers were being forced out of even such a tenuous connection with the land as they had previously possessed. In part these displaced tenants migrated to the cities, especially to Southern cities, where the urban growth between 1930 and 1940 was nearly three times as great as the national urban increase. In part, too, these dislodged tenants and croppers sank down into the class of farm labor where they were more "marginal" than they had been in their former status. In either case, casual and seasonal employment and Government relief became their chief means of support.

In large part, the cause of these changes lay in the Government's agricultural policy of the 1930's under which cotton acreage was retired in an effort to reduce the cotton surplus and to raise prices, and benefit payments were made to encourage certain soil-conserving practices. This policy, working within the traditional tenure system, gave landlords a direct economic incentive to reduce the number of their tenants even though they were supposed not to do so, and the social cost of the policy was thus shifted to the weakest tenure groups, who were reduced to a still more precarious income status.

Programs and Policies

The fundamental reasons for low farm income in the South have been recognized for a long time. For a long time, too, a program has been advocated for dealing with some of the more unfavorable aspects of Southern agriculture—a program that has become almost a tradition of the "New South." There are three major items in this program: (1) soil conservation; (2) diversification of farm operations; and (3) farm ownership.

With regard to soil conservation, the ravages of erosion are so evident throughout much of the South that little argument is needed to justify all practicable measures to check it. Less obvious but equally deleterious is the exhaustion of the soil when planted year after year to the same soil-depleting crops. The plowing of rolling country along the contours of the hills instead of running furrows up and down the hillsides where every furrow becomes a gully to carry off the rainfall seems like obvious good sense. Similarly, the terracing of hillsides to check the runoff of water is a necessary practice. The planting of winter cover crops and legumes is also necessary to check erosion and to restore plant food to the soil. Soil is the foundation of agriculture, and unless it be conserved, there will be no profitable agriculture in the future.

The diversification of enterprises on the individual farm has been advocated for a number of reasons. By diversification a farmer can make himself more self-sufficient; a larger part of the living requirements of himself and his family can be produced on the farm. By engaging in a variety of enterprises, a farmer spreads the risk of failure of any one of them over the whole group. By a combination of pasture for the grazing of livestock with crops properly rotated, much can be done to check soil exhaustion as well as erosion. Diversification also makes possible a fuller use of available labor time. In raising cotton, for example, the peak demand for labor comes in the spring and fall. For at least four months in the year, the cotton laborer is idle except for chores. Crops, therefore, that have somewhat different peak demands for labor can be raised at practically no labor cost, since they would be produced by labor that would otherwise be idle.

As the third part of this program, farm ownership and the family-size farm have been insisted upon. These are preconditions for carrying out the conservation and diversification parts of the program. Only a farmer who has the security of tenure that comes with ownership and who possesses a sufficiently large farm can be expected to engage in these better practices.

Not only has this general program been advocated for years, but the technical knowledge for carrying it into effect has been carried to the farm leadership of Southern States by county agents of the Extension Service with a great deal of missionary zeal and with the support of Federal and state agricultural authorities. It was expected that the improved farm practices would be adopted

by the leading farmers and by imitation would penetrate to the lower rungs of the agricultural ladder.

There is no gainsaying the general desirability of the practices advocated in this program, nor can it be said that its advocates have been entirely without success in winning a response. Nevertheless, it remains true that the results have been far from commensurate with the time and effort and talent that have gone into the propagation of the program.

The reason for this disappointing outcome is fairly clear; the program cannot be carried into effect in the face of the existing disproportion of population to land resources that keeps the average size of farm small. It is idle to preach the desirability of soil conservation practices and diversification to a share cropper who has little or no control over the use to which his land is put. It is almost equally futile to do so to a cash tenant or an owner-operator with but few acres at his disposal.

Moreover, such practices require capital that must be invested for some time before it begins to bear fruit in increased income. The small owner-operator or tenant, with little collateral to pledge for a loan, experiences difficulty in securing such capital in the first place. In the second place, he cannot afford to wait for the fruition of such an investment several years hence. The pressure to get a living in the immediate present is too insistent.

In 1930-40, the South experienced 44 per cent of the nation's increase in population. While the states west of the Mississippi River, except Louisiana, experienced a decrease in farm population, the South Atlantic States had a 2 per cent increase and the East South Central States, approximately a 4 per cent increase in farm population.

But what did not happen even under the stress of the economic depression of the 1930's has been brought to pass by the war. Farm labor has been drained off to the armed forces, to wartime construction work, to war industries, and into shipyards. The labor shortage has caused a great outburst of enthusiasm for cattle raising in the Southern States. Many an old cotton county in the Black Belt of Alabama and Mississippi is now green with pasture. War crops such as peanuts and soybeans, as well as other food crops, have expanded. Diversification has been given a great impetus. The demand for most crops is good and prices are high. Incomes are higher than they have been for a generation and even the Negroes—the lowest-income group of all—are enjoying a degree of prosperity never known before.

The end of the war will witness the return of many thousands of men from the armed services and from war industries. On their return they will find a radically altered pattern of land use—one in which much less labor is needed. There will literally be no place for them on Southern farms. As a banker put it, in a county that was once a good cotton county but which has been converted almost entirely to cattle raising. "When these people come back, they will have to march right on down the road. There will be no place for them here."

Under such conditions, the economic problem of low-income farm groups may be converted into a social problem of quite another order, especially since it will be complicated by the racial issue. The basic difficulty of the South — the high man-land ratio — will then stand out starkly demanding a solution.

To adjust the man-land ratio, certain steps are necessary:

1. Industrial expansion in the South itself sufficient to absorb the surplus rural population should be a prime objective, for there is a social cost to a region when it exports the people it has reared and educated.

2. To assist in local industrial expansion, businessmen should be alert to discover and develop all possible opportunities for industrial development, and banks should be prepared to finance such developments to the limit of their ability.

3. Vocational and technical training should be provided in order to fit rural labor to the requirements of modern industry. Access to such training as well as to industrial employment, both skilled and unskilled, should be given without regard to race; for the Negro, being on the lowest rung of the agricultural ladder, is likely to bulk large in the surplus population that must be drawn off from the land.

4. Thorough and systematic efforts should be made by Federal, state, and local governments to place men in jobs for which they are fitted and, if necessary, to assist them financially to move to such jobs.

If the farm population of the South could be reduced by such means to the point where there would be a large increase in the average size of farm, then the diversified forms of agriculture that have long been advocated would have a better chance of success. For the people remaining on the farms, four needs are paramount:

1. The system of tenure should be reformed so as to place tenants on a cash basis and under long-term leases with provision for the recovery of the unexhausted value of any improvements they may have made at the time the lease terminates.

2. Training in the techniques of new and unfamiliar farm projects, as well as for increasing yields in more familiar projects, should be widespread. Soil conservation practices should be urged especially.

3. Banks should stand ready to finance by long-term loans and at reasonable rates the radical shift from undiversified to diversified agriculture as well as the adoption of soil conservation practices, mechanization, and any other development that would have the effect of reducing costs.

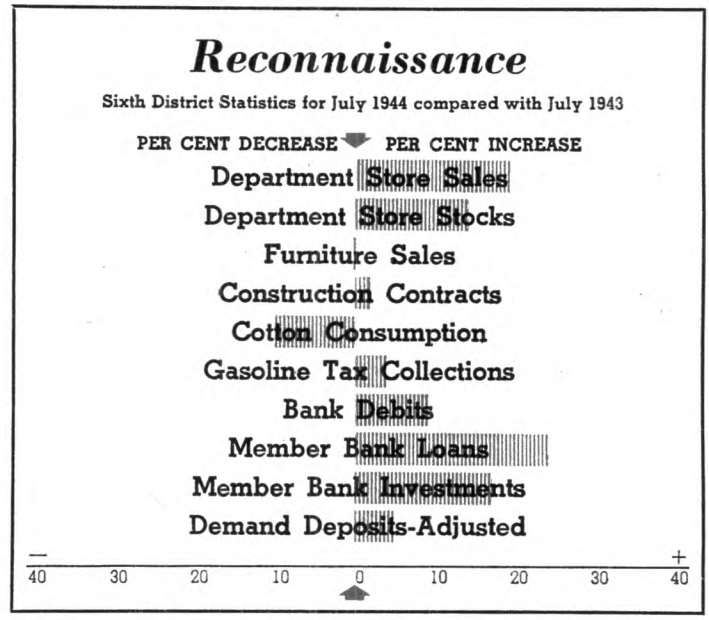
4. Farmers should be encouraged to carry their product one or more processing stages beyond the harvest where this is possible. This processing might in some cases be accomplished on the farm; in other cases it might be done in small local plants, co-operatively or privately owned.

The key to the solution of low agricultural income in the South seems to lie outside the field of agriculture itself and in the whole field of the national economy. If industry fails, nationally or regionally, to provide employment for the people who are no longer needed on farms, because of the increased physical productivity in agriculture and the inelastic character of the demand for agricultural products, then the South faces a bleak future indeed. This is the South's dilemma: either a large fraction of its farm population must shift to nonfarm employment, within or outside the region, or the South must resign itself to being the most depressed rural area in the United States in the future as it has been in the past.

EARLE L. RAUBER

Business and Agriculture

ON THE basis of preliminary figures, it seems apparent that Sixth District department store sales increased in August much less than they usually do. A preliminary index, adjusted for the seasonal trend, indicates a drop from July. In July, however, as in previous months, sales declined less than might have been expected, and the seasonally adjusted index rose. Wholesale trade and life insurance sales declined in July, but were greater than they were a year ago. Textile activity declined from June and was below the July 1943 level.



Retail trade: Sixth District department store sales in the first two weeks of August, reflected in reports from about 30 stores, appear to have increased about 11 per cent over July and 22 per cent over August last year. The rise of 11 per cent from July to August is considerably less than the usual seasonal gain, and if this rate should be true of the entire month when reports for the full month are received from the larger number of stores that report monthly, the seasonally adjusted index would decline about 7 per cent from July to August. The August index would, however, be higher than it has ever been in that month. New high levels have been reached in each of the past five years.

In July, the actual dollar volume of sales by reporting department stores declined from June by 6 per cent, but the daily average rate was down only 1 per cent, a drop much less than usually occurs in July. The seasonally adjusted index increased 11 per cent, to 263 per cent of the 1935-39 average. Knoxville again had the largest increase over July last year—44 per cent. This gain was more than twice as large as that occurring at any other reporting city. Increases of 21 per cent at Montgomery, 17 per cent at Chattanooga, Jacksonville, and Nashville, and 16 per cent at Miami were larger than the District average increase of 15 per cent. The Birmingham increase was equal to that for the District, and other reporting cities had lesser gains.

At those stores that classify their sales, July cash sales accounted for 62 per cent of the total as compared with 58 per cent a year ago; open book credit sales accounted for 34 per cent against 37 per cent in July 1943; and instalment sales were 4 per cent of the total against 5 per cent a year ago.

Inventories on hand at the end of July were about the same as those for June but in dollar value were 19 per cent larger than for July last year. Collections in July against regular accounts outstanding were at about the same rate as in June, but the ratio for instalment accounts rose from 31 per cent for June to 33 per cent for July.

Wholesale trade: Merchandise distribution through the District's wholesale firms declined further in July by 6 per cent, but the dollar volume of sales was 3 per cent greater than in July 1943. It is not unusual for the summer decline in wholesale trade to extend into July. However, increases over June were reported by firms dealing in automotive supplies, beer, industrial hardware, and paper and paper products. Compared with July of last year, most lines shared in the increase, but decreases were reported in sales of clothing, shoes, drugs, fresh fruits and vegetables, paper and paper products, and tobacco and tobacco products. For the January-July period, sales this year have been 9 per cent greater than in that seven-month period last year. July inventories were down 1 per cent from June but were 12 per cent larger than for July 1943.

Life insurance: July sales of life insurance in the six states of this District were down 9 per cent from the large June total. However, the increase over July of last year was 13 per cent, as compared with a gain of 8 per cent for the country as a whole. Gains of 13 per cent in Alabama, 27 per cent in Florida, and 10 per cent in Tennessee were better than the national average; the increase in Mississippi was 6 per cent, and that in Georgia and Louisiana, 2 per cent.

Finance: In July, the net circulation of this Bank's Federal Reserve notes rose by 15 million dollars. This was the smallest increase recorded for any month, with the single exception of January 1944, in more than two years. In the January-July period, net circulation rose by about 157 million dollars, while in the corresponding months of last year the increase was approximately 214 million dollars. In the first seven months of 1944, notes of the 5-, 10-, and 20-dollar denominations increased by 71 million dollars, or 10 per cent, while notes of the larger denominations, $50 and up, increased 83 million dollars, or 32 per cent. Total net circulation rose 16 per cent in that period.

Demand deposits (adjusted) at the District's 20 weekly reporting member banks averaged higher in the early part of August than in July but were still well below the averages for May and June. On August 16, the total was also less than it was on the corresponding Wednesday a year ago, when it reached a level that had not, up to that time, been attained. Time deposits have also increased further in recent weeks and at mid-August were 25 per cent larger than a year ago. Total loans reported by these banks have declined each week since early July, principally because of a reduction in loans on securities. Investments increased, however; holdings of United States securities on August 16 were the largest ever reported.

Industry: Textile activity in the Sixth District declined further in July to the lowest level reported in three and a half years. Mills in Alabama, Georgia, and Tennessee used an average of 10,423 bales of cotton for each of the 25 working days in July, an amount 2 per cent less than in June and 10 per cent less than in July last year. In the cotton year that ended July 31, the mills in these three states consumed 3,441,430 bales of cotton, a consumption 11 per cent below that of the previous year. Actual consumption in bales for July was 88,475 in Alabama, 155,862 in Georgia, and 16,247 in Tennessee.

Coal output in Alabama and Tennessee declined about 4 per cent in July and was at about the same level as in July last year. Estimates of the Bureau of Mines indicate July 1944 production of coal to have been 1,585,000 net tons in Alabama and 570,000 net tons in Tennessee. July is usually the lowest month of the year in coal production.

Construction activity in the District continues to decline. F. W. Dodge statistics of contracts awarded in the January-July period this year total about 140 million dollars, a drop of 53 per cent from the total for that part of last year. Residential contracts declined 49 per cent, and other awards dropped 55 per cent.

The demand for Southern pine lumber continues to be mostly for boards, but there has also been a noticeable increase in the call for dimension timbers and other construction materials as the Army moves into Europe. Production continues to be subnormal, despite the favorable weather, because of the continued scarcity of workers. The truck tire shortage will render the situation even more acute.

In July, shipyards in the District launched 36 merchant vessels, 23 of them Liberty ships. This is the largest number reported by the United States Maritime Commission for any one month, the previous record being 35 ships launched in December. For the entire country, the total for July was 126, and that for June, 145.

Cotton: The 1944 cotton crop in the United States is estimated by the Department of Agriculture, on the basis of information available on August 1, at 11,022,000 bales. This amount would be a reduction of 405,000 bales, or 4 per cent, from last year's production. The July 1 acreage was 7 per cent smaller this year, but the estimated acreage yield is 10 pounds larger. Allowing for average abandonment, the acreage for harvest this year is estimated at 20,081,000 acres, the smallest since 1895. The crop got off to a poor start at planting time mainly because of excessive rains, but hot, dry weather during the latter half of June and in July was favorable in most sections.

The six states that are wholly or partly in the Sixth Federal Reserve District are expected, on the basis of the August 1 estimate, to produce 4,304,000 bales this year. This production would be a decline of 12 per cent, or 589,000 bales, from last year's crop, and it would be smaller than production in these states has been in 27 of the past 41 years. By states, the reductions from last year range from 3 per cent in Tennessee and 5 per cent in Mississippi to 12 per cent in Alabama and Florida, 19 per cent in Georgia, and 27 per cent in Louisiana. The acreage yields are higher this year than last in Florida and Tennessee, by 10 per cent and 4 per cent, respectively. In Mississippi, the yield is estimated to be the same as it was last year. In Alabama, it is estimated to be 3

Sixth District Indexes

DEPARTMENT STORE SALES*

	Adjusted**			Unadjusted		
	July 1944	June 1944	July 1943	July 1944	June 1944	July 1943
DISTRICT	263	237	221	197	199	166
Atlanta	283	233	237	201	202	168
Baton Rouge	267	245	230	207	211	178
Birmingham	261	218	207	204	195	162
Chattanooga	280	205	231	197	200	163
Jackson	259	205	226	181	190	158
Jacksonville	329	303	267	263	268	213
Knoxville	347	254	236	248	229	169
Macon	267	220	229	190	198	163
Miami	263	229	224	147	156	125
Montgomery	265	225	210	189	195	150
Nashville	288	232	242	203	209	171
New Orleans	225	211	192	171	191	146
Tampa	330	285	289	241	249	211

DEPARTMENT STORE STOCKS

	Adjusted**			Unadjusted		
	July 1944	June 1944	July 1943	July 1944	June 1944	July 1943
DISTRICT	225	214	198	201	201	177
Atlanta	260	279	225	251	255	218
Birmingham	172	188	162	155	176	147
Montgomery	290	247	259	232	225	207
Nashville	358	304	289	310	283	250
New Orleans	161	162	136	148	151	125

	COTTON CONSUMPTION*			COAL PRODUCTION*		
	July 1944	June 1944	July 1943	July 1944	June 1944	July 1943
TOTAL	147	151	163	163	169	162
Alabama	153	160	171	171	177	171
Georgia	148	148	161	...	...	...
Tennessee	121	130	146	146	152	139

MANUFACTURING EMPLOYMENT***

	June 1944	May 1944	June 1943
SIX STATES	156	156r	155
Alabama	186	184r	196
Florida	167	174r	163
Georgia	144	144	141
Louisiana	167	168	152
Mississippi	141	142r	141
Tennessee	136	135r	138

	CONSTRUCTION CONTRACTS			GASOLINE TAX COLLECTIONS***		
	July 1944	June 1944	July 1943	July 1944	June 1944	July 1943
DISTRICT	90	92r	88	99	102	95
Residential	50	43r	132	...	...	...
Others	109	116r	66	...	...	...
Alabama	58	66	89	103	108	105
Florida	122	141	103	87	90	82
Georgia	71	123	151	93	94	90
Louisiana	100	61	33	102	101	103
Mississippi	41	50	94	95	92	94
Tennessee	82	54	30	118	131	102

COST OF LIVING

	June 1944	May 1944	June 1943
ALL ITEMS	130	129	128
Food	142	142	147
Clothing	137	136	129
Rent	114	114	114
Fuel, electricity, and ice	110	109	107
Home furnishings	138	137r	123
Miscellaneous	125	125r	118

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	July 1944	June 1944	July 1943
Unadjusted	197	197r	188
Adjusted**	197	199r	188

ELECTRIC POWER PRODUCTION*

	June 1944	May 1944	June 1943
SIX STATES	264	259	239
Hydro-generated	230	292	200
Fuel-generated	308	215	290

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	July 1944	June 1944	July 1943
Unadjusted	17.8	18.4	18.1
Adjusted**	18.9	19.0	19.2
Index**	73.0	73.4	74.2

*Daily average basis
**Adjusted for seasonal variation
***1939 monthly average = 100; other indexes, 1935-39 = 100
r = Revised

Sixth District Statistics

INSTALMENT CASH LOANS

Lender	Number Reporting	Per Cent Change June 1944 to July 1944	
		Volume	Outstandings
Federal Credit Unions	44	— 24	+ 1
State Credit Unions	28	— 32	+ 2
Industrial Banking Companies	43	— 10	— 2
Personal Finance Companies	49	— 7	+ 0
Commercial Banks	34	— 3	+ 1

CASH INCOME FROM FARM MARKETINGS*
(In Thousands of Dollars)

	June 1944	May 1944	June 1943	January-June	
				1944	1943
SIX STATES	88,572	106,806	76,357	678,077	589,943
Alabama	9,372	11,466	7,047	71,819	57,668
Florida	14,560	33,488	17,833	203,660	185,454
Georgia	18,471	13,317	13,865	96,597	75,651
Louisiana	9,573	13,228	7,509	77,372	66,459
Mississippi	13,857	13,794	9,808	85,440	80,615
Tennessee	22,739	21,513	20,295	143,189	124,096

*Government payments not included

RESERVES AND RELATED ITEMS OF SELECTED SIXTH DISTRICT MEMBER BANKS
(In Thousands of Dollars)

For reserve city banks figures are averages of seven-day period ending July 28, 1944; for country banks they are averages of sixteen-day period ending July 31, 1944.

Group*	No. of Banks	Deposits of Banks	Balances Due from Other Banks	War Loan Deposits	Actual Reserves	Per Cent Actual to Required
A	9	0	1,074	89	435	129
B	27	771	6,264	1,913	3,039	153
C	54	1,460	19,578	11,829	11,816	138
D	74	6,711	58,501	38,794	33,030	135
E	52	39,115	86,432	90,373	61,715	131
F	29	177,293	177,680	222,085	151,827	123
G	12	464,577	132,758	330,195	245,670	106
Total	257	689,927	482,287	695,278	507,532	116

* Group A: 1943 average deposits up to $500,000; Group B: $500,000 to $1,000,000; Group C: $1,000,000 to $2,000,000; Group D: $2,000,000 to $5,000,000; Group E: $5,000,000 to $15,000,000; Group F: $15,000,000 to $75,000,000; Group G: over $75,000,000.

CONDITION OF 20 MEMBER BANKS IN SELECTED CITIES
(In Thousands of Dollars)

Item	Aug. 16 1944	July 19 1944	Aug. 18 1943	Per Cent Change Aug. 16, 1944, from	
				July 19 1944	Aug. 18 1943
Loans and Investments—Total	1,735,065	1,712,229	1,470,514	+ 1	+ 18
Loans—Total	291,989	314,075	277,325	— 7	+ 5
Commercial, industrial and agricultural loans	156,981	163,630	163,269	— 4	— 4
Loans to brokers and dealers in securities	5,425	5,633	9,199	— 4	— 41
Other loans for purchasing and carrying securities	36,791	48,146	9,174	— 24	+301
Real estate loans	25,842	25,949	26,385	— 0	— 2
Loans to banks	847	361	698	+135	+ 21
Other loans	66,103	70,356	68,600	— 6	— 4
Investments—Total	1,443,076	1,398,154	1,193,189	+ 3	+ 21
U. S. direct obligations	1,305,379	1,263,478	1,028,312	+ 3	+ 27
Obligations guaranteed by U. S.	21,545	24,370	51,336	— 12	— 58
Other securities	116,152	110,306	113,541	+ 5	+ 2
Reserve with F. R. Bank	306,575	297,769	296,106	+ 3	+ 4
Cash in vault	25,595	26,833	24,261	— 5	+ 5
Balances with domestic banks	180,542	193,916	157,440	— 7	+ 15
Demand deposits—adjusted	1,068,817	1,020,991	1,085,322	+ 5	— 2
Time deposits	293,468	284,550	234,940	+ 3	+ 25
U. S. Gov't deposits	343,934	394,368	184,948	— 13	+ 86
Deposits of domestic banks	449,118	437,921	455,543	+ 3	— 1
Borrowings	.....	1	2,000	...	...

per cent smaller; in Georgia, 6 per cent; and in Louisiana, 19 per cent. At the middle of August, reports of the weather bureau indicated that the crop was in good condition in most parts of the District. In the southern part of Georgia, however, and in parts of Louisiana, the weather has been favorable to a rapid increase in boll weevil activity, and in Tennessee, the severe drought condition has continued except for local showers that have been beneficial.

Crop estimates: Although prospects for corn, hay, potatoes, and some other crops declined during July as a result of drought or near-drought conditions in a large central area, growing conditions in most other areas were favorable and aggregate crop production in the United States now seems likely to exceed production last year by 2 or 3 per cent, and to exceed production in any previous year except 1942. As in 1930, the drought area this year centers in Kentucky and Tennessee, and in parts of those states conditions on August 1 seemed fully as serious as at the same season in 1930, with early corn and gardens ruined, pastures brown, and serious local shortages of feed and forage in prospect. Dry weather has also reduced or threatened late crops in a much larger area extending into the Eastern Corn Belt States, Missouri, Arkansas, parts of Texas, and the northern portions of the states from Louisiana to Georgia. Since August 1, many sections have received rains, but in Mississippi, Louisiana, and the northern and eastern parts of Georgia, rain is still needed.

The Department of Agriculture's August estimates of crops for the six states of this District are lower, except that for tobacco, than they were a month earlier. Substantial increases over 1943 production of wheat, oats, and tobacco are indicated, but the August estimates indicate important reductions from last year in corn, tame hay, potatoes, and sweet potatoes. Prospects for rice and sugar cane in Louisiana are 10 per cent and 11 per cent, respectively, below 1943 production. In Georgia, August 1 prospects indicate the largest crop of peanuts on record, while in Louisiana the crop, hard hit by drought, is 57 per cent less than that produced last year. The condition of citrus groves in Florida continues well above that a year ago.

Through August 24, 100 million pounds of Georgia flue-cured tobacco had been sold. Indications are that farmers will receive nearly 10 million dollars more for their crop this year than they did last year. In the first three weeks of the season, Georgia farmers received 33 million dollars for 88.4 million pounds.

Petroleum: In late August, the California Company brought in a new well in Lincoln County, Mississippi—the W. C. Douglas No. 1. It is reported that this well is producing 11 barrels of 38-degree gravity oil each hour. This discovery has set off a great wave of buying and selling activity in the area. Some land as much as a mile and one-half away from the producing well is now selling for $550 an acre.

The Sun Oil Company has leased a tract of 8,781 acres in Van Buren and Bledsoe Counties, Tennessee, on the Cumberland Plateau. This company already has about 100,000 acres in the plateau region around Crossville. It is expected that exploratory operations will be undertaken in the near future. In Florida on August 16, the State Board of Education contracted with the Pure Oil Company to act as agent in drilling for oil on 3,000 acres of land in Gulf County in which the Board owns one half of the drilling rights.

D. E. MONCRIEF

Bank Announcements

Middle Tennessee Bank: On August 28, 1944, the Middle Tennessee Bank, Columbia, Tennessee, was admitted to membership in the Federal Reserve System. This bank was organized in 1930 and opened for business on July 1 of that year. Its capital stock is $150,000; its surplus is $120,000; and its deposits exceed $4,000,000. Lon P. MacFarland is president; C. A. Ross is vice president; R. M. McKay is cashier; and J. M. McGrew is assistant cashier. All of these officers are also directors, and in addition the board includes Z. R. Choate, T. B. Forgey, John P. Graham, R. L. Hunter, Mrs. J. L. Hutton, C. D. Loveless, O. B. Nicks, W. T. Porter, M. E. Queener, and James F. Russell.

President MacFarland is a lieutenant colonel in the Army and is serving in the European theater of action. The active management of the bank is headed by Vice President Ross, who has been associated with the bank since its organization and has been in charge of its activities since former President Hutton died in 1939. Cashier McKay has been with the institution since 1942, prior to which time he held a similar official position with the Columbia branch of the Commerce Union Bank. Assistant Cashier McGrew has been connected with the bank since 1933 and is a member of the finance committee.

Columbia is located 43 miles south of Nashville, in the prosperous bluegrass section of Middle Tennessee. The community's present population is estimated at 13,500. It is an important livestock center, having one of the largest mule markets in the United States.

St. Lucie Bank: On August 1, 1944, the St. Lucie County Bank, Fort Pierce, Florida, was added to the Federal Reserve Par List. Effective on that date, this bank is remitting to the Jacksonville branch of the Federal Reserve Bank of Atlanta at par for checks drawn upon it by its depositors.

St. Lucie County Bank was established in 1910 under a charter issued to it by the State Comptroller of Florida. Its capital is $100,000; its surplus, $90,000; it has undivided profits of $68,000; and its deposits are approximately $5,000,000.

John Stead is chairman of the board of directors and president; Edwin Colean is vice president; Robert Terry is vice president and cashier; and Evelyn Walker and Florence Haskell are assistant cashiers. In addition to Messrs. Stead, Colean, and Terry, the board of directors includes H. M. Horton and A. Hallstrom.

Florida State Bank: On September 1, 1944, the Florida State Bank, Delray Beach, Florida, will be added to the Federal Reserve Par List. Beginning on that date, this bank will remit to the Jacksonville branch of the Federal Reserve Bank of Atlanta at par for checks drawn upon it by its depositors.

The Florida State Bank was established in 1929 under a charter issued to it by the State Comptroller of Florida. Its capital is $25,000; its surplus, $25,000; it has undivided profits of $11,000; and its deposits exceed $1,750,000.

O. Helland is chairman of the board of directors and president of the bank; F. G. Benson is vice president; H. A. Hubbard is vice president and cashier; and C. J. Manson and G. W. Strickland are assistant cashiers. In addition to Messrs. Helland, Benson, and Hubbard, the board of directors includes J. Schoeller and J. S. Wuepper.

Sixth District Statistics

RETAIL FURNITURE STORE OPERATIONS

Item	Number of Stores	Per Cent Change July 1944 from	
		June 1944	July 1943
Total Sales	106	— 8	— 0
Cash Sales	94	— 3	+ 2
Instalment and Other Credit Sales	94	— 9	+ 1
Accounts Receivable, end of month	105	— 1	— 13
Collections during month	105	— 1	— 12
Inventories, end of month	80	+ 16	— 39

CONDITION OF FEDERAL RESERVE BANK OF ATLANTA
(In Thousands of Dollars)

Item	Aug. 16 1944	July 19 1944	Aug. 18 1943	Per Cent Change Aug. 16, 1944, from	
				July 19 1944	Aug. 18 1943
Bills discounted	2,800	925	.....	+203	...
Industrial advances	32	33	240	— 4	— 87
U. S. securities	721,015	712,968	280,499	+ 1	+157
Total bills and securities	723,847	713,926	280,739	+ 1	+158
F. R. note circulation	1,121,636	1,092,177	769,435	+ 3	+ 46
Member bank reserve deposits	549,153	540,611	502,659	+ 2	+ 9
U. S. Gov't deposits	5,053	16,010	573	— 68	+782
Foreign bank deposits	45,014	45,716	35,174	— 2	+ 28
Other deposits	6,383	4,505	2,131	+ 42	+200
Total deposits	605,602	606,841	540,537	— 0	+ 12
Total reserves	996,358	972,614	1,015,096	+ 2	— 2

DEBITS TO INDIVIDUAL BANK ACCOUNTS
(In Thousands of Dollars)

Area	July 1944	June 1944	July 1943	Per Cent Change July 1944 from	
				June 1944	July 1943
ALABAMA					
Anniston	16,241	20,137	13,245	— 19	+ 23
Birmingham	177,069	196,797	159,648	— 10	+ 11
Dothan	5,502	7,828	5,892	— 30	— 7
Gadsden	9,760	11,227	9,606	— 13	+ 2
Mobile	114,291	134,982	116,932	— 15	— 2
Montgomery	33,883	38,630	33,654	— 12	+ 1
FLORIDA					
Jacksonville	167,653	203,772	159,141	— 18	+ 5
Miami	110,756	136,166	89,672	— 19	+ 24
Greater Miami*	144,996	183,368	111,831	— 21	+ 30
Orlando	25,042	32,455	21,373	— 23	+ 17
Pensacola	23,651	22,509	25,008	+ 5	— 5
St. Petersburg	21,900	24,146	19,834	— 9	+ 10
Tampa	76,898	88,601	78,909	— 13	— 3
GEORGIA					
Albany	8,663	9,696	7,155	— 11	+ 21
Atlanta	460,055	491,174	422,109	— 6	+ 9
Augusta	34,158	37,094	30,730	— 8	+ 11
Brunswick	14,908	13,624	13,988	+ 9	+ 7
Columbus	32,523	38,304	32,540	— 15	— 0
Elberton	1,787	1,801	1,427	— 1	+ 25
Macon	45,039	40,485	37,680	+ 11	+ 20
Newnan	4,495	4,845	5,211	— 7	— 14
Savannah	97,274	91,360	72,113	+ 6	+ 35
Valdosta	6,602	6,454	6,191	+ 2	+ 7
LOUISIANA					
Baton Rouge	40,536	39,720	41,462	+ 2	— 2
Lake Charles	17,225	19,749	20,126	— 13	— 14
New Orleans	429,365	474,121	394,812	— 9	+ 9
MISSISSIPPI					
Hattiesburg	13,021	13,416	11,927	— 3	+ 9
Jackson	53,143	63,741	43,378	— 17	+ 23
Meridian	16,275	19,069	13,912	— 15	+ 17
Vicksburg	21,998	18,253	18,370	+ 21	+ 20
TENNESSEE					
Chattanooga	90,345	100,271	81,972	— 10	+ 10
Knoxville	105,976	110,713	69,290	— 4	+ 53
Nashville	171,475	195,882	191,146	— 12	— 10
SIXTH DISTRICT 32 Cities	2,447,509	2,707,022	2,248,453	— 10	+ 9
UNITED STATES 334 Cities	72,945,000	83,853,000	65,347,000	— 13	+ 12

*Not included in totals

The National Business Situation

INDUSTRIAL production and employment declined slightly further in July. Wholesale commodity prices generally continued to show little change, while the cost of living increased somewhat.

Industrial production: Output at factories and mines continued to decline slightly in July and the Board's seasonally adjusted index was 233 per cent of the 1935-39 average as compared with 235 in June. The decrease in industrial production largely reflected small declines in a number of industries due to continued minor readjustments in the munitions program and to manpower shortages.

Output of steel and of nonferrous metals declined further in July to levels respectively 8 per cent and 20 per cent below the high levels of last autumn. A small decrease in activity in transportation equipment industries reflected partly the indirect effects of manpower shortages in foundries and continued readjustments in the shipbuilding and aircraft industries. In August, a cutback in aircraft production was announced which was expected to result in the immediate release of 20,000 aircraft workers and the gradual release of 100,000 more during the balance of this year.

Production of manufactured dairy products and meats, after allowance for seasonal change, was maintained in July, while output of other food products declined slightly. Cotton consumption showed little change from the rate of the last two months. Activity in the rubber products industry continued to decline slightly in July, and supplies of heavy truck and bus tires available for civilians during the third quarter were substantially below estimated needs. Output of chemicals likewise continued to decline slightly.

Crude petroleum output and metal mining were maintained in large volume during July. Coal production dropped 5 per cent from the level of the preceding month, but for the year through August 12, it was approximately 8 per cent above the corresponding period of last year, reflecting uninterrupted operations, longer working hours, and a great expansion of strip mining.

So far this year, the value of construction contracts awarded, as reported by the F. W. Dodge Corporation for 37 states, has fluctuated around 160 million dollars a month—the lowest level since early 1935.

Distribution: Department store sales declined considerably less than is usual in July, and have continued in August at a higher level than a year ago.

Bank credit: In the five weeks following the close of the Fifth War Loan Drive, loans by banks for purchasing and carrying U. S. Government securities declined sharply; calls on war loan deposits and subsequent Treasury expenditures increased adjusted demand deposits and, consequently, required reserves; the rapid outflow of currency into circulation was renewed; and excess reserves declined.

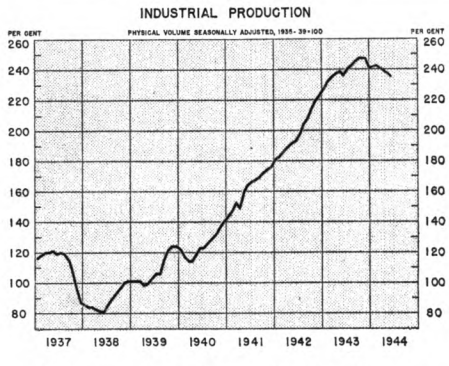
In the five weeks from July 12 through August 16, loans to brokers and dealers for purchasing and carrying Government securities declined 500 million dollars to about the predrive level. Loans to others for purchasing and carrying Government securities declined about the same amount, but are still considerably larger than before the drive. Commercial loans continued to show little change.

Treasury war-loan balances at all depositories declined in the five-week period by 2.7 billion dollars. At weekly reporting banks, Government deposits fell by 2.2 billion dollars during the same period, and adjusted demand deposits increased by 1.4 billion dollars. Time deposits continued the steady increase that has been in progress for more than a year.

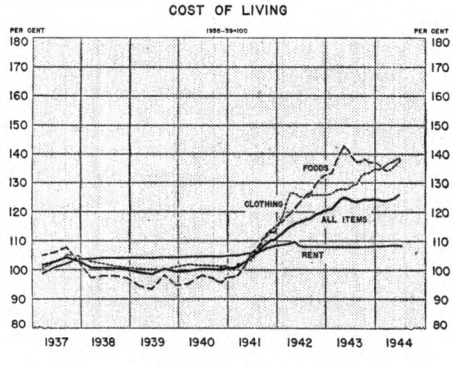
Following a slackened rate of outflow during the war loan drive, currency renewed its rapid outflow and in the next few weeks increased at a rate of about 500 million dollars a month. The resulting drain on bank reserves and the increase in required reserves were met in part by purchases of Government securities by the Reserve Banks and in part by a decline in excess reserves.

Weekly average excess reserves of all member banks declined about 300 million dollars from their peak during the war loan drive and amounted to nearly 1.1 billion dollars in mid-August. The rate of decline was about the same at reserve city and at country banks.

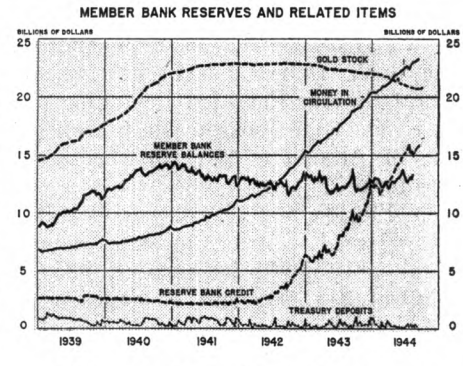
(This page was written by the staff of the Board of Governors of the Federal Reserve System)



Federal Reserve index. Monthly figures, latest shown is for July 1944.



Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for July 1944.



Wednesday figures, latest shown are for August 16, 1944.