



## FEDERAL RESERVE BANK OF ATLANTA

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*The Year of the Onion*

To the more prosaically minded people of the Western world, the ways of the Orient often seem picturesque and colorful. The custom of naming instead of merely numbering years is a case in point. To call the past year "Nineteen Hundred and Fifty" as we do, for example, does little more than give it position in an endless file of similarly expressionless numbers. No inkling is given of the kind of events with which the year was filled. To call it the "Year of the Iron Tiger," on the other hand, as it has been named in some parts of the Orient, suggests something of the year's historical temper. Whatever this name may have meant to those who originally coined it, to us it certainly calls to mind the low-silhouetted Russian-made tanks that came rolling down out of the fogs of North Korea one Sunday morning last June, belching fire and death as they came.

Some time ago during one of China's perennial inflations there was a year that acquired the name "Year of the Onion." As nearly everyone knows, the peeling of an onion is a disconcerting task. Each tissue-thin sheath is so inextricably bound up with the next that once the peeling has started there seems to be no end to it until little or nothing is left of the onion. In that year of inflation, the Chinese equivalent of the American "man in the street" found himself stripped little by little of his wealth, his real income, his property, and his economic security by the forces that were gradually subtracting layer after layer of value from his money, like the peeling of an onion.

Although current judgments always run the risk of being falsified by later events, it would seem on the basis of present evidence that the year 1951 might well turn out to be our "Year of the Onion." The inflationary bias in our economy has now become so strong that in any year but this, it would be a matter of the deepest public concern. Responsible public agencies, as well as economists and others who make a business of keeping a finger on the nation's economic pulse, are even now worried over the potential dangers inherent in the present situation.

The general public, however, seems more preoccupied with problems arising in the "Year of the Iron Tiger" than with those of the "Year of the Onion." There are, first of all, the baffling problems of our foreign policy and the threat of general war spreading from the conflagration that was lit in Korea last summer. The human sacrifices implied in the casualty lists from the battlefield and the personal problems arising from the drafting of more and more young men into the armed services loom very large in the public mind. Then, too, there is the implied threat to the standard of living as more and more commodities are diverted from civilian to military use in the course of our economic mobilization. All

these problems are of more immediate concern to the public than the rising price level.

The dangers of inflation, however, are not less because they are temporarily obscured by others of seemingly greater importance. In the end they will become all too apparent unless inflation is brought under control by the efforts of everyone in a position to influence the course of events. There is more than a temporal relation between the "Year of the Iron Tiger" and the "Year of the Onion." There is a close cause-and-effect relationship between them. Because we have had the one, we are virtually certain to experience the other.

Last June the nation was riding the crest of a business boom, a cyclic upturn after a brief and minor recession in 1949. Jobs were plentiful; wages were good; business profits were high; industry was working at close to capacity; stores were filled with a glittering abundance of goods and with customers eager to buy them for cash and for credit. Prices, too, were high, but this did not bother anyone very much for incomes were also high and rising.

**Korea**

Then, like a thunder-clap from a summer sky, came Korea. Almost overnight the nation became aware of the appalling state of its defenses. We had thought all along that we were so strong that we could safely promise aid and comfort to any victim of aggression anywhere in the world. In Korea, however, we tasted the bitter fruit of defeat, first at the hands of the North Koreans, then, after a bright interlude in which victory seemed assured, we tasted it again at the hands of the intervening Chinese forces. And just as we saw the figure of China rise up behind that of North Korea, we later saw Soviet Russia looming behind China, casting a shadow not only over the whole of Asia but over Europe as well.

This was all a new and distressing experience for Americans. We knew that if we were given enough time we could repair our deficiencies, great though they were. We knew we could build the divisions and manufacture the weapons that would assure ultimate victory in case of general war. But would we be given enough time? That was the question of paramount importance. Our allies in Europe were not strong enough to bear the brunt of war for months and years while we readied ourselves as they did on two previous occasions. This time, if war came, the United States would receive the first shock. We learned this in Korea where, despite the aid of many other nations, it was American soldiers who bore nearly 90 percent of the burden.

Korea opened the eyes of all of us to our precarious position in the present state of the world. We saw with the utmost clarity the life-and-death urgency of rearming and of

doing it as rapidly as possible. Whether or not the war in Asia ends in victory, or defeat, or in voluntary withdrawal; whether or not war does or does not break out in Europe in the immediate future, the nation's course in one respect is set—it is determined to prepare itself economically and militarily for any eventuality. All illusions have vanished in the fires of Korea. Only cold reality remains.

### Financing Rearmament

One aspect of that cold reality is that we are engaged in a tremendously costly business. Estimates of the ultimate requirements of the armed forces are still too fluid to be very meaningful but they are apparently of fantastic proportions, measured by any previous peacetime standards. It has often been pointed out that our entry into World War II came at a time when there was a large volume of unemployment in the land, and when there were idle resources on every hand that could be mobilized for war purposes. Since the war in large part could be waged by the use of these otherwise idle resources, the civilian level of living was not jeopardized to any great extent except for certain technical shortages.

Now, however, the situation is radically different. The cost of rearming is being thrown upon an economy operating at full capacity. The whole cost, therefore, will have to come out of current production and out of the production from new plant capacity yet to be created, but which cannot be created overnight. We are likely to learn that war is not a way of becoming prosperous; it is a way of becoming poor. Enormous sacrifices will have to be made by the whole nation if we are to achieve our goal.

There are three ways in which the Government can get the funds it needs: it can tax; it can borrow from the public; or it can borrow purchasing power newly created through the banking system. War spending financed by any of these methods is inflationary, especially when the economy is already working at capacity, but there is a vast difference in the degree to which these methods contribute to inflation.

Taxation, of course, is the least inflationary. When the Government takes money from the public in the form of taxes and then pays it out again to the public in return for goods and services, it is at least not increasing the money supply. In that sense taxation is not inflationary. There has come about merely a substitution of public for private spending. Nevertheless, since the Government spending of tax monies restores purchasing power to the civilian economy while causing goods and services to be withdrawn from it, there is some upward pressure put upon prices. People do not cut expenditures by as much as the tax increase but rather maintain expenditures by reducing current savings or drawing on past savings.

Being the least inflationary method of war finance, taxation should be preferred over all others by everyone interested in preserving the stability of the economy in times of stress such as we are now experiencing. There are limits, however, to the severity of the tax program that the nation can bear although they lie much above any presently contemplated level of taxation. Modern families, especially modern urban families, resemble modern businesses in that they carry a much larger burden of fixed costs and commitments than was true in earlier generations. Like a modern business, the modern urban family has a high break-even point. Just as a relatively small decline in the gross income of a corporation can put it into the red, so too deep a tax bite into the income of the average modern family can put it in a position where it cannot support all its fixed obligations. The pressures that

would inevitably follow any attempt to tax up to this point make it unlikely that the full cost of the defense program could be met in this way, especially if war should ensue.

Another method is borrowing from the public. Insofar as the Government borrows funds that would otherwise have been spent by the purchasers of bonds, the effects would be substantially the same as in the case of taxation, although an inflationary problem would be laid up for the future. For the moment inflation would be held to a minimum. If, however, idle funds were borrowed, then borrowing would result in an increase in the volume of purchasing power that would be activated by civilians. Such an increase in active funds, taken with the decrease in goods and services going to civilians, would provide a double impulse for prices to rise.

The amount of money that can be raised by the sale of Government bonds to the public on a voluntary basis, however, is also limited. It is limited beyond a certain point, like taxation, by the public's inability to escape its fixed commitments without causing serious and widespread economic complications. It is limited, too, by the reluctance of people to trade present dollars for future dollars when they expect dollars to be worth less in the future than in the present. Against these limitations there must be set, of course, the strength of the appeal that can be made to patriotism. How strong this appeal may have to be is indicated by the fact that even now, with seven months of war behind us and with the casualty lists growing longer, redemptions of E-bonds, the kind mostly held by the public, are outrunning new sales.

During the last war the public purchase of Government securities was a major source of revenue. If the public were sufficiently aroused to the gravity of the present situation, the sale of bonds to the public could again become important as a source of revenue.

### The Genie in the Bottle

Although the weight of argument lies on the side of taxation and public borrowing as preferable methods of war finance, no nation, if its need for funds was sufficiently great, has ever been able to supply them from these sources alone. In every case nations have always had recourse sooner or later to their sovereign power to create money or to have money created in their behalf. In the more distant past, the exercise of this power has taken the form of emitting issues of fiat paper money. Nowadays it takes the more sophisticated form of selling Government securities to banks that create the credit with which the bonds are purchased. This bank-created credit is then available to the Government as purchasing power for whatever it wishes to buy.

The possessing of a power by which it can quickly, easily, and to an almost unlimited extent supply any need for money places the Government in a position like that of the fisherman in *Arabian Nights* who drew up in his net a brass bottle in which was imprisoned an evil genie who promised untold riches to the one who would release him. Inflation is such an evil genie. It promises to do wondrous things for the government that resorts to it.

The Government, moreover, can use this power without the public's registering any of the signs of pain that would follow the adoption of a really Spartan tax program, for the first effect of inflation is to suffuse the economy with a feeling of heady prosperity and general well-being. All incomes tend to rise. What does it matter if prices also rise?

But whether a nation comes to this method of finance by first choice or belatedly and reluctantly, as a matter of un-

avoidable necessity, it nevertheless inevitably comes to it in time of war or full-scale mobilization for war. This has been true in the past at least. There is a strong presumption that it will be true in 1951 and for some years thereafter.

### The Genie Out of the Bottle

There is now no question of releasing or not releasing the genie of inflation. It is already out of the bottle. It has been out for a long time. Like those of the fisherman's genie in the fable, its first promises have been fair. We can see this if we compare a few figures for the first quarter of 1950 with those for the third quarter, by which time we were deeply involved in the Korean War. In the first quarter of 1950, personal income was running at a rate of 216.4 billion dollars a year. In the third quarter this figure had risen to 224.8 billion dollars—a gain of 8.4 billion. That was fine! Even after taxes, personal income had increased by 4.3 billion in its annual rate.

Expenditures for personal consumption rose from an annual rate of 182.4 billion dollars in the first quarter to 195 billion in the third quarter—a gain of 12.6 billion; a gain exceeding that in personal income. How was this possible? By saving less; by drawing on past savings; and by spending income that had not yet been earned—by consumer credit.

Labor income went up too—from 135.5 billion dollars a year to 148.3 billion, a rise of 12.8 billion. And farm proprietors' income rose from 12.7 billion a year to 13.3 billion; a small rise, to be sure—only 0.6 billion. Business income did better. It went up 3.3 billion. Corporate profits before taxes increased 12.8 billion and after taxes 7.2 billion.

With such increases in evidence on every hand, there is little wonder that everyone experienced a feeling of exhilaration. Was this not the biggest and best of all booms?

The promises of the fisherman's genie in the fable were, of course, deceitful. When he once got out of the bottle, he threatened the fisherman with death, giving him only the choice of how he wished to die.

The genie of inflation has likewise begun to welsh on his promises and, in the end, will bring down catastrophe on the nation if he is not returned to his prison or if his destructive power is not curbed. The trouble is that prices as well as incomes have risen. The dollars in which we express economic magnitudes have shrunk in value. The onion has been undergoing a certain amount of peeling. The dollar that was worth a hundred cents in 1935-39 in terms of consumers prices was worth only 57.2 cents last October and was worth a little less than 57 cents in November. In terms of wholesale prices the decline was still greater. In October the 1935-39 wholesale dollar was worth only 47.6 cents. Later figures will record further deterioration in the value of the dollar in terms of both wholesale and retail prices.

One effect of this decline in the value of the dollar has been to tarnish the brilliance of the 1950 boom. When deflated to take account of the rise in consumers prices, the 8.4 billion gain in personal income between the first and third quarters shrinks to 0.2 billion; the 4.3 billion rise in personal income after taxes shrinks to a minus quantity—a *decline* of 1.8 billion; personal consumption expenditures, instead of rising by 12.6 billion, rose only 3.3 billion; instead of labor income rising 12.8 billion, it rose only by 4.5 billion; business income, in terms of the consumers price index, rose only 1.2 billion; and corporate profits after taxes only 3.8 billion.

It is true, of course, that as long as there was any net gain, people were somewhat better off than before. This was possible because of the sharp gains in industrial production. But

people were not nearly as well off as they seemed to be, in terms of current dollars.

At this juncture, when a large fraction of our national output of goods and services is about to be diverted to the uses of the military establishment, further inflation is bound to reveal its true character as a thief and a destroyer.

Inflation steals from the poor, the aged, and the blind—from all the millions who subsist precariously on the pittance of relief checks. It robs men and women of the fruits of a lifetime of savings in the form of insurance or in other forms. It destroys the provision that fathers and husbands have sought to make for children and wives after their death. It despoils the endowments that support our great centers of learning and research. It robs our soldiers in the field of the weapons with which hard-pressed taxpayers have sought to provide them. It reaches into the safety deposit box of every man of means and clips something from the value of every asset yielding a fixed income.

Worst of all, if inflation, like the fisherman's genie, is allowed to escape so far that its form blackens the whole sky, it could destroy the very fabric of our society. Other nations have had this experience. We should not feel too confident over the impossibility of its happening here.

Although a certain amount of inflation may be beneficent when it calls a large volume of idle resources into use and so stimulates production, the case is quite different when the economy is already working at capacity. Under such circumstances inflation cannot bring about the production of much new wealth; it can only precipitate a scramble for possession of what wealth there is.

In this struggle over the distribution of wealth, all individuals and groups are not of equal power. Some groups are so placed that their incomes rise faster than prices, while others are in no such position. The group that succeeds in thus improving its own position, whether it does so by its own action or because of the interplay of impersonal economic forces, does so at the expense of others. In time of war this means that it has not accepted any share of the national burden but has let the whole of it fall upon the shoulders of others less fortunately situated.

This unequal sharing of the burden incurred in behalf of the entire nation can, under certain circumstances, lead to the economic ruin of whole classes in society. It can lead to the transformation of ordinary economic rivalry into the sharpest kind of internal class antagonism in the political arena. Nazism, in the decade of the thirties, was just such an evil fruit growing in the soil of a disastrous inflation. Although a similar outcome seems far removed from present possibilities in this country, once the onion-peeling has started, it is hard to stop and it carries this particular danger with it.

### Controlling the Genie

The dangers of inflation are so great and its inequities as a method of government finance are so gross that they demand that it be brought under some kind of control. The genie cannot now be returned to his bottle, but perhaps his destructive power can be kept in check if everyone does what he can.

Inflation is not something that is caused by government alone. The public, too, has the power to release the genie from his prison. Under conditions of full employment all credit-creation, whether for public or for private spending, leads to inflation—strips a few more layers of value from the dollar. The inflation that has occurred since 1945, indeed, has not been occasioned by any increase in Government defi-

cit-spending. It has been caused by an increase in private deficit-spending. It has been the consumer demand for durable goods, as well as the business demand for the facilities needed to supply it, that has led to a dangerous expansion of bank loans and consumer credit.

Now, when it is more than probable that the Government will have to re-embark upon deficit-spending to cover some part of the cost of the rearmament program, inflation can be controlled only if the Government practices the strictest economy in its own operations and if private deficit-spending is kept to a minimum. Private lending and private borrowing, except for essentials must be vigorously discouraged.

A keen awareness of the danger of piling additional credit for private purposes upon that which will be needed for Government purposes has prompted the Federal Reserve System to exercise its powers of restraint. It has brought about a rise in short-term interest rates; it has raised the rediscount rate; it has increased reserve requirements; it has placed curbs upon the extension of consumer credit and credit for new construction. These are all measures that everyone who has the interest of the nation and its economy at heart should warmly approve. They could be criticized only on the grounds that they are not adequate to the task.

Because the forces making for inflation of really formidable proportions are unlikely to be completely controlled by monetary devices, however, direct controls over prices and wages are now being readied by the appropriate agencies of the Government. These are necessary, not because it is thought possible for any agency to freeze a situation that is deemed inherently equitable, but rather to prevent the still greater inequities that would arise if the burden of rearmament were distributed by the unmitigated force of an uncontrolled inflation.

### Freedom

All controls, direct and indirect, are unpalatable to the American people. We are a freedom-loving people and are constitutionally suspicious of all efforts by the Government or its agents to interfere with our getting rich in our own way. Controls now in existence, as mild as they are and falling as far short as they do of actually meeting the demands of the situation, have been opposed in the name of freedom. We can be sure that any further extension of controls over the economy will also be opposed in the name of freedom.

Freedom, indeed, is a priceless heritage and should be preserved at all costs. But there are different kinds of freedom. The football player who, on the eve of the big game, insists on breaking training and thus renders himself unfit for the gruelling ordeal that he must face is indulging in one kind of freedom. The player, on the other hand, who voluntarily submits himself to training and to the discipline of an inspired coach for the sake of the game is exercising freedom of a higher order. Now, in this climactic moment of our nation's history, the need is for more of this second kind of freedom and for less of the first. The need is for a people who will expend thought, energy, and ingenuity in trying to make the Government's program work rather than in trying to find every loop-hole for evasion and every opportunity to circumvent it. If we fail to win the economic battle against inflation at home, we will have less chance of winning the graver battles that may lie ahead in the foreign field. And if we fail to win in that field, there may come a day in which there will be no freedom of any sort, for anyone, anywhere.

EARLE L. RAUBER

## Sixth District Statistics

### CONDITION OF 27 MEMBER BANKS IN LEADING CITIES (In Thousands of Dollars)

Item	Jan. 24 1951	Dec. 27 1950	Jan. 25 1950	Percent Change Jan. 24, 1951, from	
				Dec. 27 1950	Jan. 25 1950
Loans and investments—					
Total	2,536,420	2,570,891	2,449,133	-1	+4
Loans—Net	1,127,386	1,138,907	888,785	-1	+27
Loans—Gross	1,142,940	1,153,165	900,692	-1	+27
Commercial, industrial, and agricultural loans..	681,677	685,009	535,940	-0	+27
Loans to brokers and dealers in securities....	12,170	14,459	8,118	-16	+50
Other loans for pur- chasing and carrying securities.....	35,097	36,522	33,496	-4	+5
Real estate loans.....	92,096	93,764	79,665	-2	+16
Loans to banks.....	6,100	7,840	4,480	-22	+36
Other loans.....	315,800	315,571	238,993	+0	+32
Investments—total	1,409,034	1,431,984	1,560,348	-2	-10
U. S. direct obligations...	571,744	572,595	563,459	-0	+1
Obligations guaranteed by U. S.....	626,715	641,946	797,019	-2	-21
Other securities.....	210,575	217,443	199,870	-3	+5
Reserve with F. R. Bank....	481,217	431,476	392,645	+12	+23
Cash in vault.....	43,455	49,308	41,405	-12	+5
Balances with domestic banks.....	189,134	209,671	176,132	-10	+7
Demand deposits adjusted.	1,901,497	1,887,552	1,747,597	+1	+9
Time deposits.....	514,884	518,512	532,733	-1	-3
U. S. Gov't deposits.....	43,556	48,465	50,596	-10	-14
Deposits of domestic banks	574,104	587,717	533,394	-2	+8
Borrowings.....	17,150	14,700	5,000	+17	*

\* More than 100 percent.

### DEBITS TO INDIVIDUAL BANK ACCOUNTS (In Thousands of Dollars)

	Dec. 1950	Nov. 1950	Dec. 1949	Percent Change		Year to Date
				Dec. 1950 Nov. 1950	Dec. 1949	
ALABAMA						
Anniston.....	29,537	25,735	22,654	+15	+30	+15
Birmingham.....	440,008	389,541	378,294	+13	+16	+16
Dothan.....	18,582	17,591	14,011	+6	+33	+17
Gadsden.....	24,332	23,183	21,724	+5	+12	+18
Mobile.....	158,376	141,883	138,187	+12	+15	+7
Montgomery.....	93,854	92,321	81,985	+2	+14	+15
FLORIDA						
Jacksonville.....	374,764	375,000	310,501	-0	+21	+19
Miami.....	324,360	280,314	273,178	+16	+19	+16
Greater Miami*....	490,621	411,443	381,639	+19	+29	+20
Orlando.....	76,495	52,507	65,156	+46	+17	+23
Pensacola.....	41,314	38,676	44,102	+7	-6	+7
St. Petersburg.....	81,619	75,037	65,918	+9	+24	+23
Tampa.....	177,399	146,177	160,132	+21	+11	+17
GEORGIA						
Albany.....	35,059	33,504	26,798	+5	+31	+16
Atlanta.....	1,061,570	1,014,902	928,862	+5	+14	+16
Augusta.....	74,057	68,514	60,630	+8	+22	+14
Brunswick.....	11,369	10,383	9,968	+9	+14	+13
Columbus.....	76,880	68,549	61,309	+12	+25	+27
Elberton.....	4,526	4,865	4,357	-7	+4	+12
Gainesville*.....	22,281	22,184	14,167	+0	+57	+31
Griffin*.....	15,382	14,233	13,631	+8	+13	+12
Macon.....	81,649	74,994	67,491	+9	+21	+19
Newnan.....	12,034	11,458	8,903	+5	+35	+15
Rome*.....	27,699	28,835	24,707	-4	+12	+18
Savannah.....	124,225	102,938	96,667	+21	+28	+14
Valdosta.....	14,004	12,912	12,572	+8	+11	+1
LOUISIANA						
Alexandria*.....	48,877	29,370	35,856	+66	+36	+17
Baton Rouge.....	110,456	108,579	110,233	+2	+0	-3
Lake Charles.....	47,569	44,180	40,718	+8	+17	+11
New Orleans.....	857,282	843,999	773,920	+2	+11	+12
MISSISSIPPI						
Hattiesburg.....	19,450	19,001	18,052	+2	+8	+13
Jackson.....	154,638	161,268	140,561	-4	+10	+13
Meridian.....	30,688	30,916	26,429	-1	+16	+15
Vicksburg.....	38,342	30,342	26,836	+26	+43	+6
TENNESSEE						
Chattanooga.....	185,176	170,883	159,946	+8	+16	+15
Knoxville.....	152,128	125,827	133,106	+21	+14	+14
Nashville.....	394,685	372,986	357,891	+6	+10	+17
SIXTH DISTRICT						
32 Cities.....	5,326,427	4,968,965	4,641,091	+7	+15	+15
UNITED STATES						
333 Cities.....	139,542,000	123,541,000	118,197,000	+13	+18	+6

\* Not included in Sixth District total.

## Income, Credit, and Buying in 1950

Consumers in the Sixth District not only had more money to spend in 1950 but they spent more than ever before. Many prudent consumers lost hope that lower prices would enable them to get more for their money in the future. Consequently, a large number of them, after spending their greater incomes, spent their savings or went deeper into debt. Merchants as a group, therefore, had the greatest dollar volume of business in history, approximately 7 percent larger than in 1949.

The year started with little more than an expectation that the first six months' sales would equal the 1949 record. Some persons looked for the payment of dividends on national service life insurance in the spring to offset the expected running out of the boom in automobile and other durable goods sales. The outlook for the period after that was cloudy.

One reason why many businessmen were only mildly optimistic about 1950 was their experience in the last half of 1949. Some sections of the District had been hit hard by a depressed farm income, and in a number of places income from manufacturing and other types of industry had reflected the recession in late 1948 and 1949. As a matter of fact, these conditions continued to influence retail buying in parts of the District well into 1950.

### The First Six Months

Some of the facts were shown in reports of department stores. Although the first four months' sales, including Easter business, were just about holding their own against the 1949 record, it was only because of a higher rate of sales increase in a minority of District cities. In many cities, sales were falling below the previous year's level. Payments of dividends on GI insurance had been largely completed during the period and they had caused but a ripple on the chart of department store sales. Some analysts thought that without this stimulus there would have been a major dip.

But the demand for automobiles had not been satisfied. Automobile sales were averaging over a third higher for the District and appliance sales about a fifth greater than during the corresponding period of 1949. Merchants who sold building materials, household appliances, and other things to outfit the home were reaping the harvest of a record boom in residential construction. Also, with network programs in the offing for many District cities, sales of television sets were high.

Incomes, moreover, were already beginning to grow. In manufacturing it was not only a growth in employment but also an increase in average weekly earnings that helped. Part of the growth in pay rolls came from higher wage rates, especially in the lumbering industry. Some of the increase was because of the new 75 cent minimum wage rate that went into effect on January 25, but other wage increases and lengthened working hours resulted from the recovery that was underway.

Reports from department stores began to reflect the growth in income. In most cities business picked up enough in May and June to bring sales throughout the District for the first six months up 3 percent above those of the like period in 1949. Doubts about the future very similar to those held at

the first of the year were prevalent, however, until the outbreak of war in Korea.

### The Korean Crisis

In only a minor way were the rising incomes responsible for the record rate of buying in July and August. When the buying wave started at the outbreak of the Korean War, consumers actually had little more money to spend than they did before. The important factor was that they decided to use it. Higher prices or shortages seemed more probable for the future than lower prices or surpluses. Now, if ever, they decided, was the time to convert money and other savings into goods.

Some of the so-called war-scare buying was merely the automatic reflex of persons who remembered previous wartime shortages. Such were the purchases of nylons which put July hosiery sales in District department stores up 78 percent over those of July 1949. But many of the decisions were probably based upon the prudent judgment of ordinarily conservative persons.

Whatever the motives, the effects were readily apparent. In July, August, and September, District motor vehicle dealers sold 50 percent more than in the similar period of 1949. Household appliance dealers increased their sales, and consumers bought heavily at furniture stores. Department store customers took 46 million dollars worth of goods from Sixth District stores in July, a third more than in July 1949.

How much consumers dipped into their savings to buy was shown in the drop of 24 million dollars in time deposits at District member banks in the months of June through September. There were also heavy redemptions of United States Savings Bonds, with redemptions (excluding interest) exceeding sales in each month from June to December, inclusive.

### More Credit

Many consumers, who did not have savings to pay for their greater purchases or did not want to use them, went more heavily into debt. For example, they owed 57 million dollars more on instalment loans to all District commercial banks at the end of September than at the beginning of June. In addition, they owed retailers more, with instalment credit at District department stores 38 percent greater.

Many analysts concluded that the heavy buying of mid-summer and fall was merely "business borrowed from the future." They expected a reaction in the last quarter that might pull sales down below the 1949 level. Some persons believed that because so many automobile, appliance, and furniture purchases were made on credit, sales would be cut drastically when restrictions were placed on consumer credit.

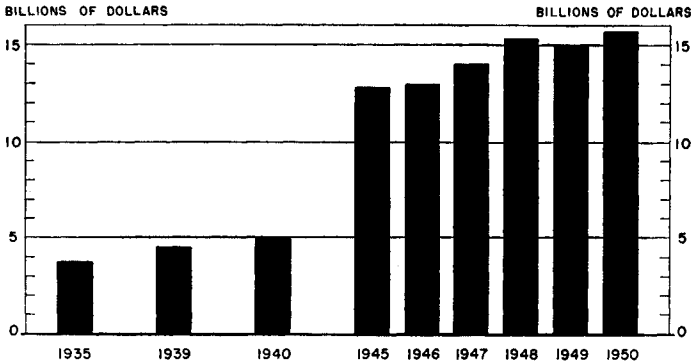
### More Income

Buying did slacken somewhat in the last quarter, but there was no decided decline. One reason for this was that immediately after the Korean War started, consumers helped create the conditions they expected would come about. As a result, prices and incomes increased sharply during the last half of the year.

The decision to step-up spending set the wheels of industry moving more rapidly. Retailers began to stock more heavily

than usual. District department stores, for example, received 31.7 million dollars more in merchandise during the last half of 1950 than they sold and ended the year with inventories 32 percent higher than a year earlier. Their outstanding orders were up 31 percent. Because the same thing was hap-

1. Income payments in the Sixth District States were approximately 15.7 billion dollars during 1950, topping the previous record year, 1948.



pening elsewhere, District manufacturers expanded their plant and equipment outlays, hired more workers, and lengthened the working hours so they could fill orders. It is estimated that manufacturing pay rolls alone in the District were 14 percent greater in the last half of 1950 than in the first half and 23 percent greater than in the last six months of 1949.

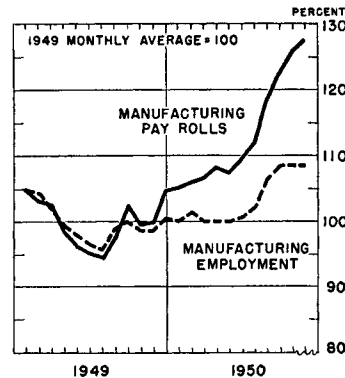
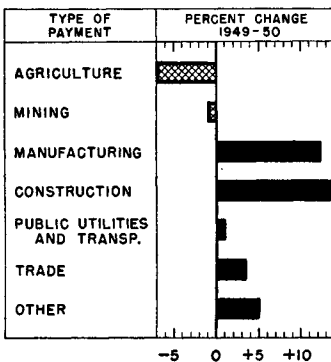
Incomes were also higher in most of the nonmanufacturing sectors of the economy. For one thing, the record-breaking construction activity not only raised incomes of construction workers, but also incomes of those who sold or transported materials, financed the building, and performed other necessary services. Farmers alone, out of the various groups of income receivers in the District, received substantially lower incomes in 1950 than in 1949, but this was the result of smaller crops. Higher agricultural prices during the latter part of the year, however, tempered this decline in agricultural income.

**Higher Prices**

Of course, the greater money income received in the latter part of 1950 did not result in an equal increase in real income. Because prices were up, consumers got less for their

2. Lower agricultural income was more than offset by growth in other types.

3. Higher wage rates and longer working hours during the latter part of the year raised wage income from manufacturing.



money. At the end of 1950 a dollar was worth only 92 cents, compared with what it could buy in January in terms of the consumers price index for the Sixth District. In terms of the food index, the dollar was worth only 90 cents, and in terms of clothing prices, 95 cents.

There was, moreover, nothing about the trend of current events to dampen the demands resulting from higher prices. The consumers who had, by buying heavily in July and August, gambled on rising prices, saw their predictions fulfilled. Others who were watching the trend of wholesale prices, which had risen even more than retail prices, saw that further increases in retail prices were a likely possibility. They used the greater incomes, therefore, to buy goods and services.

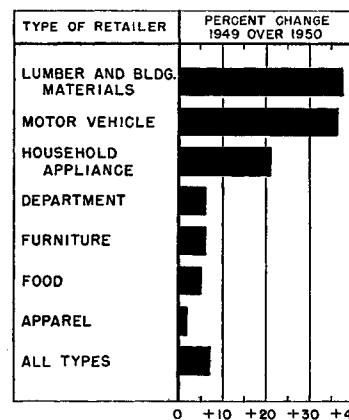
Besides using their higher incomes to increase their purchasing during the last part of 1950, consumers continued to spend their liquid assets. Despite credit restrictions, the sale of new automobiles in the Atlanta metropolitan area during the months of September through December exceeded those of the corresponding period in 1949 by 31 percent. A smaller part of this buying must have been financed by credit since automobile instalment sale credit granted by commercial banks, the chief suppliers, did not rise correspondingly.

The impetus of higher incomes and the greater use of liquid assets pushed up buying in department stores during December to 6 percent above that in December 1949, which was a record month itself. Sales for 1950 were higher than those for 1949 in every reporting city of the District. There were few lines of retailing with sales less in 1950 than in 1949.

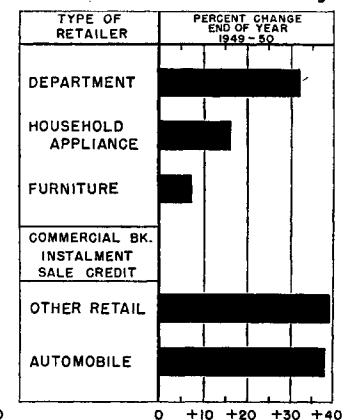
4. By using their greater incomes and drawing on their liquid assets, consumers increased their buying at most types of stores, especially those selling durable goods.

5. Part of the buying was made possible by the use of credit. Consequently, consumer credit expanded.

**Retail Sales**



**Instalment Accounts Outstanding**



Many retailers found they needed more working capital to carry inventories and accounts receivable as the year closed. At department stores, for example, total accounts receivable were 12 percent higher at the end of 1950 than a year earlier and, of course, inventories were up. More credit extended meant that the estimated cash received from collections and cash sales during 1950 was slightly less than the amount of cash receipts during 1949. For this reason, many merchants increased their borrowing from banks.

### Problems of 1951

If the defense program now being launched is carried out, it seems inevitable that consumer money incomes will be higher in 1951 than in 1950. Under ordinary circumstances, higher incomes would mean a period of smooth sailing for retailers.

These are not ordinary times. Usually, a combination of ability and willingness to buy merely means a high level of business activity. The current defense program is so large that it can be met only by cutting output of civilian durable goods. The urge to spend on the part of civilians, therefore, could mean a crippling inflation. To avoid this, it is essential that taxes be raised and savings encouraged. If the defense

program is put on a "pay-as-you-go" basis, it will mean that by paying higher taxes or getting less credit, consumers will be buying planes, tanks, guns, uniforms, and atom bombs instead of automobiles, television sets, bedroom furniture, sport coats, and T-bone steaks.

Business as usual, therefore, will certainly not be the order of the day in 1951. The primary problem for wholesalers and retailers will not be one of inducing consumers to buy. It is more likely to be one of getting the goods their customers want to buy. How well they succeed will depend upon the ability of the nation to produce.

CHARLES T. TAYLOR

## Deposits, Loans, and Investments at Sixth District Member Banks in 1950

Member banks in the District played a major role in helping to expand the money supply during 1950. Bank loans to private borrowers made possible in part the growth in business and consumer buying during the year. Both as a result of the general credit expansion and of a flow of funds into the District, individuals and businesses had more on deposit during most of 1950 than in 1949. During the same period the banks' investments in Government securities declined.

### Deposit Growth

In the first four months of the year, lower farm incomes in the predominantly agricultural areas of the District dampened the growth of deposits. In Mississippi, for example, total deposits of member banks were lower during the first four months of 1950 than in the corresponding period of 1949. In most other areas of the District, however, deposits were higher than in 1949. During the remainder of the year, deposits were up in each District state.

By the end of 1950, total deposits in all District member banks exceeded 6 billion dollars for the first time since the end of 1945. Deposits at District member banks grew at about twice as great a rate as those at member banks throughout the country. The year-end figures for 1950 showed deposits up 7 percent from the end of 1949 at the Alabama member banks, 14 percent in Florida, 9 percent in Georgia, 6 per-

cent in Louisiana, and 8 and 6 percent in Mississippi and Tennessee, respectively.

Most of the growth in deposits during the year was in business or personal demand deposits. Time deposits ceased to grow because of the increased consumer spending. By the end of the year, total time deposits had increased less than the amount of interest that normally would be earned.

### Credit Expansion

With nothing but seasonal influences to affect their level, business loans at District banks would ordinarily have declined considerably during the first half of the year. During that part of 1950, however, loans declined only 19 million dollars, much less than would be expected on the basis of seasonal influences. The growth in real estate and consumer instalment loans offset this decline so that the banks ended the first half of the year with 16 million dollars more in total loans than at the beginning and 243 million dollars more than on June 30, 1949.

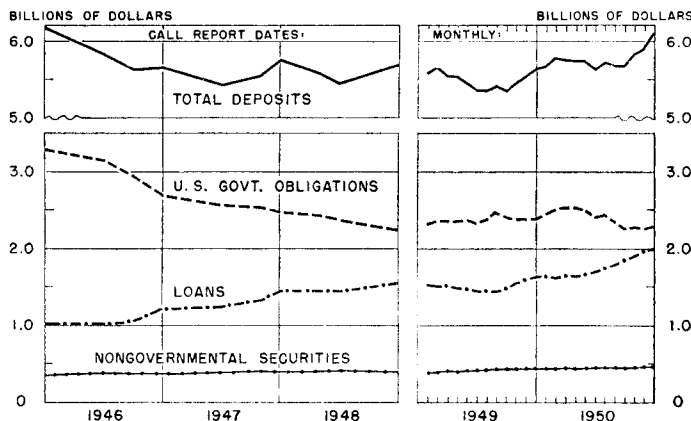
The major impetus for loan expansion changed after the start of the Korean War. Although consumer credit continued to expand through October, the growth in business loans overshadowed it.

Both manufacturers and retailers were prompted by demand and price developments after the outbreak of the Korean War to add to their inventories. Increased production made more working capital desirable. These and other factors raised total loans at all member banks 304 million dollars during the last six months of the year, a rate of growth three times that which ordinarily would be expected. Despite the increased loan demands, however, interest rates on business loans remained relatively stable until the last quarter.

Although the steps taken by the Federal Reserve Board to tighten credit and the voluntary restraints imposed by the bankers themselves may have prevented loans from expanding to some extent, the record growth in loans was not halted. Banks needing additional reserves were able to obtain them by disposing of part of their Government security holdings.

The greater part of the reduction in security holdings occurred at banks in the reserve cities. At country banks, those outside reserve cities, holdings of Government securities at the end of 1950 were almost equal to those at the end of 1949. Loan expansion at country banks was smaller and deposit expansion was greater than at reserve city banks. Country

SIXTH DISTRICT MEMBER BANKS



banks as a group, therefore, did not have as great a need to dispose of their Governments in order to increase reserves.

Because real estate and consumer credit both run for relatively long periods, the effects of the selective controls placed upon them in September and October were not immediately apparent. The first indication that these controls were becoming effective was in October, when the increase in consumer credit outstanding over that of the preceding month was only one percent, in contrast to gains ranging from 3 to 5 percent in the preceding months. In November, outstandings declined one percent and there was an increase in December of less than one percent.

### Increased Use of Bank Deposits

A more active use of the money supply in 1950 was a notable feature of banking operations. Bank debits, representing checks and other withdrawals from deposit accounts, were greater in every section of the District than in 1949. At the reporting banks in Florida cities, the total of debits for 1950 was 19 percent greater than in 1949. Georgia banks reported an increase of 17 percent; the banks in Tennessee one of 16 percent. The gain in Alabama was 14 percent; in Mississippi, 12 percent; and in Louisiana, 10 percent.

Since the rate of gain in debits exceeded the growth in deposits, there was an increase in the turnover of bank deposits. At the member banks in leading cities of the District, demand deposits were used on the average of 22.1 times a year in 1950, compared with 19.7 times in 1949. Deposit accounts became especially active in the last half of the year, although the increased use was already noticeable before then. In January, the turnover of demand deposits on a seasonally adjusted basis was approximately 81 percent of the 1935-39 average. By September, deposits were being used at a seasonally adjusted rate of 98 percent of this prewar average. The increased deposit activity, of course, helped intensify inflationary pressures.

Thus, the general picture of 1950 was one of rapidly expanding credit and spending, accompanied by a rising price level. There were exceptions, of course. In the District, 22 percent of the member banks had lower deposits at the end of the year than at the end of 1949. But for the District as a whole the expansion was greater than in many sections of the country.

### Problems in 1951

Because, so far, the expansion has come in private credit and private spending or in anticipation of Government spending, the monetary and credit conditions in 1950 have been but a prelude to the greater problems to be faced in 1951 as the tempo of Government spending accelerates. A further step to halt credit expansion was announced, therefore, by the Board of Governors on December 28, when it raised the amount of reserves required by member banks to the maximum under existing authority. The step, to become effective in January, was made to restrain further expansion of bank credit. For District member banks it means an increase of approximately 90 million dollars in required reserves.

To the extent that voluntary and compulsory restraints are successful, the first part of 1951 should witness a slowing down of both loan and deposit expansion at District banks. Although banks alone cannot do the job of halting inflation, the trend of loans during the coming months will measure in part, at least, the success of relieving those inflationary pressures caused by monetary expansion.

CHARLES T. TAYLOR

## Sixth District Indexes

Place	DEPARTMENT STORE SALES*					
	Adjusted**			Unadjusted		
	Dec. 1950	Nov. 1950	Dec. 1949	Dec. 1950	Nov. 1950	Dec. 1949
DISTRICT.....	421e	391r	382r	708e	453r	642r
Atlanta.....	490	440	443	774	523	700
Baton Rouge.....	456	393	449	738	452	728
Birmingham.....	430	369	335	692	431	539
Chattanooga.....	455	382	398	733	451	641
Jackson.....	432	403	416	656	472r	633
Jacksonville.....	459	383	414r	767	459	692r
Knoxville.....	449	340	393	732	395	640
Macon.....	395	351	342	712	436	615
Miami.....	422	404	370	764	472	669
Montgomery.....	386	321	359	657	381	611
Nashville.....	473	405	438	789	486	731
New Orleans.....	380	357	370	609	436	592
Tampa.....	562	505	498r	922	606	817r

Place	DEPARTMENT STORE STOCKS					
	Adjusted**			Unadjusted		
	Dec. 1950	Nov. 1950	Dec. 1949	Dec. 1950	Nov. 1950	Dec. 1949
DISTRICT.....	460e	448	352	401e	501	306
Atlanta.....	625	554	424	519	653	352
Birmingham.....	382	363	282	325	410	240
Montgomery.....	600	519	351	480	576	281
Nashville.....	696	704	496	620	824	441
New Orleans.....	384	393	322	346	429	290

Place	GASOLINE TAX COLLECTIONS***					
	Adjusted**			Unadjusted		
	Dec. 1950	Nov. 1950	Dec. 1949	Dec. 1950	Nov. 1950	Dec. 1949
SIX STATES.....	245	242	224	250	249	228
Alabama.....	238	242	217	242	249	221
Florida.....	224	218	202	221	211	200
Georgia.....	256	252	234	254	261	233
Louisiana.....	269	269	238	271	282	240
Mississippi.....	253	241	221	259	265	225
Tennessee.....	243	228	237	262	245	256

Place	COTTON CONSUMPTION*			ELECTRIC POWER PRODUCTION*			
	Dec. 1950	Nov. 1950	Dec. 1949	Nov. 1950	Oct. 1950	Dec. 1949	
TOTAL.....	178	176	147r	SIX STATES	439	414	363
Alabama.....	187	187	161r	Hydro-			
Georgia.....	180	177	145r	generated	316	306	330
Mississippi.....	116	108	89r	Fuel-			
Tennessee.....	136	139	121r	generated	600	555	407r

Place	MANUFACTURING EMPLOYMENT***			CONSTRUCTION CONTRACTS			
	Nov. 1950	Oct. 1950	Nov. 1949	Dec. 1950	Nov. 1950	Dec. 1949	
SIX STATES.....	152	152	139r	DISTRICT.....	754	545	501
Alabama.....	153	153	135r	Residential	902	744	596
Florida.....	143	138	132r	Other.....	682	448	455
Georgia.....	151	154r	142r	Alabama.....	503	782	478
Louisiana.....	146	144	142	Florida.....	877	666	534
Mississippi.....	154	153	134r	Georgia.....	648	470	442
Tennessee.....	159	158	144r	Louisiana.....	1159	491	369
				Mississippi.....	501	283	717
				Tennessee.....	607	385	619

Item	CONSUMERS PRICE INDEX			ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS			
	Dec. 1950	Nov. 1950	Dec. 1949	Dec. 1950	Nov. 1950	Nov. 1949	
ALL ITEMS.....	184	180	171	Unadjusted.....	24.5	25.3	21.7
Food.....	220	211	198	Adjusted**.....	21.7	23.8	19.2
Clothing.....	203	202	192	Index**.....	87.8	96.6	77.7
Fuel, elec., and refrig.	141	140	138	CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*			
Home furnishings.....	201	197	184	Dec. 1950	Nov. 1950	Dec. 1949	
Misc.....	161	160	155	Unadjusted.....	356	352	320r
Purchasing power of dollar.....	.54	.56	.58	Adjusted**.....	369	347	332r
				e Estimated			
				r Revised			

\*Daily average basis

\*\*Adjusted for seasonal variation

\*\*\*1939 monthly average = 100;

Other indexes, 1935-39 = 100

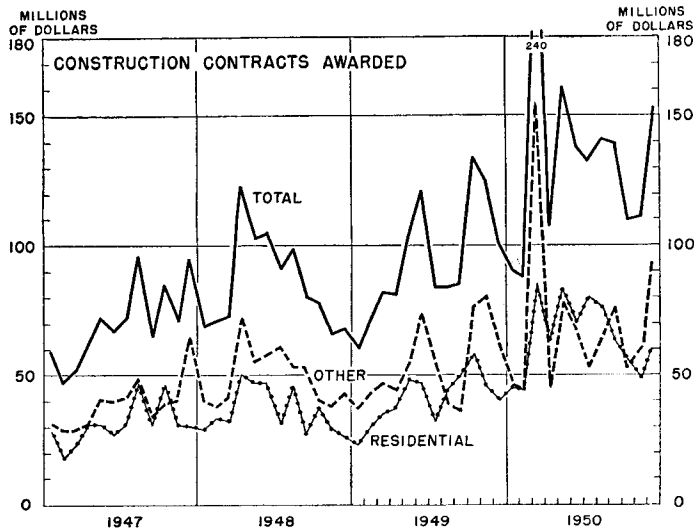


# Industry and Employment in 1950

Construction activity in the Sixth District was greater during 1950 than in any previous year, and electric power production also reached a new high. Mills used cotton at a rate 28 percent greater than in 1949; the output of coal in Alabama and Tennessee was about 20 percent greater; and steel mills operated most of the year above their rated capacity. Crude petroleum production in Coastal Louisiana and Mississippi was up 10 percent. Manufacturing employment averaging 3.5 percent greater for the first eleven months than in the like period of the year before.

## Construction

In 1950 new high records were reached in both total and residential construction in the District. According to F. W. Dodge Corporation statistics, total construction contracts awarded during 1950 amounted to 1.6 billion dollars, 42 percent greater than the previous record reached in 1949. Residential awards in 1950 totaled 775 million dollars, and were larger than the 1949 total by 58 percent; these awards accounted for 48 percent of the 1950 total, compared with 43 percent of the 1949 total.



All of the six states shared in the gain over 1949 in both total and residential construction. As in many earlier years, Florida had the largest amounts for both total and residential construction—33 percent of total contracts, and 47 percent of residential contracts.

Figures published by the Bureau of Labor Statistics show that in the first ten months of 1950, there were 83,959 house-keeping units authorized by contract or permit in the District states, an increase of about 37 percent over that part of 1949. Of the total, Florida had one-third, and was followed in order by Alabama, Louisiana, Tennessee, Georgia, and Mississippi. According to the index of the American Appraisal Company, construction costs rose 7 percent in 1950 after having declined during 1949.

## Textiles

Textile mill activity in the District, on the basis of the daily average rate of cotton consumption, averaged 28 percent higher in 1950 than in 1949 and was nearly equal to that in 1946, the highest postwar year. The decline between January and July was much smaller than has occurred during that time

in other recent years, and the October index was the highest in four years.

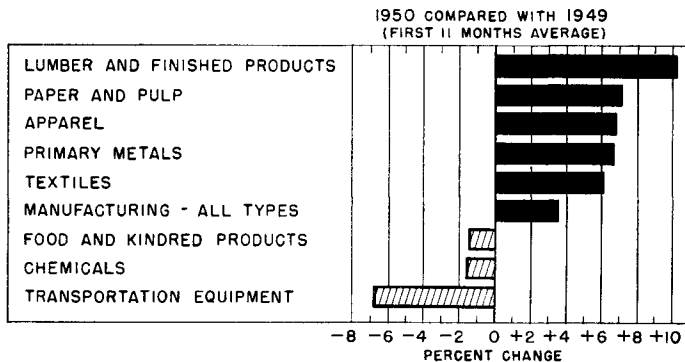
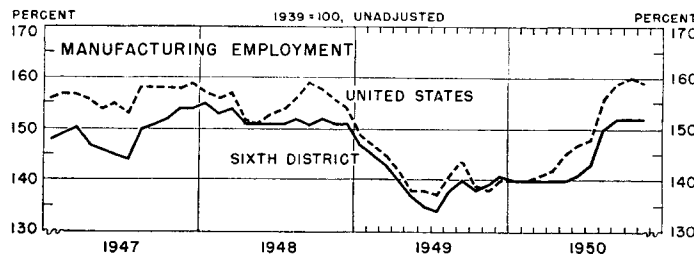
Not only did production of textile products increase, following the outbreak of the war in Korea in June, but wholesale prices of textile products, according to the Bureau of Labor Statistics' index, increased 20 percent between May and October. Mill margins—the spread between the cost of a pound of raw cotton and the price of the finished product—increased from 31.6 cents in June to 48.7 cents in September, a rise of 54 percent in three months. For the first ten months of 1950, mill margins averaged about 20 percent higher than in that part of 1949.

## Employment

Manufacturing employment in District states increased in the third quarter of 1950 from the second quarter, but there were only minor changes in October and November. The November index was about 9 percent higher than that for November 1949, the largest percentage gains being in Alabama and Mississippi. One reason for the 13-percent increase in Alabama was that in the fall of 1949, work stoppages had caused employment to be unusually low. The Mississippi gain of 15 percent was principally in lumber and wood products and textiles. November employment was greater than a year earlier in nearly all the more important industries except food and food products, where there was a decrease of 3.7 percent.

In the first eleven months of 1950, manufacturing employment in the District averaged 3.5 percent higher than in that part of 1949. Louisiana monthly indexes averaged 1.4 percent below those for 1949, but in the other states gains ranged from 3.1 percent in Florida and 3.2 percent in Alabama to 4 percent in Tennessee, 4.9 percent in Georgia, and 7 percent in Mississippi. In the January-June period the District index changed little and stood at 140 percent of the 1939 average—140 was the average for the entire year 1949. But in the third quarter the index rose to 152 for September, October, and November, higher than the January-June average by 8.6 percent, and 9.3 percent higher than in those months of 1949.

In lumber and wood products, employment averaged 10.2



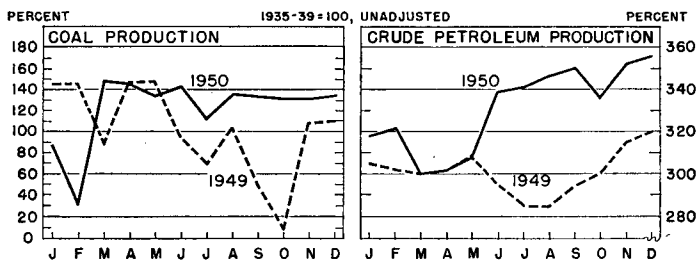
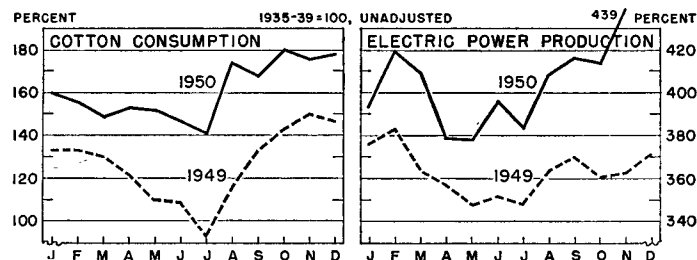
percent greater than in 1949; in fabricated metal products the increase was 9.2 percent; in paper and paper products the increase was 7.1 percent. There were also gains of 6.8 percent in employment at apparel establishments, 6.7 percent in primary metal industries, and 6.1 percent in textiles. In food and food products there was a decrease of 1.5 percent for the year; in chemicals, including fertilizer manufacture, employment averaged 1.6 percent less than in 1949. Transportation equipment industries, which include shipbuilding, reported an average of 5.8 percent less help than they had in 1949. The number of workers in transportation equipment had been declining in postwar years, but between April and November last year there was an increase of about one-fourth.

**Coal, Steel, Petroleum, and Electric Power**

In 1950, coal production in Alabama and Tennessee averaged about 20 percent greater than in 1949. The mines were practically idle during most of February and the first week of March, because of work stoppages, but March output was substantially greater than a year earlier. Beginning with June, production was greater for each month than it was for the corresponding month in 1949.

Operations at the District steel mills were curtailed in February and early March by the coal strike; by the week of March 5 steel mill activity was down to 43 percent of capacity. During the remainder of the year, however, activity averaged from 101 percent of rated capacity to as high as 108 percent, reported for the week of September 17.

**SIXTH DISTRICT PRODUCTION INDEXES**



Production of crude petroleum in the coastal areas of Louisiana and Mississippi during 1950 averaged 10 percent greater than in 1949. Louisiana production was greater each month, although output in Mississippi during the first five months of 1950 was somewhat less than in the same months of 1949.

Electric power production at the District public utility plants averaged 11 percent greater in 1950 than in 1949, and was the highest on record. Hydro-generated current, accounting for 44 percent of the total, was down 5 percent for the year, but at plants using fuels output increased 29 percent. November production was higher than it had been in any previous month.

D. E. MONCRIEF

**Sixth District Statistics**

Lender	No. of Lenders Reporting	Volume		Outstandings	
		Percent Change Dec. 1950, from		Percent Change Dec. 1950, from	
		Nov. 1950	Dec. 1949	Nov. 1950	Dec. 1949
Federal credit unions	39	+11	+8	+0	+30
State credit unions	19	+32	+25	+2	+30
Industrial banks	9	+3	+11	-0	+10
Industrial loan companies	11	+14	-24	-13	-11
Small loan companies	38	+37	-3	+2	+7
Commercial banks	33	+9	-1	+0	+31

Item	Number of Stores Reporting	Percent Change Dec. 1950 from	
		Nov. 1950	Dec. 1949
		Total sales	116
Cash sales	101	+51	-1
Installment and other credit sales	101	+40	-15
Accounts receivable, end of month	111	+3	+9
Collections during month	111	+5	+8
Inventories, end of month	86	-4	+30

Type of Wholesaler	No. of Firms Reporting	Sales		Inventories	
		Percent Change December 1950, from		Percent Change December 31, 1950, from	
		Nov. '50	Dec. '49	Nov. 30 1950	Dec. 31 1949
Automotive supplies	3	-8	+62	3	-6
Electrical group					
Wiring supplies	4	-4	+59	4	+32
Appliances	6	+45	+61	5	+3
General hardware	11	-2	+28	7	+3
Industrial supplies	13	+2	+50	3	+7
Jewelry	4	+7	-1	3	-8
Lumber and building materials	4	-11	+23		
Plumbing and heating supplies	3	-28	+21	3	+9
Confectionery	4	+3	+11		
Drugs and sundries	8	-4	+15		
Dry goods	13	-28	+19	10	-6
Groceries					
Full-line	38	-2	+11	29	-2
Specialty lines	14	-4	+28	8	+8
Shoes and other footwear	3	-35	+25		
Total	150	-4	+22	92	+2

\* Based on U. S. Department of Commerce figures.

Place	Sales			Stocks	
	Percent Change		Year to Date 1950-1949	Percent Change	
	Dec. 1950, from	Dec. 1949		Nov. 30, 1950	Dec. 31, 1949
ALABAMA	+64	+19		-21	+43
Birmingham	+61	+25	+10	-21	+36
Mobile	+75	+10	+7		
Montgomery	+71	+3	+6	-17	+71
FLORIDA	+61	+12		-14	+27
Jacksonville	+67	+7	+2	-21	+16
Miami	+62	+10	+10	-9	+39
Orlando	+59	+22	+9		
St. Petersburg	+60	+25			
Tampa	+52	+9	+8	-21	+20
GEORGIA	+55	+9		-22	+42
Atlanta	+48	+6	+10	-21	+47
Augusta	+80	+19	+8	-24	+29
Columbus	+66	+12	+18		
Macon	+63	+11	+13	-28	+16
Rome	+77	-2	+0		
Savannah	+71	+16	+12	-33	+38
LOUISIANA	+42	-1		-21	+17
Baton Rouge	+60	+2	-3	-28	+14
New Orleans	+40	-1	+2	-19	+19
MISSISSIPPI	+53	+1		-25	+18
Jackson	+39	-0	+6	-27	+19
Meridian	+68	+6	+1		
TENNESSEE	+71	+6		-22	+32
Bristol	+79	0	+0	-30	+14
Bristol-Kingsport-Johnson City	+86	+1	+1		
Chattanooga	+63	+10	+16	-27	+40
Knoxville	+85	+7	+4		
Nashville	+62	+4	+7	-25	+40
OTHER CITIES**	+65	+8	+10	-15	+21
DISTRICT	+56	+6	+7	-20	+32

\* Includes reports from 118 stores in the Sixth Federal Reserve District.  
 \*\* When fewer than three stores report in a given city, the sales or stocks are grouped together under "other cities." They are, however, included in state figures.

## Farmers Regain the Initiative

At the beginning of 1950 most farmers in the Sixth District states were taking the long awaited "postwar adjustments in agriculture" seriously. Recovery of agricultural production in foreign countries, slackening in the artificial demand created by ECA, and a decline in the purchasing power of domestic consumers were tending to push farm product prices down. From the middle of 1948 to the end of 1949, average prices received by District farmers had fallen 18 percent and apparently would have gone even lower except for Government price supports. As a condition for supporting the prices of such important cash crops as cotton and peanuts, the Government required that farmers plant fewer acres.

Farmers seemed to be in the familiar quandary. If they increased production in the face of declining demand, prices probably would fall very rapidly. And since costs were almost constant, the effects upon net income would be disastrous. A reduction in output seemed to be the only hope of avoiding severe price declines on major commodities. Individually, however, farmers were almost powerless to reduce production of particular crops. The only solution appeared to be the re-imposition of Government controls on individual farms.

From 1946 to 1949, farmers as a group were more prosperous than in any comparable period. Also, individual farmers were free to produce almost any product they wished in any quantity they could and to organize their farm business with only a few Government restrictions and with little fear of drastic price declines. In early 1950, however, it appeared that their actions would become restricted more and more by falling prices and Government programs.

According to most of the usual economic measuring sticks, farmers were in about the same position at the end of the year as at the beginning. Except in areas where crop failures were severe, their income in 1950 was about the same as in 1949, they had about the same net worth, and their farms were comparable with respect to effective size, amount of equipment, and supply of labor and capital. Year-end comparisons, however, reveal little of the change in direction by the economic indicators. The year 1950 brought an almost complete reversal of the trend toward a limitation of opportunities in farming. At the end of the year, the demand for nearly all farm products was increasing and the individual farmer was once more free to use his own peculiar skills and natural advantages in whatever way seemed most profitable.

### Production and Prices

Because cotton is the main source of income on so many farms in the District states, the 22-percent reduction in acreage was easily the most significant factor on the production side. Even if yields had been average, the cut in acreage under the Government control program would have reduced production considerably from the 1949 level. The acreage cut, however, coincided with another heavy boll-weevil infestation. In Alabama and Georgia, where about three-fourths of the District crop is grown, yields were average, or above, in the southern portions of the states; but the crop was a near failure in the northern portions.

Production of the other major cash crops was about the same as in 1949. Many peanut growers overplanted their acreage allotments and sold their excess peanuts, or those grown on the land in excess of the allotment, for food uses. As a

result of this overplanting and of higher yields, the quantity of peanuts picked and threshed was about 13 percent larger than in 1949. Mainly because of lower yields, tobacco production was about 10 percent smaller in Georgia and about 2 percent smaller in Tennessee. The 1950 rice crop was about the same size as the 1949 crop, and the citrus crop was slightly larger. Corn production was also slightly larger in most of the District states.

Although no accurate measures of the losses are available, the freeze damage to winter pastures in the last part of the year cut forage production heavily in some areas. The loss of these pastures resulted in a drop in milk production and made heavier supplemental feeding necessary.

Cattle slaughter in the District states from January through November of 1950 was 3 percent larger than in the comparable period of 1949. It exceeded the 1949 level by 6 percent in Georgia, by 15 percent in Florida, by 9 percent in Tennessee, and was slightly lower in Alabama, Mississippi, and Louisiana. In the first eleven months, hog slaughter in the District states was 15 percent larger than in the comparable period of 1949. All of the increase was in Georgia, Florida, and Tennessee.

Average prices received by District farmers for all commodities, after remaining fairly stable during 1949 and for the first quarter of 1950, began to increase rapidly in April. In mid-December, prices received were about 40 percent above the level of December 1949, and were at an all-time high. For the entire country, prices received by farmers increased 23 percent from December 1949 to December 1950. The more rapid increase in the District was mainly due to the 49-percent rise in cotton prices during the year.

The annual average of prices received by the nation's farmers, which is a more accurate indicator of the effects of price changes on incomes than are year-end comparisons, was only 3 percent higher in 1950 than in 1949. The annual average of District farm prices, on the other hand, was 9 percent higher; with a 16 percent gain reported for cotton, 23 percent for cottonseed, 7 percent for corn, 6 percent for rice, 16 percent for oranges, and 13 percent for beef cattle. Annual average prices were lower by 2 percent for hogs, 9 percent for chickens, 14 percent for eggs, and 4 percent for milk.

### Income and Financial Status

In the District states, farmers' cash income last year was about 5 to 7 percent less than the 2.5 billion dollars recorded for 1949. Most of this decrease is attributable to the smaller cotton crop. The extent of the decline in income for individual states, therefore, is roughly proportional to the importance of cotton in their agriculture. The largest declines occurred in Mississippi and Alabama, whereas farm income in Florida and Georgia was about the same in 1950 as in 1949.

Production costs increased slowly but steadily during 1950 with the result that average prices paid by all farmers were 2 percent higher than in 1949. In those areas where the cotton crop was almost a complete failure, the combination of low cash receipts and high costs created a more acute financial crisis than the over-all state figures might indicate. Many farmers, for the first time in their lives, had two consecutive failures on cotton crops that were produced at a very high cost level. As a result, therefore, many of them will not be

able to finance the 1951 crop from the usual sources.

Except in the areas that were hurt badly by crop failures, however, the savings and debt position of most farmers apparently did not change a great deal during 1950. Debts increased at the major lending institutions, but the value of farm assets also went up. District farm land values, according to the BAE estimates, increased 7 percent from November 1949 to November 1950. Increases by states were 7 percent for Alabama, 19 percent for Florida, 3 percent each for Georgia and Louisiana, 5 percent for Mississippi, and 6 percent for Tennessee.

Value of assets other than real estate has increased even more rapidly. For the nation as a whole and for most areas in the District, the combined financial assets of farmers probably declined during 1950. This decline was caused by the decrease in farm income and by an unusually rapid rate of conversion of deposits and savings bonds into tangible goods. District farmers, particularly, continued to buy farm machinery heavily. Rising prices for most items that constitute the farm operating capital also increased the value of the physical assets other than real estate.

### Government Programs

The reversal in direction of farm prices, income, and production had a far-reaching effect upon Government programs that deal with agriculture. At the beginning of the year, it seemed that an agreement upon a long-range price and production policy could not be postponed much longer. The CCC was about to exhaust its 4.5 billion dollar borrowing authority. Existing farm legislation was not satisfactory for the problems that farmers were facing. Although the Federal budget contained large sums for price-support outlays, many farm economists outside the Government believed that the budget estimates were far too conservative. At the end of February the CCC had over 4 billion dollars invested in price-support activities and in the early spring the borrowing authority of the Corporation was increased by 2 billion dollars. There was no solution at hand to the problem of huge inventories of farm products already acquired or apparently headed for Government ownership.

Even the mechanics of the crop control program had to be revised. The method of allotting cotton acreage to individual farms, for example, was altered in order to relieve some of the hardships caused by the large cut in cotton acreage, particularly on the small farms.

The increase in the demand for farm products was beginning to make itself felt on Government farm programs even before the war in Korea began. Price-support activities were required on a much more modest scale than had been generally expected at the beginning of the year. Both the foreign and the domestic demand for cotton, for example, were larger than had been expected, and prices increased rapidly when it became certain that the crop would be short.

As the rearmament program got under way, the farm outlook changed even more rapidly. By the end of the year the CCC investment in price supports was down to less than 3 billion dollars. The stocks of the CCC, instead of being regarded as troublesome surpluses, came to be considered as valuable reserve stocks. As the year ended the stockpiling of farm products, farm product price controls, and increased production had replaced price supports and production controls as the main farm problems of the moment. The earlier problems were not solved, of course, in the sense that a workable Government policy was found and applied. They were

merely supplanted by other problems in farm policy.

### The Individual Farmer

Since most District farmers depend heavily upon the cash crops that were under control programs at the beginning of the year, most of them were expecting a cut in income. How to replace this loss in income, or what to grow on the acres taken out of cotton and peanuts, or, more important, how to reorganize the farm business under a system of production controls were some of the questions that individual farmers were trying to answer. Many of them concluded that an expansion of livestock and grazing crops was the best solution to their problems.

Thus, District farmers turned to livestock production on an unprecedented scale in 1950. This required the purchase of breeding stock, fencing, pasture establishment and improvement, and other capital outlays. Much of the growth in investment on individual farms was for such items. A large proportion of the farm loans at commercial banks was made to begin or to expand a livestock enterprise.

At the beginning of the year the future prosperity of many farmers appeared to depend upon how skillful they were in reorganizing their farms under a control system that drastically reduced the acreage of such cash crops as cotton and peanuts. By the end of the year, however, the most important condition for success probably was simply the ability to produce large quantities with a minimum amount of hand labor. Since prices of nearly all farm commodities seem to be headed upward and since there are few restrictions, the capacity to produce may largely determine profits.

Supplies of most production materials probably will be adequate; the outstanding exception being farm labor. Because of the rearmament program, farm workers will have greater opportunities for work off the farm. As a result farm labor will be harder to get and will cost more. The farmer who is well equipped and who has his farm organized to use labor efficiently will be in the best position to capitalize on the opportunities in 1951. From a profit standpoint, the margin will widen between the well-equipped farm that is organized to use labor efficiently and the poorly equipped farm that has uneven distribution of labor requirements.

Although the farm outlook for 1951 resembles that for the years 1946-49 in many respects, the differences are also noteworthy. During the first few years after the last war, farmers had the same strong demand for their products and freedom in production that they apparently will have in 1951 with at least one important difference. In the earlier period the emphasis was on short-run gains. Cotton farmers, for example, wanted to be sure that they got the full advantage of the last big year of unrestricted cotton production at favorable prices. Therefore, they often followed cropping systems that tended to decrease the future production capacity of their farms and used combinations of enterprises that were inefficient in the use of labor and equipment.

In the present situation, on the other hand, it may not pay to sacrifice the ability to produce a large volume for the next five or ten years for heavy production this year or next year. One farmer summed it up as follows: "I've spent ten years in changing over from a cotton farm to a cotton and beef-cattle farm that I am satisfied with. I don't intend to change it back no matter how high cotton goes." The change in the farm outlook that occurred in 1950 makes the need for an efficient District agriculture more urgent.

BROWN R. RAWLINGS