

MONTHLY

Business Review

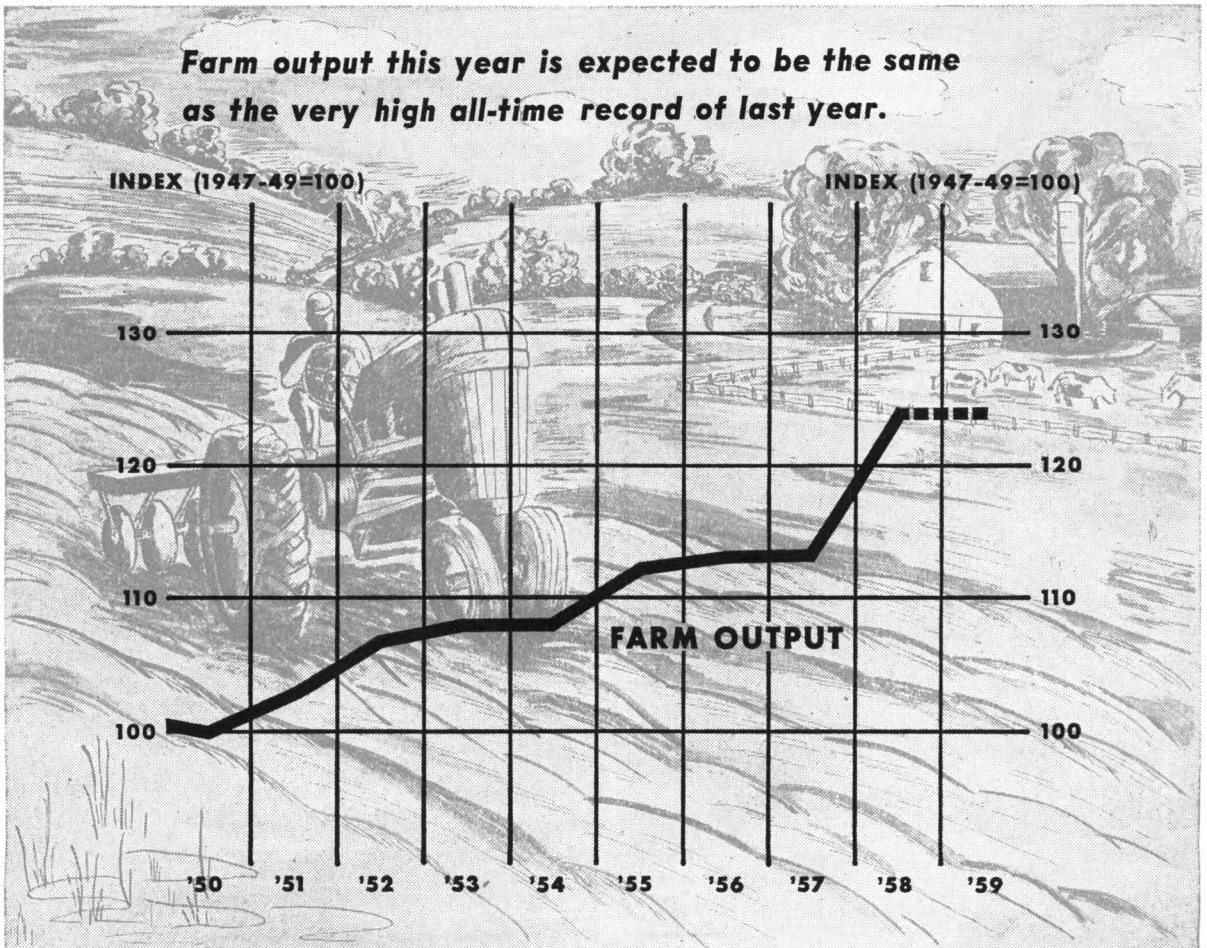
FEDERAL RESERVE BANK of CLEVELAND

September, 1959

IN THIS ISSUE

- Trends In State Government Expenditures 3
- Another Year of Farm Abundance 7
- Around the Fourth District 12

Farm output this year is expected to be the same as the very high all-time record of last year.



(Announcement)

Government Securities Market

a Treasury-Federal Reserve Study

The United States Treasury Department and the Federal Reserve System early last spring initiated a joint study into the functioning of the Government securities market. The first of three parts of the study is now available in printed form.

Part I summarizes the informal consultations conducted by the Treasury-Federal Reserve study group with individuals associated with or informed about the functioning of the market. Part I also contains a special technical study concerned with the question whether an organized exchange might better serve the public in effectuating the purchase and sale of Government securities.

Part II will be a factual and analytical report on the performance of the Government securities market in 1958. Part III will deal with specialized and technical subjects suggested by the informal consultations and the factual records of 1958.

(Part I may be obtained now by writing to the Division of Administrative Services, Board of Governors of the Federal Reserve System, Washington 25, D. C. The price of each part is \$1.00. There is a special price of \$2.50 for the set of three pamphlets, when all are ordered at one time. The individual parts will be forwarded as they become available.)

* * *

Editor's Note: Also available now is a summary of the foregoing study. It is included in the following reprint from the August 1959 issue of the *Federal Reserve Bulletin*:

The Government Securities Market

- (1) Joint Statement by Robert B. Anderson, Secretary of the Treasury, and William McC. Martin, Chairman of the Board of Governors of the Federal Reserve System, to the Joint Economic Committee, July 24, 1959;
- (2) Statement by Mr. Martin on "The Government Securities Market and Economic Growth", July 27, 1959.

(Reprints may be obtained without charge by request to the Board of Governors of the Federal Reserve System, Washington 25, D. C.)

Trends In State Government Expenditures

GENERAL EXPENDITURES of 48 state governments during the fiscal year 1958⁽¹⁾ amounted to almost \$24 billion, exceeding general revenues by nearly \$2 billion. This total represented an increase of nearly 12 percent from the preceding fiscal year.

Examination of state expenditures in the postwar period reveals that they have risen more rapidly than revenues, with deficits appearing on the books of an increasing number of states. In 1946 only one state had expenditures larger than revenues. The number rose to sixteen in 1948, and in 1950 to thirty-one. In the fiscal year 1958, thirty-seven states showed deficits.⁽²⁾

During the years 1940 through 1945, state government expenditures had been held down by the shift to a wartime economy. During that period, total state revenues exceeded expenditures by sizeable margins. However, by 1948 the backlog of capital improvements, as well as the rapid growth of population, coupled with general economic expansion and a rise in prices, pushed total state expenditures above revenues.

In each year since 1948, general expenditures by all states combined outstripped general revenues, as illustrated by the accom-

(1) The fiscal year for all but four states ends on June 30. Those four states and their closing dates are: New York, March 31; Pennsylvania, May 31; Texas, August 31; and Alabama, September 30.

The fiscal year 1958 represents the latest year for which data of the type presented here are available. It happens to coincide in considerable part with the business recession of 1957-58. Although that fact may help to explain some of the increased deficits noted for fiscal 1958, no attempt is made here to analyze the impact of the recession upon state government finance.

(2) Source of data cited in this article is: *Compendium of State Government Finances in 1958*, U. S. Department of Commerce, Bureau of the Census.

For the revenue side of the picture, see "Tax Revenues of State Governments," *Monthly Business Review*, November, 1958.

panying chart (1948 and 1949 not plotted), with total deficits ranging from \$166 million in 1953 to \$1,765 million in the fiscal year 1958.

Annual deficits have been characteristic of the postwar period for the states of Ohio, Pennsylvania, Kentucky, and West Virginia; these four states are included in whole or in part within the Fourth Federal Reserve District and are selected for special attention below. A series of charts, which shows general revenues for each of the four states, illustrates the spending pattern since the fiscal year 1950. Thus, for example, in Ohio general expenditures were covered by general revenues in only two of the nine years plotted; in Kentucky and Pennsylvania this occurred in one year only, while in West Virginia, general expenditures exceeded general revenues in each year shown on the chart.

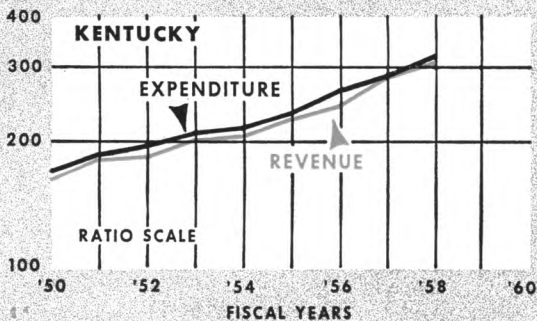
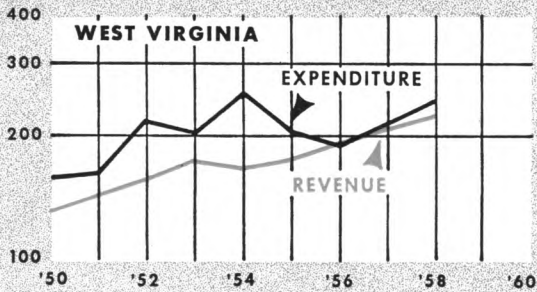
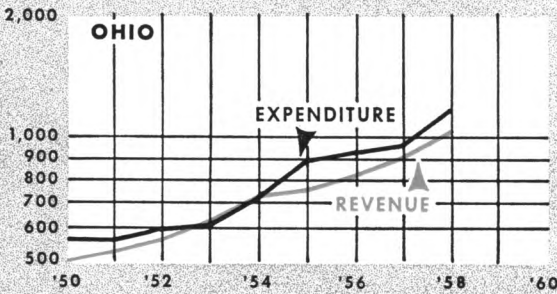
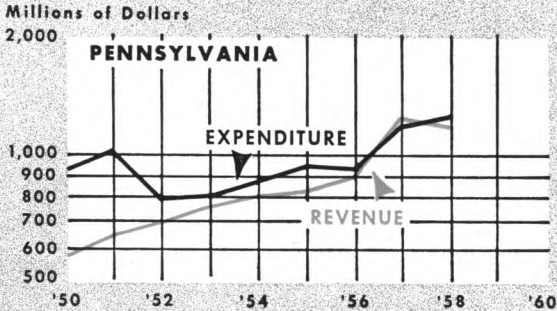
Types of Expenditures

The largest categories of general expenditures by state governments are education, highways, and health and welfare. In the fiscal year 1958 these three groups accounted for over 80 percent of total general expenditures by all 48 states. The remaining 20 percent was allocated to such functions as public safety, conservation of natural resources, general control, and others.

Education

Outlays for education by state governments in 1958 amounted to \$7.3 billion, or more than double the 1950 figure. The share of the total represented by outlays for education rose from 28 percent in 1950 to 31 percent in 1958.

Annual deficits have been characteristic of the past decade for the four states included all or in part in the Fourth District. In Ohio, general expenditures were covered by general revenues in only two of the nine years plotted; in Kentucky and Pennsylvania this occurred in one year only, while in West Virginia, general expenditures exceeded general revenues in each year shown on the chart.



The portion of total expenditure allocated to education in West Virginia and Pennsylvania was greater than the national average; in West Virginia, outlays for education represented 35 percent of the total, and in Pennsylvania, 32 percent. Education's share of the total in Kentucky and Ohio, however, was somewhat below the national percentage.

A large proportion of state outlays for education take the form of grants to local governments to supplement local revenues for the operation and construction of public schools. Rising costs of operating and constructing schools have produced increased need for state aid to local school districts, especially in view of the pressure exerted by the rapidly expanding school-age population. In 1958, such grants to local governments by all 48 states amounted to \$4.5 billion, or over 60 percent of outlays for education by state governments. The proportion of grants to local governments by the four states included in the Fourth District was even higher, ranging from 62 percent in Ohio to 72 percent in Pennsylvania.

Highways

The second major area of state government expenditures is the construction and maintenance of highway facilities. Following World War II, highway expenditures have risen sharply in an effort to bring highway systems up to adequate standards. In 1958, state outlays for highways amounted to \$6.7 billion, or more than two and one-half times the 1950 figure. This amount represents 28 percent of total state expenditures. Of the four states of the District, Ohio spent the largest share of expenditures for highways, allotting 37 percent of its budget for this purpose, a proportion substantially greater than the 48-state average. The proportion of total expenditures allotted to highways by Kentucky, Pennsylvania, and West Virginia accounted for 33 percent, 27 percent, and 23 percent, respectively. (See table at end of article.)

Capital outlays for the construction of regular highway facilities represented by far the

largest share of highway expenditures, amounting to \$3.8 billion. Toll highway facilities accounted for \$¾ billion, or less than 12 percent of total outlays for highways. In the previous years, toll highway facilities had accounted for a substantially greater share of highway expenditures than in the fiscal year 1958. In 1955 and 1956 for example, toll highways accounted for nearly 20 percent of the highway total, but the share then declined to 15 percent in 1957 and 12 percent in 1958.

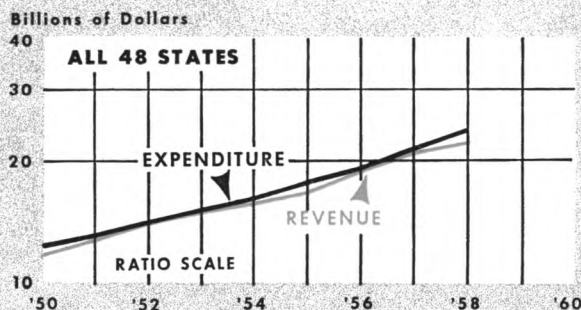
Welfare and Health

The welfare and health activities of state governments include such functions as old age assistance, aid to dependent children, and aid to the blind, as well as the operation and construction of facilities for the treatment of mental illness, tuberculosis, etc. In addition, states may make grants to local governments and to private institutions which perform such services. Expenditures for such activities totaled about \$5.1 billion, or 22 percent of the total budget of the 48 states in 1958. Pennsylvania and Kentucky allotted a higher proportion of general expenditures to health and welfare than the national average, while the share for this category in Ohio and West Virginia was somewhat smaller.

General control, once an important item in the budgets of state governments, represented only a small fraction of total expenditures in 1958, accounting for less than 3 percent of the total.

Per Capita Expenditures

Another method of comparing the relative importance of the different state activities is on the basis of per capita expenditure for various functions. As illustrated by the accompanying chart, all 48 state governments combined spent \$139 per U. S. resident in the fiscal year 1958. Of this amount, \$43 went for education, \$39 for highway facilities and improvement, \$30 for health and welfare, and the remaining \$27 was distributed among such functions as public safety, general control, conservation of natural resources, etc.



State government expenditures in the postwar period have risen more rapidly than revenues. In each year since 1948, general expenditures by all states combined outstripped general revenues.

As can be seen from the chart, general expenditures were smaller than the national average, on a per capita basis, in each of the four states included all or in part in the Fourth District. West Virginia, with \$125 per capita expenditures was the closest to the national average; however, it ranked 29th among the 48 states. (The first in order among the 48 states, on the basis of per capita expenditures, was the state of Delaware with a per capita figure of \$268; at the bottom of the list was the state of New Jersey, where per capita expenditures amounted to only \$79.)

Debt Outstanding

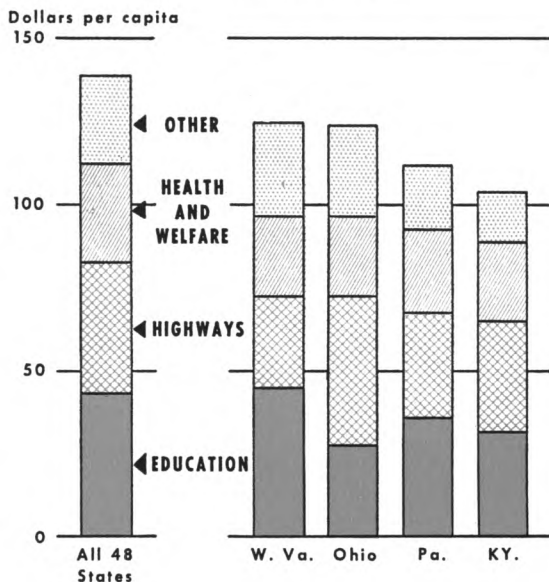
Outstanding debt of all state governments has nearly tripled since 1950. At the end of 1958, total debt amounted to \$15.4 billion. More than half of the debt outstanding represented indebtedness for highway facilities. The second and third largest items financed by long-term debt issues were education and veterans' bonuses.

In the states included in the Fourth District, except in Pennsylvania, the proportion of long-term debt outstanding incurred for highways was considerably greater than the national average. In Kentucky, for example, 80 percent of the long-term debt outstanding

was incurred for highway facilities; the figures for Ohio and West Virginia were 75 percent and 72 percent, respectively. Only in Pennsylvania was the share of the long-term debt for highways smaller than the 48-state average, accounting for 47 percent of the total.

The rising expenditures of state governments in the postwar period have primarily stemmed from a backlog of needs built up during the war, as well as from an increased rate of population growth and demands for expanded services provided by states, especially in the areas of education, highway facilities, and public health and welfare. The pressure for more adequate facilities in these areas will continue in the years to come and will present a challenge to the state governments to find additional sources of revenue to satisfy such needs.

During the fiscal year 1958, general expenditures on a per capita basis in each of the four states included all or in part in the Fourth District were smaller than the national average.



SUMMARY OF STATE EXPENDITURES BY FUNCTION Fiscal Year 1958

| | Pennsylvania | Ohio (millions of dollars) | Kentucky | West Virginia |
|------------------------------|------------------------|-------------------------------|--------------|---------------|
| Education | 400.4 | 249.1 | 93.9 | 85.9 |
| Highways | 338.2 | 424.7 | 104.7 | 56.2 |
| Health and Welfare | 282.6 | 228.3 | 70.7 | 46.6 |
| Public Safety | 42.0 | 29.9 | 7.9 | 4.8 |
| General Control | 33.0 | 29.2 | 11.7 | 6.1 |
| Other | 140.2 | 182.1 | 28.6 | 46.2 |
| Total | 1,236.4 | 1,143.3 | 317.5 | 245.8 |
| | (percent distribution) | | | |
| Education | 32.4 | 21.8 | 29.6 | 34.9 |
| Highways | 27.4 | 37.1 | 33.0 | 22.9 |
| Health and Welfare | 22.9 | 20.0 | 22.3 | 19.0 |
| Public Safety | 3.4 | 2.6 | 2.5 | 2.0 |
| General Control | 2.7 | 2.6 | 3.6 | 2.5 |
| Other | 11.2 | 15.9 | 9.0 | 18.7 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |

Another Year of Farm Abundance

WITH THE END of the growing season barely six weeks away, it is becoming increasingly apparent that the nation's output of farm products will be about the same as the unprecedented level attained last year. Crop production, although indicated to be down from the peak of 1958, will apparently exceed that of any other year of record. The total output of livestock and products gives promise of advancing to a new high.⁽¹⁾

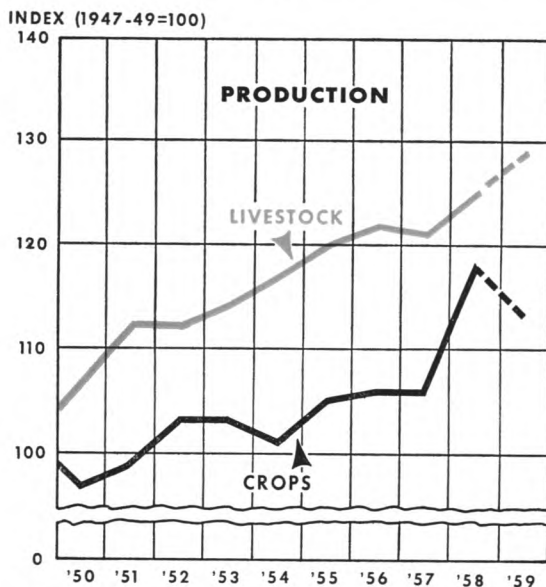
Crop Volume Moderately Lower

This year, for the first time in five years, the anticipated volume of crops, as shown in the accompanying chart, is down moderately from that of the previous year. That is true despite a record corn crop that is expected to be one-fourth larger than average. Most of the reduction in crop volume from last year can be attributed to much smaller crops of wheat, oats, and sorghum grains. The estimated outturn of wheat is 23 percent below the unusually large crop of 1958. The indicated production of oats and sorghum grains is down 26 percent and 17 percent, respectively, from that of the previous year. Smaller crops of barley, rye, flaxseed, soybeans, potatoes, and hay also contributed to the decline in total volume of crops. Smaller plantings, together with lower yields than were obtained last year, account for most of the decline indicated in the output for all of these crops.

Cotton and corn were the only major crops for which a marked increase in production over that of the previous year was indicated

on August 1. A cotton crop of close to 15 million bales was forecast at that time. A crop of that size, if realized, would be well over one-fourth larger than the comparatively short crop of a year ago. A marked increase in the acreage for harvest, together with the prospect of a record yield per acre, accounts for the favorable outturn anticipated. The 4-billion bushel corn crop expected this year is about one-tenth more than the record of the previous year. The larger crop in prospect stems mainly from a 14 percent increase in plantings as the indicated yield per acre is down from the high of last year.

Crop output this year has eased, as livestock output advanced to a new high.



(1) All data used in the charts and text of this article are from the U. S. Department of Agriculture.

Other crops for which significant gains are indicated include vegetables, sugar crops, and tobacco. The total feed grain production, however, may be no greater than that of the previous year, despite the huge corn crop, as the indicated outturn of oats, barley, and sorghum grains is significantly below year-earlier levels. Feed grain supplies will be more abundant than ever before as the carry-over stocks from previous crops are of record proportions.

Livestock Output Higher

Under the stimulus of abundant feed supplies and generally favorable commodity-feed price relationships, livestock production has continued to expand and, on the basis of preliminary data, will advance to a new high this year. (See chart.) The gain in output of livestock and products stems mainly from an expansion of production of meat animals and poultry products. The production of milk, the other principal livestock product, has been below year-ago levels so far this year. Milk production per cow advanced to a new high, but dairy cow numbers at midyear, numbering 19.3 million head, were the lowest in three decades of records. Attractive meat animal prices that favored heavy culling of dairy herds and the trend to fewer and larger commercialized dairy farms were largely responsible for the continued decline in cow numbers.

Most of the gain in the output of meat animal products is attributable to a sharp increase in the volume of pork produced. This year's pig crop is expected to be more than 104 million head, or 10 percent above last year's sizeable output. Such a level has been exceeded only in the wartime years of 1942 and 1943. This expansion in pork production was in response to hog prices that were higher relative to corn than in any other period over the past 50 years.⁽²⁾

Abundant feed supplies have also stimulated a marked build-up in beef cattle numbers. The number of beef cattle on farms at

(2) The hog-corn feed price ratio (bushels of corn equal in value to 100 pounds of hog, liveweight) was at the highest level of record last year.

the beginning the year was indicated to be at a new high of 64 million head. A further increase of several million head is anticipated this year. The number of cattle on feed for market July 1 in the thirteen states for which comparable data are available totaled 4.7 million, or 10 percent more than the high of a year ago. The cyclical expansion in cattle numbers, however, has scarcely been reflected in market receipts of slaughter animals. Only small gains in the output of beef have occurred so far this year, as significant increases in the slaughter of well-finished cattle were largely offset by sharply lower slaughter of other classes.

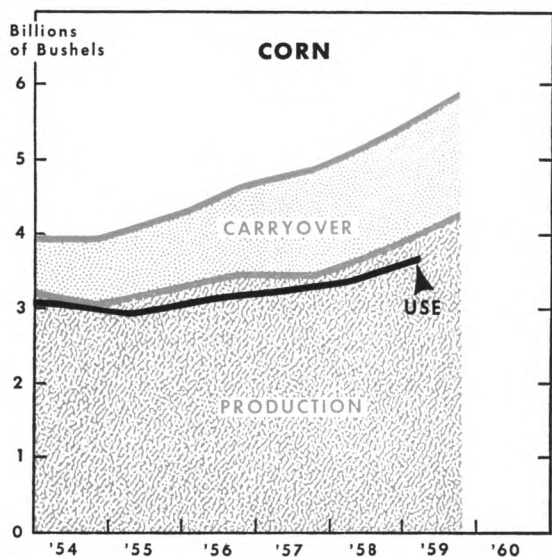
Somewhat larger lamb and mutton supplies are also contributing to the expansion in output of livestock products.

The output of livestock products is also being augmented by an increase in the production of broilers, eggs, and turkeys. Broiler production through the first seven months exceeded the same period a year earlier by 10 percent. Egg production was up 4 percent in the same period. Production of broilers and eggs may not exceed year-ago levels by as wide a margin during the remainder of the year, but significant gains are indicated for the year. Adding further to the supply of poultry products is a turkey crop which is expected to exceed the record 81 million raised in 1957. Marketings of turkeys in November and December may be no greater than last

Stocks of Grain July 1, 1959

| | millions of units | % change from: | |
|--------------------------------|-------------------------|----------------|--------------|
| | | 1958 | 1948-57 Avg. |
| Flaxseed, bu. . . | 14.9 | +71% | +18% |
| Sorghum Grains, bu. | 529 | +54 | +390 |
| Soybeans, bu. . . | 157 | +45 | +196 |
| Wheat, bu. . . . | 1,277 | +45 | +109 |
| Rye, bu. | 12.8 | +31 | + 41 |
| Barley, bu. . . . | 193 | +15 | +114 |
| Oats, bu. | 369 | +14 | + 41 |
| Corn, bu. | 2,204 | + 5 | + 66 |

Corn production exceeded use for the seventh consecutive year in 1959, boosting supplies to a level sufficient to meet the current rates of consumption for a year and a half.



Production + carryover = supply
Production and carryover are plotted as of October 1; use is plotted April 1, mid-point of the corn marketing year.

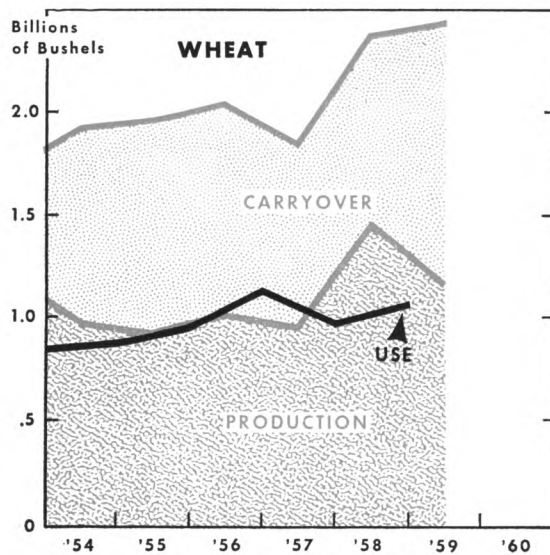
year, though, as a large part of the increase in the 1959 crop occurred in hatches early in the year, and those turkeys have already been consumed.

Crop Inventories Mount

A marked expansion in the inventories of grains has occurred coincident with the recent build-up in livestock numbers. Stocks of six of the eight major grains were at record levels on July 1. In the case of three of those grains—sorghum grains, soybeans, and wheat—storage stocks exceeded the previous high by 54 percent, 45 percent, and 23 percent, respectively. Stocks of flaxseed and rye, although not at record levels, were significantly in excess of a year earlier, as shown in an accompanying table. Storage holdings of all eight grains on July 1 were above those of the previous year, as well as higher than average.

Fortunately, from the standpoint of maintaining inventories more nearly in line with prospective use, production of all of the

This year's production of wheat has moved nearer to the rate of use, but carryover is so large that present holdings are better than a two years' supply.



Production + carryover = supply
Production and carryover are plotted as of July 1; use is plotted December 1, mid-point of the wheat marketing year.

grains except corn is expected to be down from that of the previous year. The corn crop, based on August 1 conditions, is expected to be 10 percent larger than last year. The estimated production of that crop, together with the probable carryover, will apparently give supplies sufficiently in excess of probable use (domestic consumption plus exports) to result in some further build-up in stocks. This is shown in an accompanying chart on which production, carryover, and use of corn have been plotted.

Some expansion in corn use may occur during the marketing year which will start on October 1, but it seems improbable that the gains in utilization of corn will be sufficient to forestall some further accumulation of stocks.

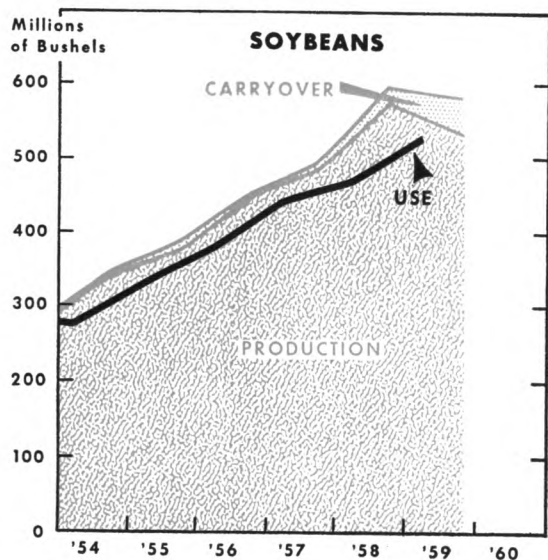
A 23 percent decline in the anticipated crop of wheat this year brought production down to a level that is close to the annual rate of consumption, as shown in an accompanying chart on which production, carryover, and use of wheat have been plotted.

Production sharply in excess of use last year and for two years prior to 1954, however, has boosted carryover stocks to a level that surpasses annual use. The anticipated production this year, together with carryover stocks, is, therefore, equivalent to better than a two years' supply at the present annual rate of use.

Much the same situation prevails with respect to sorghum grains. Even though the anticipated crop of sorghum grains this year is down 17 percent from that of the previous year, production plus carryover stocks will approximate 2½ years' supply at current annual consumption rates.

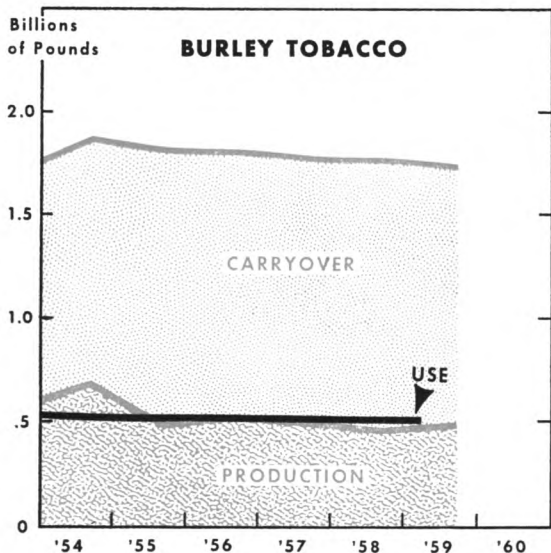
Since the indicated production of oats and barley fell short of the estimated utilization for the year ended July 1, no further build-up of stocks of those two grains is anticipated. The production of rye and flaxseed also fell short of annual requirements, but heavy carryover stocks will maintain supplies close to the present levels of utilization for the marketing year that began July 1.

The prospective 1959 crop of soybeans is about equal to current annual requirements. Moderate carryover stocks will allow for some further expansion in use.



Production + carryover = supply
Production and carryover are plotted as of October 1; use is plotted April 1, mid-point of the soybean marketing year.

The 1959 burley crop will apparently be slightly below annual use, bringing a further slight reduction in accumulated stocks.



Production + carryover = supply
Production and carryover are plotted as of October 1, the end of the marketing year; use is plotted April 1, mid-point of the burley marketing year.

The indicated decline in soybean production this year, amounting to about 7 percent, brings the crop below the level of indicated utilization of 545 million bushels for the year ending with this month. As will be noted from the accompanying chart, however, carryover stocks from the 1958 crop amounting to about 50 million bushels will provide further expansion in use. The annual utilization has risen steadily over the past five years and carryover stocks, except for the current marketing year, have been barely more than enough to assure a steady flow to the processing industries.

In contrast to wheat and corn, where carryover stocks have been mounting over the past five years, burley tobacco stocks have shown a slight downward trend since 1955. As will be noted from the accompanying chart, total tobacco stocks are down from the record level of the previous year and burley production has been just slightly below use during that period. The tobacco industry customarily plans to have burley stocks equal to 2.3 times annual consumption. Stocks currently are

equal to about 2½ times annual use. Some further decline in stocks is indicated for the marketing year beginning October 1, as prospective production is moderately below the present annual rate of use.

Fourth District Crop Prospects

Crop prospects for the different areas of the Fourth District varied considerably early in August. Total crop output for Ohio promised to be of record proportions mainly because of the prospect of an unprecedented 255-million bushel corn crop. Sharp increases in the production of burley and cigar-leaf tobacco and a record output of truck crops were expected to be largely offset by declines indicated in the production of all the other principal field and fruit crops.

Of the principal crops in Pennsylvania, only apples, tobacco, oats, and soybeans are expected to be harvested in larger quantities this year than in 1958. Declines in output are indicated for barley, wheat, rye, corn, and hay crops, as well as for all fruit crops with the exception of apples.

Rains during the month of July boosted crop production prospects in Kentucky. Both corn and tobacco benefitted from these rains and by early August gave promise of substantially larger outturns than were obtained in the previous year. A somewhat larger output of wheat and oats than last year will also serve to offset anticipated declines in the production of practically all the other principal crops.

The total outturn of crops in West Virginia will apparently be below year-earlier levels as indicated production of all the principal crops except oats, tobacco, and apples was below that of the previous year. Hot dry weather until late July was responsible for below-average prospects for virtually all crops with the exception of apples.

Impact on Prices

Although the discussion here has run in terms of production and supply, rather than prices of farm products, a final observation may be made about the possible impact upon prices of the relative abundance just described.

The output of crop and livestock products now in prospect may be expected to operate as a factor working toward holding or even reducing the general level of farm and food prices, thereby offsetting some of the upward trend of prices of commodities other than farm and food. The offsetting influence on the over-all level of prices, however, is not likely to be of the magnitude experienced last year when prices of farm products slumped after advancing to a five-year high as a result of winter injury to southern crops and reduced marketings of livestock. The downturn in prices of farm products last year was accompanied by a decline in food prices that erased most of the advance which had carried consumer food prices to a new high in mid-1958.

Around the Fourth District—

Department Store Sales, July and Year-to-Date

| | July '59 % change from year ago | Jan.-July '59 % change from year ago |
|-----------------------|---------------------------------------|--|
| Portsmouth | +19% | +17% |
| Springfield | +13 | +10 |
| Youngstown | + 9 | +10 |
| Canton | + 8 | + 8 |
| Cleveland | + 8 | + 9 |
| Pittsburgh | + 8 | + 8 |
| Columbus | + 7 | + 9 |
| Cincinnati | + 7 | + 8 |
| Erie | + 6 | + 7 |
| Lexington | + 4 | + 9 |
| Akron | + 3 | —0— |
| Wheeling | — 6 | —0— |
| FOURTH DISTRICT | + 7 | + 8 |

* * *

The volume of *bank debits* during July reported by banks of the Fourth District was 23 percent above the year-ago figure—the largest year-to-year gain since May 1951.

* * *

Savings deposits of individuals at the end of July at reporting commercial banks of the Fourth District registered a new all-time high for the sixth successive month.

* * *

Between midyear and the end of August, weekly claims for *unemployment compensation* in the Cleveland area rose from about 10,000 to 13,700.

* * *

Well over two-fifths of all milk shipped to federal order milk markets in Ohio comes from farms having bulk cooling tanks.

* * *

Inventories at Fourth District *department stores* at the end of July averaged 5% above a year ago. Sales were up by a slightly larger percentage.

(The above items are based on various series of District or local data, which are assembled by this bank and distributed upon request in the form of mimeographed releases.)