

MONTHLY

Business Review

FEDERAL RESERVE BANK of CLEVELAND

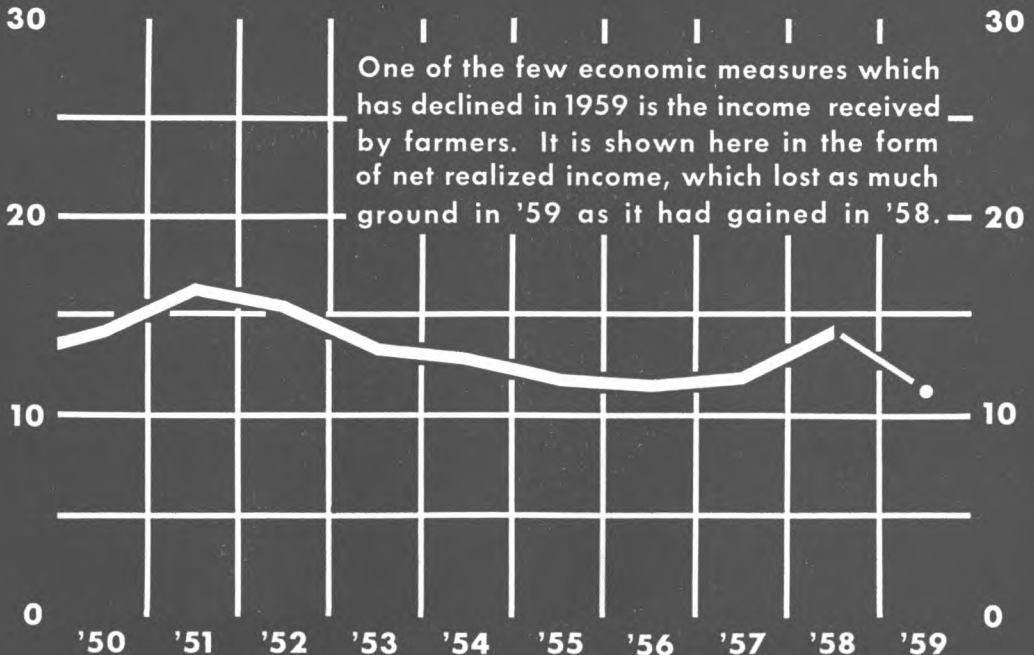
December, 1959

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NET FARM INCOME

Billions of dollars



Source: U. S. Department of Agriculture. Data exclude change in inventories.

Additional copies of the MONTHLY BUSINESS REVIEW may be obtained from the Research Department, Federal Reserve Bank of Cleveland, Cleveland 1, Ohio.

How Farmers Fared in '59

DURING A YEAR when most business and economic measurements have shown a gain from the previous year (despite the interruptions occasioned by the steel strike) the total income received by farmers has gone down.

Such a year-to-year scoring stands in marked contrast to the 1958 tally. In that year, farm income showed a significant rise from the 1957 figure, at the same time that a number of basic indicators of business were scoring net declines for the year — despite the fact that during about two-thirds of the year 1958 the business cycle was in an expanding phase. Thus, both of the past two years have witnessed a somewhat “off-beat” timing for agriculture in relation to industry — a phenomenon which is by no means new. The implications of such a phenomenon for problems of general balance in the economy,

as well as for broad questions of public policy (including considerations of farm welfare) are by no means clear-cut or one-sided, and they lie beyond the scope of this article.

A factual review of the year 1959 in agriculture, as sketched below, starts with developments on the farm output or production side. Next comes a summary of price and income developments. Finally the most recent trends of farm land prices and of farm debt are considered, all against the backdrop of postwar trends in general.

Large Farm Output

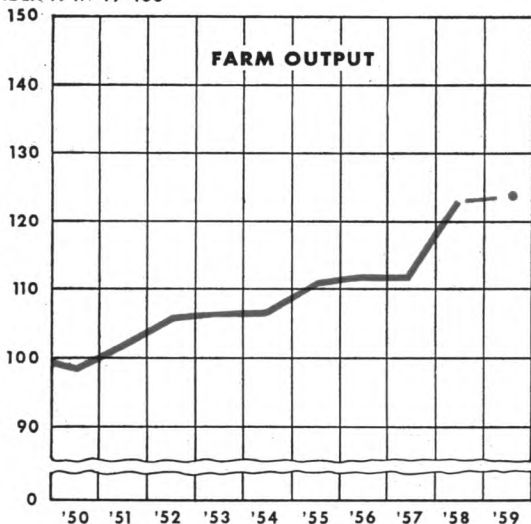
The total output of the nation's farms is expected to reach a new high in 1959. A marked expansion in the output of pork, as well as gains of more moderate proportions in the production of eggs and broilers, boosted the combined volume of livestock and livestock products to a new high. An outturn of crops equal to the record of last year was indicated November 1, despite less favorable weather, particularly during the fall harvest period. Modest increases in planting this year, reflecting the discontinuance of the acreage reserve of the soil bank, more than compensated for the lower average yields that prevailed.

The anticipated volume of farm products this year, although up only slightly from the record level of 1958, will be virtually one-fourth more than in 1950. As shown in the accompanying chart, growth in output over the ten-year period was uneven, with nearly one-half of the total increase taking place in 1958. However, the average annual rate of increase of nearly 2¼ percent since 1950 far surpassed that of any other peacetime decade.

The sharp increases in crop yields that have been obtained over the past decade (see tabulation) have been a major factor in this expansion of farm output. Gains in average

Farm output advanced slightly to a new high in 1959, due chiefly to further gains in the output of livestock products.

INDEX 1947-49=100



Source of data: U.S. Department of Agriculture

yields per acre of from 20 percent to 75 percent have been registered by some of the principal crops. The yield of corn, for example, which accounts for a fourth of total crop production, increased by nearly two-fifths during the past ten years. The quantity of wheat harvested per acre increased by more than a third. Per-acre yield of cotton rose by more than a half.

Yields Per Acre

	1957-59 Average	Percent Increase from 1947-49 Average
Sorghum grain, bu.	34	+78%
Potatoes, cwt.	176	+76
Cotton, lbs.	443	+54
Corn, bu.	50	+39
Wheat, bu.	23	+38
Tobacco, lbs.	1,549	+28
Sugar beets, tons	18	+25
Soybeans, bu.	24	+19

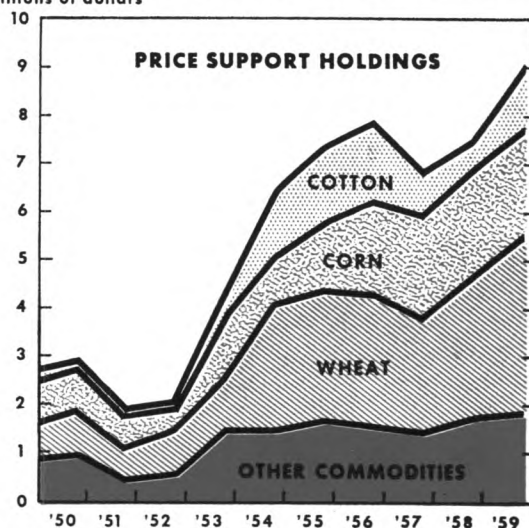
Higher rates of production per animal have also contributed to the gain in farm output. The over-all gain in livestock production per breeding unit has actually been slightly in excess of the over-all gain in crop production per acre.

Build-up of Stocks

Farm production has increased more rapidly than population since 1950, as output rose 23 percent in contrast to a 17 percent gain in population. Supplies of some farm products have, as a consequence, exceeded use and stocks have accumulated even though domestic demand has remained strong and exports have continued at high levels.

The build-up of stocks has been particularly heavy for corn, wheat, and cotton. That is the primary reason why those three commodities accounted for nearly four-fifths of the price-support obligations of the Commodity Credit Corporation on September 30. (See accompanying chart.) The CCC's investment in inventory and price-support operations was in excess of \$9 billion at the end of September, in contrast to \$7.5 billion a year earlier.

Price support holdings in September of this year were at new highs for the season. Wheat, corn, and cotton comprise nearly four-fifths of the total.
Billions of dollars



Plotted as of September 30, each year
Source of data: U.S. Department of Agriculture

A further significant rise in obligations of the CCC is in prospect over the next few months as substantial quantities of a record corn crop and a much larger than average crop of cotton are placed under price-support agreements. The quantity of wheat placed under support agreements, however, may be down from last year, due to a considerably smaller crop which forced market prices above year-earlier levels after mid-summer. Only a little over half as much wheat was placed under support agreements through October of this year as was placed under support during the same period last year.

Prices of Farm Products Decline

Prices received by farmers this year have reflected the heavy supplies of crops and livestock products. Prices received for all farm products began moving down about midyear; for the entire year, prices have averaged about 4 percent below a year ago, as shown in the chart. Most of the decline has been due to lower prices for livestock and products, which have averaged about 6 percent below a year ago; prices of crops, taken as a group,

have averaged about 2 percent below a year ago.

The decline in prices of livestock products was especially sharp for hogs, eggs, and broilers. Hog prices so far this year have been off more than a fourth, egg prices more than a fifth, and broiler prices more than a sixth from the levels that prevailed during the same period last year.

The decline that occurred in the average prices of crops was offset by increased marketings; cash receipts from crops, exclusive of government payments, were, therefore, about equal to last year. Cash receipts from the sale of livestock products, however, fell short of a year earlier, due mainly to price declines resulting from the increased volume of marketings of pork and poultry products. The net effect of these developments will apparently reduce cash receipts from farm marketings for the year by about 2½ percent.

Advance in Prices Paid

Prices paid for goods and services used on the farm have averaged higher this year than in any previous year of record. (See chart.) Prices paid have averaged nearly 2 percent above last year, continuing the upward trend of cost rates that has prevailed during most of the past decade. Most of the rise in cost rates in 1959 can be attributed to higher prices for feeder cattle, motor vehicles, farm machinery, and building and fencing materials. Increased real estate taxes, interest charges, and wage rates also contributed to the advance.

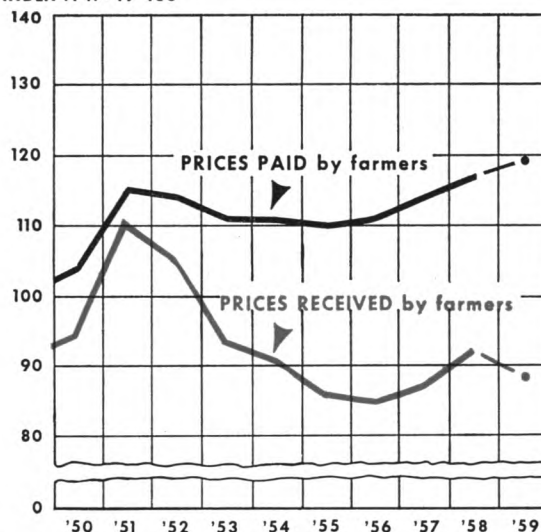
Farm Income Down

The decline in farm income this year virtually erased the gain that occurred last year. Farmers' net realized income in 1959, currently estimated at \$11.2 billion on the basis of the first three quarters, will apparently be down about 15 percent from 1958, and only slightly above that of 1957.

The decline in net income this year reflects a drop of three-fourths of a billion dollars in cash receipts, a reduction of a half billion

Prices received by farmers this year declined from the five-year high of 1958 due to increased marketings, but prices paid for items used on the farm advanced to a new high.

INDEX 1947-49=100



Source of data: U.S. Department of Agriculture

dollars in soil bank payments (as expansion of the conservation reserve only partially compensated for the elimination of the acreage reserve) and an increase of three-quarters of a billion dollars in production expenses. Production expenses have risen 34% since 1950.

Land Prices Advance More Slowly

Farm land prices advanced to a new high in 1959. The rate of advance during the spring and summer, however, was only about half as much as during the same period last year, suggesting that the recent decline in income may be causing prospective purchasers to be less active bidders than heretofore.

The uptrend in farm land prices, which has been uninterrupted since 1954 despite the lack of net growth in net farm income over the period, may be attributed to the influence of at least three factors. One is the continued demand for farm land for non-farm uses in areas of significant urban and industrial expansion. Another factor is the continued de-

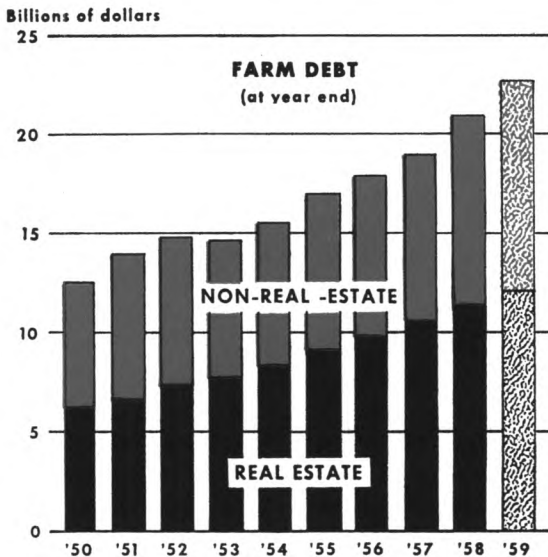
mand by farmers for additional land for farm enlargement. Finally, there is reportedly a rather widely held belief that farm land is a good investment as a hedge against inflation.

Farm Debt at New High

The steady upward trend of farm real estate prices in recent years has contributed significantly to the expansion of farm debt. Total farm debt, exclusive of price-support loans, is expected to reach a new high of nearly \$23 billion by year-end. (See chart.) Over half of that amount, or \$12 billion, represents the anticipated amount of farm mortgage debt. Currently about two-thirds of all land purchases involve some financing and most of it is secured by a mortgage on farm real estate.

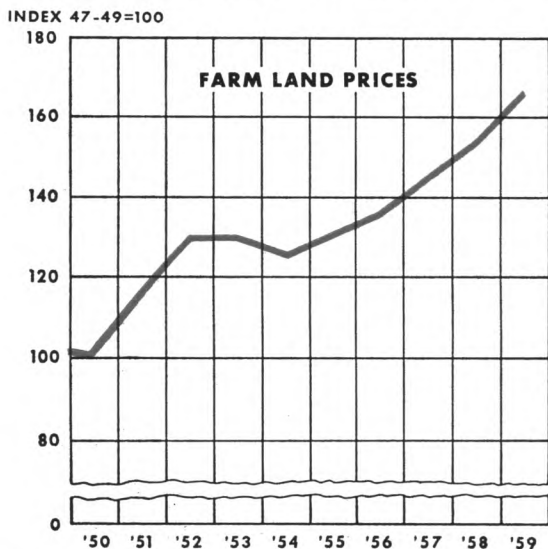
The continued expansion in non-real-estate debt this year, as well as in the recent past, reflects the constantly growing capital requirements of agriculture, with labor making up a declining proportion of the total inputs. Farmers continued to increase their use of production credit this year. The increased

Farm debt rose sharply in 1958 and again in 1959. The annual increase in outstandings was larger in each of the two years than in any other year of the postwar period.



Source of data: U.S. Department of Agriculture

Farm land prices rose to a new high in 1959 despite a decline in the prices of farm products and income.



Based on March 1

Source of data: U.S. Department of Agriculture

numbers of cattle on feed explains much of the increase in this type of credit. The increase in farm expenditures for tractors, trucks, machinery, and other equipment has also been an important factor in lifting non-real-estate debt to a new high this year. Price-support loans of the Commodity Credit Corporation (not shown in the chart) are the only type of farm debt for which a decline was indicated in 1959.

Concurrent with the expansion in farm debt, of course, has been a marked rise in the dollar value of farm assets. Nevertheless, the total farm debt now represents about 11.5 cents per dollar of farm assets in contrast to 9.5 cents in 1950. In terms of the relation of debt to income, there has been an even more substantial change over the past decade. Total farm debt now is equal to a little over two dollars per dollar of annual net income, whereas ten years ago, when farm debt was comparatively low, the total debt was about equal to annual income.

Interest Rates, Wage Rates, and Uncertainty

by **Robert V. Roosa**

Vice President, Federal Reserve Bank of New York

THERE ARE TWO KINDS of criticism that every central bank in a market economy encounters when the limits it imposes on further expansion of money and credit are exerting some effect. One is that the accompanying rise of interest rates is too great, or unnecessary, or causing much more harm than good. The other is that rising wage rates are the primary cause of any general price increases or particular dislocations that are disturbing the balance of the economy, and that restrictions upon the availability of money and credit are futile gestures without any real relevance to the basic problem: that is, the need to limit wages, or the "cost-push."

It is important, but not enough, to point out in reply that the central bank cannot purport to fulfill alone the entire range of ultimate objectives that should be pursued by all economic policy, nor to remind critics that the better criterion probably is "what might have happened" without some monetary limitation rather than "what more should be done" by monetary and credit policy or by other means. What seems to me even more important is to ask whether the criticism has been formulated with a clear view of its implications for the conditions essential to the functioning of a market economy. To be sure, those conditions themselves are not immutable; they can be, and are, modified by changes in the framework of public economic policy year by year. But it should be the economist's task to sort out the issues for evaluation, and in that respect,

I question whether we have done enough during recent years in appraising the role of uncertainty. Can a market economy function with fullest effectiveness, over time, if the scope for uncertainty with respect to interest rates, or wage rates, for example, is narrowed appreciably more than has already occurred? Has the United States or some other countries, perhaps, already gone too far, so that some pulling back may be appropriate?

Flexibility and Uncertainty in Interest Rates

The theory of interest rates and the central bank's concern with them is much too vast and exciting a subject for me to undertake here. I should at least assert, however, on the basis of fairly continuous observation of the experience of most leading central banks since World War II, that flexibility of interest rates, under the play of shifting competitive pressures, has been essential to the performance of the market economies. There were many who attempted, as we did here, to peg, or stabilize, or support some or all segments of the maturity range. In the end, every country that chose to preserve the essence of a market economy gave up the effort to maintain interest rates at what were thought to be "socially tolerable" levels, when these proved in practice to be sustainable only by inflating the rest of the economy with increasing quantities of central bank credit. Some instead forthrightly turned to the full apparatus of a planned econ-

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The excerpt printed here is part of Mr. Roosa's contribution entitled "Monetary and Credit Policy" in which he discusses the tools of economic analysis upon which monetary and credit policy depend. In addition to Mr. Roosa, the contributors are Sidney S. Alexander, Gerhard Colm, Neil H. Jacoby, Louis Shere, Sumner H. Slichter, Mark S. Massel and Everett E. Hagen.

omy, and began a proliferation of special devices for insulating parts of the market, and sheltering others. But even these efforts, in economies that were extensively "planned," have now largely broken down because a national plan could not build effective barricades against the forces of competition at work in international trade. The actual or suppressed inflation generated by the effort to hold interest rates down had done more damage to the domestic economy as a whole, in its ability to produce goods that could be sold abroad to pay for essential imports, than could possibly be offset by any supposed advantages in making low-interest credits available to all at home.

The evidence would seem persuasive that so long as a country is heavily dependent upon international trade, or if not, so long as it chooses to have a market economy (which is necessarily responsive to many of the same forces that are conspicuously revealed in international trade), interest rates must be flexible. There must, at any time, be good grounds for uncertainty as to where interest rates will be in the weeks or years ahead. Any attempt to remove or limit uncertainty by establishing pegs, or ceilings, for interest rates is, therefore, certain to collapse in time, unless a country is prepared to shut itself off from the Western world and convert to a planned economy.

It is quite possible, of course, having recognized the need for flexibility and uncertainty, still to argue that particular actions of the central bank, in a particular set of circumstances, have led, among other things, to limitations upon money and credit and increases in interest rates that were unwise. To do so is not to qualify as an advocate of planning, or the outvoted minorities in many central banks would find themselves among the many who might feel quite uncomfortable. To be sure, no central bank is always right. But the issue to be joined with these critics is whether the central bank has found the best balance among its ultimate objectives, and whether it has found the best translation of its policy judgments into intermediate and operational objectives. Once the "right" judgments, whatever they are, have been found for any given situation, there should not be any question that

any interest rate changes which emerge should be the result of interaction between the policy action taken and all other market forces—not an arbitrary "given" inserted on the basis of some independent judgment of "what ought to be."

Recently, particularly in the United States, criticism has centered on the level of interest rates, not on the need for rate flexibility or rate uncertainty. Rates are said to be generally higher than they need to be. They have reached such levels, so the argument runs, because the Federal Reserve has let out too little of the marginal supply of money and credit. With more bank credit, interest rates would be lower and users of credit would do more to expand the employment of men and resources. The Federal Reserve has failed to permit this expansion because it is preoccupied with potential inflation. Yet that is misguided quixotry, we are told, since prices have been rising mainly because of wage increases. And the Federal Reserve can do nothing about that. High interest rates, and a slow growth rate, it is argued, are the unnecessary price of an unsuccessful effort to combat wage inflation. Does this mean that a stage has been reached for elevating wage policy to comparable importance with monetary and credit policy?

Are Wage Policy and Credit Policy Complementary?

Most other countries have, indeed, gone much further toward the formulation of a national wage policy, and toward various means of making such policy effective, than has ever been contemplated in this country except in wartime. In some, the traditional patterns of wage bargaining—industry by industry on a national scale—seem to lend themselves more readily to procedures for joining spokesmen for management and labor from a number of industries in consultations, at which the public interest is also represented, to determine the basic conditions of the wage bargain for the country as a whole. In some, long-established procedures of arbitration provide a basis for giving effect to nation-wide "norms" worked out by consultative groups, or by cabinet ministers. In some, strong national labor confederations and employer groups respond to appeals of "national interest", particu-

larly with a view to maintaining exports, and voluntarily establish restraints of their own upon the general pace of advance in wage rates. And at the other extreme, there are instances of legal authorization for ministerial intervention to set wage rates, as well as prices and profits, although little use has apparently been made of such powers.

Enough has happened in the other market economies to justify a question whether some method may be needed, and appropriate, for reflecting national considerations with respect to economic stability and growth in the wage bargaining process, year by year. But this question, too, should be referred back to the essential elements of a market economy, as outlined early in this paper and as further elaborated in appraising the concept of uncertainty as it relates to price stability and interest rate flexibility. Though quite unqualified to say, I should think that any independently determined pegs, or arbitrary increments, for wage rates or other labor benefits would be as contrary to the conditions needed for the functioning of a market economy as fixed prices, or pegged interest rates, or arbitrary profit margins. The risk even in any search for "norms" is that they then become universal minima, with most contracts set at the "norm" or higher. And yet it may be important for the vitality of a market economy that the range of variable wage demands and settlements be kept uncertain—both as a spur to the introduction of newer techniques of higher productivity, and as a spur to labor mobility and exertion.

Perhaps it is when single contracts become so important as to exert a general and notable influence upon wages and prices throughout the country that any consideration of new approaches is justified. That seems to have been the case abroad. But even then, the various formalized approaches to a national policy for wages do not appear to have been successful, either in noticeably limiting the actual averages of wage increases or in reducing the burden still to be carried by the central bank through limiting the availability of money and credit. The outstanding instance of governmentally imposed cost-of-living factors in wage contracts, for example, has been abandoned after many years of trial. And al-

though wide differences in national conditions make generalization dangerous, there does seem to be some basis for a conclusion that the best results have been achieved in those countries where the government's role has been to provide improved data and emphasize the relevance of certain broad criteria, with the wage bargain left to contending forces in the market.

Actual experience in dealing with "cost-push" on the wage side has, at the least, provided another stern reminder that there are no easy choices between absolute solutions for the causes of instability. It appears doubtful that a national wage policy could be developed and implemented, within the framework of a market economy, that could achieve a degree of general effectiveness, or of general acceptability, comparable to that of monetary and credit policy. The most effective corrective for distortions among the various parts of the price mechanism, so long as the elements of a market economy are preserved, is to be found in the functioning of the price mechanism itself. In time, any industry that prices itself out of its market will find its own correction, and the same may apply to labor, so long as no artificial props are erected to support or perpetuate a distorted situation.

That proviso brings me back to monetary and credit policy. For it does have a responsibility to avoid being used as one of the props. Can it, should it, when unemployment seems large but wage rates are rising, add to the supply of money and credit in the hope of providing quick employment opportunities? If existing credit is already fully used, what are the chances that new increments will result mainly in general price increases, in an accentuation of cyclical instability, and in stunting longer-range projects that could otherwise provide part of the basis for sustained growth? These are the questions that a responsible central bank must try to resolve, when confronted by a "cost-push" situation. It does not, in practice, have the choice of merely deciding that, because "cost-push" forces are operating, it can give up the effort to find that limit for money and credit which will provide the best balance among all objectives, in the light of all the existing circumstances. It cannot simply open the valve and step aside.

Around the Fourth District—

BANK DEBITS IN OCTOBER (12 Medium-size Cities, Fourth District)

		October 1959 % change from year ago	3 months ended Oct. '59 % change from year ago
Covington-Newport	Ky.	+14%	+10%
Mansfield	Ohio	+11	+14
Lorain	Ohio	+11	+ 9
Zanesville	Ohio	+11	+14
Middletown	Ohio	+11	+13
Springfield	Ohio	+ 8	+11
New Castle	Pa.	+ 7	+11
Lima	Ohio	+ 6	+ 6
Lexington	Ky.	+ 6	+16
Hamilton	Ohio	+ 3	+12
Warren	Ohio	+ 1	+ 6
Wheeling	W. Va.	- 3	+ 3

* * *

The level of Fourth District *department store sales* in October was unchanged from September, after seasonal adjustment. Preliminary estimates indicate that a slight increase occurred in November.

* * *

The withdrawal of Christmas club savings during November resulted in a seasonal dip in *savings deposits of individuals* at 47 reporting banks in the Fourth District. Savings are nevertheless still at relatively high levels. This is indicated by the fact that volume at the end of October had established a new record high for the ninth consecutive month, and by the further increase in time-deposit accounts of individuals which offset about one-third of the Christmas club withdrawals.

* * *

In the first half of December, barometers of activity in the industrial sector of *Cleveland business* recorded substantial increases. Electric power output climbed to a new record, while steel production and railroad freight traffic scored further advances.

* * *

Although the spread of *unemployment in Cleveland* appears to have been arrested, claims for unemployment compensation in early December were still about twice as high as before steel inventories became depleted in mid-October. The resumption of steel production has improved the employment outlook, but it will be some time before all types of finished and semi-finished steel mill products will be available in quantities sufficient to enable full-scale manufacturing activity and full-scale employment.

* * *

An Ohio State University *agricultural forecast* for 1960 states that net incomes of farmers will probably decline further. Prices to farmers may average somewhat lower in 1960 than in 1959, primarily because of lower prices for cattle and hogs. However, receipts from milk and eggs will be up somewhat.

(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.)

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FOURTH FEDERAL RESERVE DISTRICT