

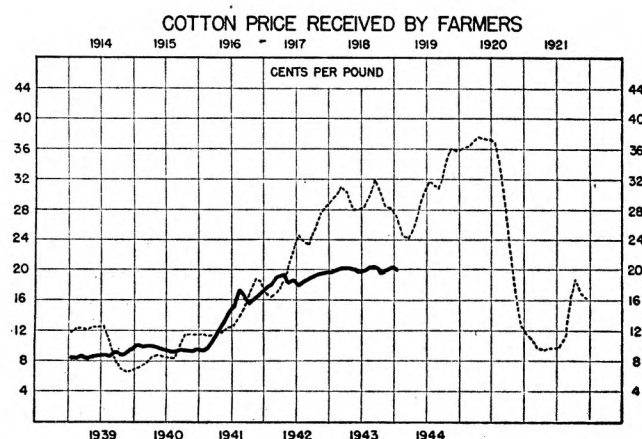
Hampton Roads and returned to their homes, when they could have been used in other yards of the areas. From two to three thousand additional workers are needed at the Norfolk Navy Yard, but despite the efforts of fifteen recruiting crews, the number on the Yard's payroll continues to drop. Deliveries of merchant ships from the District's yards in February improved notably from the January level. In February, 1944, twenty-three vessels were delivered to the Maritime Commission, compared with seventeen vessels in January.

Low temperatures on two occasions in March are not believed to have caused any important damage to fruit crops such as occurred last year. The change in the farm labor Selective Service exemption status is expected to be reflected in a smaller planted acreage of some crops and the abandonment of larger

than normal acreage before harvest. Yet, intentions point to a flue cured tobacco acreage increase of 17 per cent from last year. March rainfall seems to have damaged the potato crop considerably and has delayed preparations for spring planting. Blue mold has been observed in some tobacco beds, but in no greater extent than usually occurs.

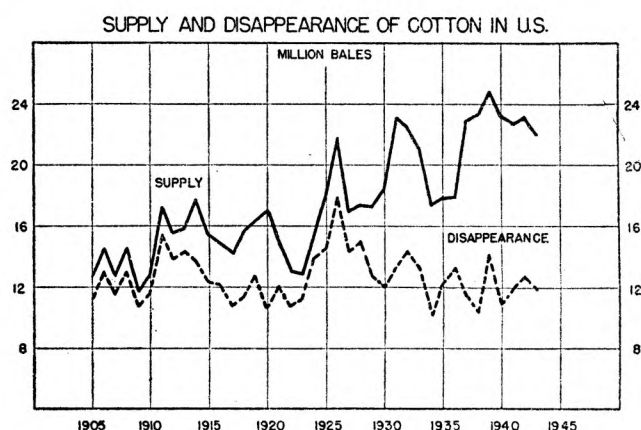
The National Association of Tobacco Distributors has gone on record favoring the establishment of a "floor" as well as a ceiling on leaf tobacco. Tobacco growers' organizations are overwhelmingly in favor of preserving the quota system, which faces suspension because of a dearth in supply. Thus it would appear that there is considerable support for continuation of a large measure of control in the growth and marketing of tobacco.

Cotton Prices in the World Wars



At the outbreak of World War I, in August, 1914, raw cotton at the farm was selling for 10.6 cents a pound and by November of that year it had fallen to 6.6 cents. In the two previous years cotton prices had ranged between 11 cents and 13 cents a pound, but the disappearance of domestically produced cotton in those two previous years also had been some half million bales larger than in the first of the war years. In fact the cotton year of 1914-15 saw the largest disappearance of domestically produced cotton that was to occur for the ensuing decade. This was because the loss in exports in the war years more than offset the gain in domestic consumption. Furthermore, it was fully 5 years following the termination of the first World War before material recovery had occurred in cotton exports.

The carryover of cotton in years prior to the 1914-15 season had generally run between $1\frac{1}{4}$ and $1\frac{3}{4}$ million bales, but as of July 31, 1915, one year after war had been in progress, the carryover amounted to 3.9 million bales, which resulted largely because of an increase in the crop that year. In the next two years the cotton carryover declined $1\frac{1}{4}$ million bales. Production and disappearance had both trended downward during these two years, but the fall in the carryover resulted from production falling more than disappearance. Cotton prices in the two crop years



1915 and 1916 rose 16.2 cents a pound, or 52 per cent of the overall rise of 30.9 cents from the low point of 6.6 cents in November, 1914, to the high point of 37.5 cents in April, 1920.

Although the carryover of cotton during the season of 1917 increased nearly a million bales, as a result of a greater decline in cotton disappearance than in the supply, prices continued to rise and by March, 1918, had increased 24.4 cents a pound, a rise equal to 79 per cent of the overall war and post-war rise of 30.9 cents. The success of the allied armies in breaking the Hindenburg Line in the spring of 1918 stayed the cotton price rise through the summer of that year and the anticipation of a successful conclusion of the war resulted in a setback in cotton prices that lasted through March, 1919. From this point until April, 1920, cotton prices at the farm rose 13.3 cents to the peak monthly level of 37.5 cents in April, 1920. The deflation that occurred in cotton prices between July, 1920, and April, 1921, brought them back to within 2.8 cents of the lowest level prevailing in 1914.

As has been characteristic of raw materials prices, the price of cotton rose and fell much more violently in this period under review than did the prices of all farm products. Cotton prices, as was previously pointed out, rose 468 per cent between November 15,

1914, and April, 1920, whereas all farm commodities rose 142 percent in the same period. The decline in cotton prices that ensued in the depression of 1921 carried them 75 percent below the 1920 peak level, while the prices of all farm commodities fell 52 percent in that depression.

In most of the period between World Wars I and II, cotton was in an unbalanced supply-demand position. Although production of cotton in the United States by the middle of the 1920's had recovered to a level that had prevailed in the four years prior to 1914, disappearance of the available supply into domestic consumption and export did not keep pace, and as a result the carryover, which amounted to only 1½ million bales on August 1, 1924, trended mainly upward to 13 million bales on August 1, 1939.

The primary cause of the upward trend in the domestic cotton carryover was the persistent downward trend in cotton exports. In the 1926-27 crop year exports of American cotton had reached the 10 million bale level that prevailed in the best prewar year 1911, and in the crop years 1931 through 1933 they had held between 8 and 9 million bales annually. In each of these years the domestic price of cotton had experienced a substantial decline, both in dollars and relative to foreign growths.

The advent of parity price concepts and adoption in 1934 of policy to implement such concepts, however, adversely affected the competitive position of American cotton in the world markets. Cotton exports in the five years before the outbreak of World War II averaged only 5,027 thousand bales compared with 7,622 thousand in the five years 1929-33, and with 8,514 thousand bales in the five years 1924-28. Thus despite a moderate upward trend in domestic consumption of cotton between wars loss of exports resulted in the total disappearance showing a downward trend following the middle 1920's. In this period between wars the total supply of cotton available for domestic consumption and export trended sharply upward. While the total world consumption of cotton outside the United States rose in a constantly increasing trend, these requirements were supplied by increased production in India, Brazil, China and to some extent in Russia.

Thus at the outbreak of World War II, the supply of American cotton available for domestic consumption and export of nearly 25 million bales was close to two full years of then existing requirements domestic and foreign. Foreign markets for American cotton quickly dried up because of a lack of shipping facilities, but domestic mills stepped up their rate of cotton usage which partly compensated for the export loss.

Domestic production of cotton has not been pushed by the War Food Administration as a needed crop of war. Cotton acreage allotments in the war years have consistently run well above the level that growers have been willing to plant. Domestic production, therefore, in the current war years has not equaled the disappearance and the carryover has been reduced about 2 million bales.

At the beginning of the 1943-44 crop year, how-

ever, there was still an amount of domestically produced cotton on hand nearly equal to the domestic consumption of the previous year. Acreage allotments for the current year are about the same as those harvested last year, and there is no reason to believe at this time that planted acreage will be materially different from last year. Given a normal growing season the American cotton carryover will not be greatly different a year hence than at the present time.

Cotton prices at the beginning of World War II were approximately at the same levels as at the beginning of World War I. For the first two and a half years of the second World War cotton prices closely approximated the rising pattern that was set in the first World War. In the current war to date, however, cotton prices have doubled, which was about the same increase as the average of all farm prices, whereas in World War I cotton prices rose 468 percent while the average of all farm commodities was increasing 142 percent. During the first World War, despite the fact that the cotton carryover was increasing, the cotton supply was held in private hands, domestic demand was increasing rapidly and no price regulation was present to restrain the upward move. In World War II, however, the very large carryover in existence has been a persistent restraint to rising cotton prices, and only through the establishment of supports by the Government was it possible to effect the rise in cotton prices that has been recorded. Domestic cotton production is now running about the same level as disappearance, and little prospect appears for any important reduction in the large carryover in the coming year.

World cotton production has been in a downward trend since the war began, but despite this fact stocks of foreign grown cotton have risen substantially, and these stocks will act as a restraint on United States postwar exports. The very large growth in synthetic fiber production in Axis countries is expected to work against the postwar use of cotton in those countries, but the extent to which this factor will be applicable must depend in part on the availability of foreign exchange to those countries. Furthermore, it will likely take some time before the economies of many of the world nations can create a sufficient income to cover primary necessities and be in a position to trade for large volumes of textiles despite the very great need that will be present. Lend-lease policy on the other hand could eliminate the burdensome domestic carryover in a reasonably short time.

Thus the outlook for cotton prices in the immediate years ahead would seem to be largely a function of national policy. If that policy be to include cotton under a liberal lend-lease program the price might very well be maintained or rise notably if rising tendencies prevail in commodities generally. If the policy be one of support through loans, American cotton will in all probability continue to be priced out of the world market. Such a price relationship would reduce the market of the American cotton producer largely to the United States. Without further controls on domestic cotton production it is

probable that a crop of anywhere between 12 and 15 million bales would be produced yearly. Domestic consumption in normal years never exceeded 8 million bales. Therefore a price support through loans would build up loan stocks more or less continuously, which would necessitate other policies to deal with the surplus, or sooner or later require further control

of production. The purpose of this brief discussion is to indicate the position confronting the cotton growing industry in the immediate years following the war. The economic and sociological implications, at home and abroad, of the adoption of any one of numerous possible policies are reserved for more intensive study.

The Fourth War Loan in the Fifth Federal Reserve District

Investors in the Fifth Federal Reserve District, other than commercial banks, purchased \$880,996,000 of government securities offered in the Fourth War Loan, an amount 9 per cent below the \$972,374,000 purchased in the Third War Loan. Commercial bank purchases for their own account, which in the Fourth War Loan were limited to 10 per cent of their savings deposits or a maximum of \$200,000, totaled \$53,069,000, but these were not included in the quotas.

Fourth War Loan sales to non-bank investors in the Fifth District accounted for 5.27 per cent of the United States total. This District accounted for 5.13 per cent in the Third War Loan; 4.43 per cent in the Second; and 4.34 per cent in the First. This progressive increase in the District's proportion of non-bank sales is somewhat surprising, particularly in the Third and Fourth Loans. It is a matter of record that the Fifth District's income had increased considerably faster than the United States total income in the war years through 1942, but this tendency appears to have been checked around the middle of 1943. Thus the rising trend in the District's percentage of the United States purchases has been made in spite of the decline in the District's proportion of the total national income.

Strong emphasis was placed on sales to individuals, partnerships and personal trust accounts in the Fourth War Loan. It is interesting to note that sales to these investors accounted for 41.3 per cent of the District's total sales to non-bank investors, compared with 36.5 per cent in the Third War Loan, and with 35.5 per cent in the Second War Loan. Out of four major investor classes, individuals, etc., recorded the only increase in amount sold in the Fourth War Loan compared with the Third War Loan, as the accompanying table shows:

WAR LOAN SALES OF SECURITIES BY
TYPES OF NON-BANK INVESTORS

Fifth Federal Reserve District

	Thousand Dollars			Per Cent of United States		
	Second	Third	Fourth	Second	Third	Fourth
Individuals, etc.	212,367	354,966	363,701	6.45	6.60	6.85
Savings banks & Ins. companies...	101,999	143,964	100,172	2.83	3.48	2.94
Dealers & Brokers	41,087	24,298	18,386	7.55	2.72	4.02
Others	241,301	449,151	398,737	4.00	5.26	5.26
Total	596,754	972,379	880,996	4.43	5.13	5.27

Notable shifts in demand for the various types of securities were in evidence in the Fourth War Loan as compared with the Third War Loan. Increases of approximately one-third were shown in sales of Certificates of Indebtedness and Series E War Savings Bonds. Series F and G Savings Bonds sales increased 16 per cent, but sales of these bonds to individuals, etc., were somewhat smaller. All other issues offered in the Fourth War Loan were sold in amounts from 11 to 66 per cent lower than comparable issues in the Third War Loan. Owing to the large number of buyers covered by the sales of Series E

Savings Bonds, the increasing trend in these sales takes more current spending money out of the pockets of those most likely to cause inflation than other types of securities.

Substantial decreases occurred in Fourth War Loan sales of $2\frac{1}{4}$ per cent and $2\frac{1}{2}$ per cent bonds from comparable issues offered in the Third War Loan. Decreases were particularly marked in sales to individuals. With commercial banks not permitted to own the $2\frac{1}{4}$'s and $2\frac{1}{2}$'s of the Fourth War Loan it appeared improbable to buyers that these bonds would offer an opportunity for a quick turnover profit. Thus the possibility of "free riding" the market in these issues was poorer in the Fourth War Loan than in the Third. No doubt this factor played an important part in decreasing the amount of these securities sold. The inability of commercial banks to own the $2\frac{1}{4}$'s and $2\frac{1}{2}$'s may also have found reflection in the tripling of sales of Certificates of Indebtedness to individuals. The extent to which these individual purchases were made for quick resale should be evident in the next several weeks by their appearance in bank portfolios.

The Fifth District accounted for 4.34 per cent of all securities sold in the First War Loan. This percentage has risen in each succeeding War Loan to a level of 5.27 per cent in the Fourth. Contributing notably to improvement were, in the main, rising proportions of the nation's total sales of Certificates of Indebtedness, Series E War Savings Bonds, medium-term bonds, and Tax and Savings Notes, though no one of these issues showed successively higher percentages through the four Drives. The District's proportion of all Series F and G Savings Bonds sold in the United States has been progressively downward since the First War Loan, despite the progressive increases in the dollar sales of these bonds. The District's proportion of $2\frac{1}{2}$ % bonds sold was lower in the Fourth War Loan than in any of the three previous Loans.

WAR LOAN SALES OF GOVERNMENT SECURITIES
TO NON-BANK INVESTORS

Fifth Federal Reserve District

	Thousand Dollars			
	First	Second	Third	Fourth
$\frac{3}{8}$ % Certificates	59,456	150,136	197,799	256,491
Bonds $1\frac{3}{4}$ %; 2%; $2\frac{1}{4}$ %	40,154	112,929	289,754	181,062
Bonds $2\frac{1}{2}$ %	70,153	108,908	133,289	45,247
Tax & Savings Notes	60,676	83,253	137,526	122,523
Savings Bonds, Series E	46,051	96,026	160,080	213,313
Savings Bonds, Series F & G	20,174	44,812	53,931	62,364
Total	296,664	596,754*	972,379	880,996

	Per Cent of United States Total			
$\frac{3}{8}$ % Certificates	3.57	4.84	4.80	5.09
Bonds $1\frac{3}{4}$ %; 2%; $2\frac{1}{4}$ %	4.60	4.01	5.51	5.44
Bonds $2\frac{1}{2}$ %	2.47	2.89	3.53	2.36
Tax & Savings Notes	4.57	5.04	5.54	5.49
Savings Bonds, Series E	6.34	6.52	6.48	6.69
Savings Bonds, Series F & G	6.94	6.72	6.49	6.09
Total	4.34	4.43	5.13	5.27

*Includes unallocated amount of \$690,000.

The Fifth District sales record in the Four War Loans (including Series E Bonds in the First), together with