



MONTHLY REVIEW

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REVIEW OF BUSINESS CONDITIONS

THE record rate of business and industrial activity established in the latter half of last year and the first quarter of the current year extended into April and May. Most national indicators of economic activity have remained at or near their first quarter highs after allowance for seasonal trends. The Federal Reserve index of industrial production stood at 241 percent of the 1935-39 average in both April and May, off only two points from the postwar high reached in March. In the durable goods industries, continued expansion in automobile production and sustained output of industrial and defense equipment offset a moderate reduction in the rate of activity in the major field of household durables. Output of nondurables was generally maintained at a level slightly below the record March rate.

Consumers increase their rate of spending

Significantly, the record outpouring of goods from the nation's expanded industrial plant has been largely taken off the market by ultimate users. The high volume of purchases by the various segments of the economy has prevented any widespread backing up of goods in distributive or manufacturing channels, although inventory holdings, which have come in for considerable scrutiny recently, increased rather sharply in April. It appears on the basis of incomplete data that there was some further growth in May. In general, however, inventories of business firms remain in a favorable relationship to the volume of current sales, and stock-sales ratios in some lines actually declined during the first quarter. Business demand for durable producers goods continues at the very high rate evident in the earlier months of the year. On a seasonally adjusted basis consumer purchases at retail, after a moderate decline in April advanced in May to a level approximating the high volume at the close of last year. Federal Government purchases increased appreciably in the second quarter for the first time in a year. Such outlays have been a major supporting element in the maintenance of a high level of production, especially in the durable goods sector.

The strong character of consumer demand reflects continued growth in disposable personal income and a moderate rise in the proportion of their income spent by consumers. In addition, consumers have continued to expand

their short-term debt at nearly the same high rate as in the last eight months of 1952. If the proportion of current income spent by consumers should continue to rise, this would tend to offset any deflationary tendencies arising from possible declines in Government or business spending.

On the surface, developments during the first five months of this year seem to indicate that the current inventory situation contains little danger. Present ratios between stocks and sales are generally not out of line with those typical of various lines of activity. In absolute terms, however, inventories are at or near an all-time record, as is economic activity in general. It should also be pointed out that much of the inventory accumulation so far this year has been concentrated in automobiles and other durable goods, including a substantial increase in building materials at the retail level. In each of these areas demand is no longer so intense that a rising level of output can be maintained with certainty, as was the case in earlier postwar years. Should consumer preference shift rapidly among different types of goods or should sales decline generally, the current level of inventories could quickly become burdensome, particularly in those lines suffering most from changes in spending.

Demand for credit faces tight money market

Interest rates have continued to rise as a heavy demand for funds for this time of year by the Treasury coincided with a sustained high demand for business, commercial, and real estate loans. Total loans of weekly reporting member banks increased some \$550 million from January 1 through the week ended June 17, a marked contrast to the gain of only \$125 million in the same period a year earlier. Contributing to this increase were a continued growth in loans to consumers for the purchase of automo-

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biles and houses and a less than seasonal contraction in business loans. Some easing of the money market started in the latter half of May as a result of Treasury operations and Reserve System purchases of Treasury bills. On June 24, the Board of Governors of the Federal Reserve System announced that member bank reserve requirements would be reduced effective in early July in anticipation of expanding seasonal credit requirements of the economy coupled with a large volume of Treasury financing.

Prices generally stable

The over-all level of commodity prices remained virtually unchanged from March to June, as an adequate supply of goods was available to meet the rise in spending. Prices of farm products continued to slip, and in June were not quite 10 percent below their level a year ago. Cattle prices, after having firmed considerably in May, fell off again in June when feeder cattle prices dropped 30 percent. Wholesale food prices advanced less only fractionally from March to June while nonfarm commodities remained generally stable.

District business activity moves up despite weakness in particular segments

The level of total business activity in the Twelfth District, as reflected in the number of persons engaged in nonfarm activity, continued to rise in April and the movement carried into May. Rising seasonal activity in outdoor and food processing lines contributed to the upswing. These gains were smaller than usual in April and May because weather in the first quarter had permitted an early expansion in some seasonal lines. Further over-all gains are expected in the food processing and some other industries since peak rates of production will not be reached until later in the year.

Aside from typical seasonal advances, high and rising employment has characterized most District industries in recent months. Output of durable product lines increased further in April and May reflecting underlying strength in the demand for District products. District automobile assembly, largely concentrated in California, has expanded rapidly so far this year. Automobile assembly plants employed 32,000 workers in April, 41 percent more than a year ago. Other major durable goods industries, particularly machinery, electronic equipment, instruments, and fabricated metal products, are continuing to advance, although the pace is slower than in either 1951 or 1952. Growth in the electronics and instrument fields reduces the need for purchase of these items from areas outside the District. At present, the aircraft industry and other defense producers absorb most of the District's output of electronic devices.

Weak spots appear in some District defense and related industries

Although most District industries have exhibited over-all strength, some weak spots have developed recently in particular industries and areas of the District. Most significant, perhaps, has been the general decline in

the level of employment in defense and related activities. Aircraft producers in April trimmed their workforce for the first time since the outbreak of the war in Korea. In conjunction with what is known of defense production plans, this small decline would seem to indicate that the industry has about completed its expansion plans, and any further gains will be relatively minor. The buildup in aircraft production has been a major expansionary force in the District since June 1950.

Government employment has also receded from the peak reached in the closing months of 1952. The elimination of several special agencies administering the stabilization program, layoffs in some regular agencies, and job reductions at military and naval establishments have contributed to a slower tempo of government activity in the District.

Efforts to restrain if not reduce Government spending have resulted in a slowing up of construction for the Federal Government. This development results from the review program announced last February which suspended starts of new Federal construction projects pending determination of the present need for various facilities. How much of the current cutback in this type of Federal activity is only a postponement of these projects and how much represents a permanent reduction is not clear. However, this slowdown, combined with the completion of construction contracts let much earlier in the defense build-up program, will mean a slower rate of activity in the near future.

Additional weaknesses in the economic situation in the District have appeared in recent months or have continued from earlier periods. In Oregon and to a lesser extent in Washington, April employment in lumber and logging operations was running somewhat below the same month last year despite a generally high level of lumber output. Pulp and paper mills, some of which halted operations at least temporarily in April, have faced slower markets and have reverted to a shorter work week. District metal mines are also operating at a somewhat slower pace. The slump in lead and zinc prices that took place during 1952 has tended to curtail some mining operations. This has been offset to a degree by the favorable market position of copper. The rise in copper prices since the end of price control has induced greater activity in some mines, particularly in Utah and Arizona.

District construction authorizations maintain rapid pace

The value of new construction authorizations in the Twelfth District for the first four months of the current year reached a new record for this period of the year. Total building authorized in all urban areas of the District through April of this year approached \$650 million compared with \$475 million in the same period last year, a gain of about 35 percent. The largest relative gains occurred in nonresidential building, for which the value of some types of construction was more than double the amount authorized during the same period last year. Residential construction, accounting for about 60 percent of total building, also rose to record levels for this period

of the year, both in terms of value and in the number of dwelling units authorized.

Nonresidential construction authorizations in the first four months of the year totaled more than \$190 million, up 60 percent from the same period a year ago. This large increase reflected primarily a sharp rise in projects undertaken by state and local governmental units and a significant gain in commercial building. In the residential field, a number of factors have operated to bring building authorizations to a new high in the first four months of the year. Population has continued to expand rapidly in the District, and record levels of employment have served to keep incomes growing. Both factors have contributed to a continued active demand for new housing facilities.

Lumber production high despite uncertainty and market weakness

District lumber producers, spurred by a high level of construction activity nationally and mild and open winter weather, have increased production of lumber to a level substantially ahead of a year ago. Production in the Western pine region in the first four months of the year was up more than 20 percent over the comparable period in 1952, redwood production expanded about 9 percent, and in the Douglas fir region output increased 6 percent. New orders received were also above a year ago during this same period in all three regions and exceeded production by a fair margin in both the Douglas fir and redwood regions. In the Western pine region the increase in production was almost twice the rise in new orders. Shipments generally have risen in line with production. The

higher levels of mill inventories represent an accumulation that took place in the latter half of 1952. Lumber distributors trimmed their inventories and adopted a hand-to-mouth buying policy after mid-1952 with some resulting accumulation of stocks at the mills in the producing regions of the District. At the end of April, as compared with a year ago, stocks on hand were up 13 percent in Douglas fir, 9 percent in redwood, and 7 percent in Western pine. Although the level of inventories this year has dampened somewhat the industry's enthusiasm, inventories generally are lower than in some earlier post-war years and are substantially below levels typical of the pre-World War II period.

Prices have remained relatively firm for most District lumber products and are generally above last year at this time. However, price weakness for Douglas fir, the major products of the District lumber industry, has been evident since last September and October. The price of No. 1 common 2 x 4's slipped almost 4 percent from September to April of this year. This price weakness reflects the high level of production, the somewhat higher level of stocks than last year, and added competition from Canadian Douglas fir producers. Canadian producers have increased their shipments to eastern United States markets following the loss of markets for their lumber in the United Kingdom because of the continuing dollar shortage. Although these shipments have been small compared with total Douglas fir production in the United States, they have added to a market already well supplied. Douglas fir prices firmed in the latter half of May, however, as seasonal buying picked up in Eastern markets.

SURPLUS CONTROL AND AGRICULTURAL PRICE POLICY

WHAT will happen to the market for farm products in the years ahead and how to dispose of agricultural "surpluses" accumulated or threatened are two of the most important problems facing American agriculture.¹ Surplus stocks of cotton, wheat, corn, dairy products, and beef exist, and supplies of other commodities are piling up. Serious lack of storage facilities for corn and wheat is developing. Investments in agricultural commodities by the Commodity Credit Corporation, the Government agency charged with carrying out agricultural price-supporting activities, climbed to \$3.8 billion on May 31, 1953 from \$1.5 billion a year earlier. Furthermore, with continued high level production of cotton, wheat, and corn in prospect, additional investment by the Commodity Credit Corporation to a total outstanding of perhaps \$4.5 billion by June 1954 has been forecast. In terms of dollars this would exceed the level of all previous CCC support price activity.

Domestic demand for the products of agriculture is generally considered good. Foreign demand for many

domestically produced farm crops is, however, much below the levels of recent years. These reductions abroad in demand for United States products reflect much improved foreign supply situations, greater use of accumulated stocks, less United States economic aid, and tighter import controls in foreign countries. Also, larger quantities of competing commodities are available and at more attractive prices.

Problems of agricultural surpluses are not new. They have plagued American farmers for at least 30 years, and over this period many different control devices have been employed. Results of these schemes are controversial and questionable, but it is generally agreed that the droughts of 1934 and 1936, World War II, and the Korean conflict materially simplified the problems of surplus disposal and contributed to successes claimed by advocates of Government price support to agriculture.

United States agricultural policy is being questioned

These various considerations are focusing attention upon announced policies of the Federal Government toward agriculture. Several questions, such as those which follow, are being brought to the foreground. Are price and income problems arising from agricultural surpluses short run and temporary in nature or must farmers of the

¹A realistic definition of "surplus" must include some reference, implied or otherwise, to the price of the commodity. A surplus is often defined as that quantity of a commodity which cannot be sold at "fair" and "reasonable" prices. The United States Department of Agriculture has not defined a surplus as such, but a definition is implied in the concept of "parity." Any quantities which cannot be sold at parity prices or at specified percentages of parity prices have been considered in surplus.

United States expect to continue facing these problems over a long period? In the face of falling prices and incomes in agriculture, should support price activities be intensified and increased or should there be shifts toward freer operation of market pricing forces? If support price operations are to be continued, will it be possible to establish support prices at levels which will not encourage production in excess of all requirements? If farm prices continue to be supported as at present and if conditions of surplus persist and grow, will not problems of storage, spoilage, and Governmentally-financed loss assume major proportions in the absence of widespread drought or war? Do there exist more effective and heretofore unexplored means of solving problems of surplus production? These questions are concerned with the future and no attempt will be made here to provide definitive answers. Before attempting to look ahead, however, it may be wise for agriculture to ask questions concerned with the past, to analyze its present position, and to review the course by which it has arrived at that position.

Major objectives of United States agricultural policy

An appropriate question is "What have been the major objectives of United States agricultural policy?" Since 1920, nearly every major agricultural program or policy, proposed or placed in effect, was designed to achieve one or more of three major objectives.

One of the major objectives sought by agricultural policy makers has stemmed from a desire to provide farmers of the nation with certain minimum safeguards in the event of general or localized conditions of agricultural emergency or of economic depression. Even individuals who are staunchly opposed to artificial support of agricultural prices during periods of business prosperity recognize that agricultural production is subject to the ravages of weather, insect damage, and other forces of nature. They admit the occurrence of localized conditions of disaster such as exist at present in the drought of Texas and other parts of the Southwest and believe that funds and facilities should be available for relief in these circumstances. Also, it is recognized that during periods of business recession agriculture, like most of the economy, is seriously affected. In depression, farm prices fall rapidly while costs of production remain relatively high. Some advocates of depression relief and aid to agriculture believe it is morally improper to allow farmers to suffer severely from conditions brought on by economic forces over which they had no control. Others support this policy because they desire to maintain the Jeffersonian ideal of an agriculture of small family farms. These individuals fear the accumulation of small farms by large farming interests during periods of economic adversity.

Another major objective of some farmers and agricultural policy-makers has been the establishment of conditions of "orderly marketing" and the close correlation of production and available supply with the existing demand.

It is often contended among agriculturalists that "bottle-necks" in the marketing machinery and disorderly, disorganized marketing of farm products are principal sources of price and income disparity in agriculture. These are the causes, it is held, of alternate short-run periods of glut and shortage which have characterized the marketing of many agricultural commodities. Some of the arguments for more orderly marketing are supported by many economists and marketing men who agree that avoidance of gluts and scarcities in the market favorably affects total net returns to growers. They feel that for many fruits and vegetables the immediate effects of market congestion of a particular commodity are lower prices to producers without corresponding drops in prices to consumers, reduced movement into trade channels which follows from fear of further price reductions, inventory losses, and loss of interest on the part of dealers in promoting the product.

On the other hand, it has been found that price stability and a dependable, even flow of the commodity often introduce a certain degree of confidence into the market. Under these circumstances, inventories are likely to be maintained at a higher level, marketing charges may be lower since it is not necessary for dealers to collect a premium to cover a high degree of risk, and dealers, including retailers, may attempt to increase sales of the commodity through week-end sales and other promotional efforts. These advantages, it is claimed, lead to a gain in volume of sales.

The third goal or objective has been foremost in the minds of both proponents and opponents of agricultural price supports and has dominated America's farm policy for many years. It is the goal of equality or parity of agriculture with other sectors of the economy in regard to price and income. To supporters of this objective, "equality" and support of agricultural prices and incomes at high levels represent justice. These individuals have adopted the view that the position of agriculture in regard to income and prices is disadvantageous and unequal not only during depression times or on a short-time emergency basis but at all other times as well. Incomes and prices in agriculture are regarded as chronically low and it is argued that it is in the best interests of national welfare and national defense as well as agriculture itself to establish and maintain high levels of prosperity in agriculture.

The first and third objectives are both concerned with relative levels of farm income and prices. However, in the third, a fixed and high relationship of agricultural prices, as a minimum, is assumed for periods of prosperity as well as depression. In seeking the first objective, farmers have anticipated legislation which would ensure aid and relief only during periods of disaster or general and severe depression. The second objective is concerned with instability of farm prices and incomes occasioned by alternate short-time periods of glut and shortage in the market. How have these objectives become goals of our national agriculture and how have Congress and others attempted

to implement them or place them into action? A short historical review will provide some insight into these questions and establish better bases for considering the roles these goals are likely to play in future development of agricultural policy.

The Goal of Minimum Safeguards in the Event of Depression

In the general business depressions of 1921 and the early 30's, farmers and farm leaders observed a consistent pattern of events. Prices of agricultural commodities were the first to fall and they fell to a relatively greater extent than prices of manufactured goods, particularly fabricated metal products. In contrast to many industries where production was reduced greatly and prices were maintained at relatively high levels, agriculture maintained or expanded its production and watched its prices fall away. This left the typical farmer in a position where the prices he received in sales of farm products were far out of line with prices paid for items used in production and in the home. Net farm income, therefore, suffered even more than farm prices. As a result, farm buildings and fences as well as farm land were neglected. Repayments on indebtedness could not be made and foreclosures were common.

Of these developments came a feeling among many farm leaders that permanent legislation should be enacted providing minimum safeguards that would "cushion" the effect upon agriculture of deep and prolonged depressions. To this end, many specific proposals have been advanced.

In 1935, the Resettlement Administration, later known as the Farm Security Administration and currently labeled the Farmers' Home Administration, was established and was an outgrowth of various Government activities started in 1933 to aid low-income farm families. Such activity included rehabilitation loans, debt adjustment, tenant-purchase loans, outright grants, and establishment of migratory labor camps. The Resettlement Administration carried on this work after 1935 and expanded it. However, many farmers and farm groups have been dissatisfied with the lack of legislative assurance that such facilities and benefits would be available to them on a broad scale whenever depression conditions made them applicable. Consequently, many proposals have been advanced for minimum-income guarantees to agriculture and for establishing machinery designed to begin pumping dollars of income into the farm economy whenever conditions of depression reached a certain degree of intensity. However, most agricultural policies and programs which were adopted, although incorporating some measures to protect agriculture from effects of depression, were designed primarily to raise or maintain agricultural prices relative to other prices irrespective of general business conditions or to reduce the general short-time instability of agricultural prices.

The Goal of Orderly Marketing

Agriculture attempts a cure through cooperation

Farmers and the United States Department of Agriculture have attempted to achieve price and income stability through various means, including voluntary cooperation and farmer ownership or control of the marketing machinery. The drive for establishment of cooperative marketing associations reached a crescendo in the early 1920's following the summer of 1921 when American agriculture found itself in a more unfavorable position, pricewise, than any which had existed in the memory of men then living. During this period the American Farm Bureau Federation began its campaign for legislation. The Grange and the Farmers' Union took on new life and other organizations gained strength. In this setting, a drive led by Aaron Sapiro and supported by some of the farm organizations was launched for the establishment of strong, centralized cooperatives for the handling and marketing of the nation's major farm crops such as wheat, livestock, cotton, and tobacco. In these cooperative ventures and in a great variety of later experiments in cooperation on a voluntary basis, farmers attempted to control the marketing of farm commodities and to correlate the flow to market with the market demands for the commodity.

The goal of "orderly marketing" requires Government aid

A majority of these voluntary programs failed or were ineffective in controlling supply. One of the principal difficulties encountered was the existence of a few "non-cooperators" who, although willing to share in the benefits of controlled marketing, were unwilling to carry their proportionate share of the necessary burden. To the individual farmer, controlled marketing meant delegating to a central organization authority to determine timing of sales. At times, it meant restricting the flow to market or reduction of quantities of the commodity available for marketing if stable prices were to be achieved and demoralization of the market prevented. Success of a voluntary control program provided a monetary advantage to an individual of being on the "outside," since as a noncooperator he shared none of the costs of the program and was free to ship and sell at will. Since there were no coercive "teeth" in these programs, many farmers decided to trade the title of "good cooperator" for additional income. It soon became apparent that some degree of police power was necessary for success of such programs. It appeared inequitable to allow the will of a majority to be thwarted by the self-interest of a few, and thereupon, farm leaders began to seek Governmental aid. With the onslaught of another depression in the 30's, Congress turned a sympathetic ear toward these demands of agriculture.

Aid to agriculture during the 1930's, other than farm credit reforms, differed markedly for major storable and nonstorable commodities. For storable farm products such as wheat, corn, and cotton, outright production control supplemented by Government loan and storage pro-

grams emerged. The goal of orderly marketing was referred to in the Congressional declarations of policy contained in the statutes authorizing such activities, but in actual operation the drive for equality of price and income with other sectors of the economy became dominant.

For perishable commodities such as fruits, vegetables, and milk, Government aid took the forms of Government purchases, export subsidies, and state and Federal marketing agreement and order programs. Essentially, marketing agreements and orders are self-help programs established along lines of a cooperative marketing organization but backed up by Governmental police power to force a dissident minority to conform with the decisions and rules of a majority. To the present, the goal of orderly marketing has remained an important element of marketing agreement and order programs. Marketing agreements and orders will be described in more detail in a later issue of the *Review*.

The Goal of Equality or Parity for Agriculture

The view that, inherently, agricultural prices and incomes are chronically depressed, gained many supporters during the 1920's when agricultural prices and purchasing power of many farm products remained depressed below prewar levels for nearly ten years. Basic to this condition were the war-stimulated strides in American production and the sluggish nature of export markets for farm commodities. Problems of "surplus" arose. Huge supplies of wheat became a particularly acute headache to Midwest farmers. In the fall of 1921, George Peek, later head of the first Agricultural Adjustment Administration and Hugh Johnson, who became well-known in later years as administrator of the National Recovery Administration, privately proposed a plan for maintaining domestic prices of wheat at levels in keeping with those of nonfarm commodities while selling exportable surpluses at lower world market prices. These men hit upon the slogan "Equality for Agriculture" which in later years, after going through an evolutionary process of refinement and definition, became known as the "Parity Principle."

Throughout the 1920's, plans and programs were formulated for wheat and other crops which would effectuate the basic ideas of Peek and Johnson. Many were considered by Congress but none became law. These included the Export Debenture Plan and others. Neither farmers nor legislators seemed ready at that time to turn either in the direction of large-scale Government-financed storage programs or in the direction of acreage and production control of surplus commodities. The emphasis still was upon reducing marketing costs through farmer control of marketing facilities and upon increasing total returns to farmers through differentiation of foreign and domestic markets. Issues were confused to some extent, but farmers were interested primarily in increasing the level of farm prices and to this end they continued to exert pressure in Washington. In 1929, Congress yielded to this pressure and passed the Agricultural Marketing Act of 1929 which established the Federal Farm Board.

Operation of the Federal Farm Board

The Agricultural Marketing Act of 1929 contained the following declaration of policy:

" . . . It is hereby declared to be the policy of Congress to promote the effective merchandising of agricultural commodities in interstate and foreign commerce so that the industry of agriculture will be placed on a basis of economic equality with other industries, and to that end to protect, control, and stabilize the currents of interstate and foreign commerce in the marketing of agricultural commodities and their food products."

The Federal Farm Board was provided with a fund of \$500 million to implement this policy. In 1929, appropriation of such a sum for use by an administrative agency was unprecedented and caused widespread consternation. But from this point forward the Federal Government continued to champion "equality of agriculture" in its active farm programs and its Congressional declarations of policy. Stabilization operations in 1929, however, were rated second in importance to measures for building up effective cooperative marketing associations. It was hoped that levels of agricultural income and prices would rise relative to those in other sectors of the economy as a result of improving marketing conditions and regulating the flow to market (orderly marketing) of agricultural commodities.

In actual operation, however, the stabilization and price support features of Federal Farm Board activities quickly overshadowed all other activities of that organization. Loans were made primarily to cooperatives on cotton and wheat. It was not long before the Board began to make outright purchases of wheat at the loan value. The Board foresaw difficulty and urged growers to reduce production, but the Act had provided no machinery for controlling production. Prices of wheat broke through the loan value early in 1930, and in March 1931 the Board announced it would make no further purchases. Stabilization operations designed to cope with alternate periods of short-time gluts and shortages and with "bottlenecks" in the marketing machinery had failed to withstand the pressure of a general shrinkage in domestic as well as foreign demand. The Board added fuel to the fire by dumping its stocks of wheat and cotton at the very depth of the depression. It had been argued that these stocks were "hanging over the market." The total loss incurred by the Board is estimated to have been between \$300 and \$400 million.

The Thirties brought experiments with production control

After witnessing experiences of the Federal Farm Board, it was logical for advocates of controlled marketing to turn toward outright control of production together with large-scale Government purchase, loan, and storage operations. Accordingly, in 1933 a whole front of new programs was launched. Essentially, the new policy declared that it was the intent of Congress to balance production and consumption of agricultural commodities through production control and thereby to raise farm prices to a level that would re-establish relationships be-

tween farm and nonfarm prices that existed in the period 1910-14. Direct participation of Government, it was thought, would overcome the weakness so apparent in voluntary control programs, while control of production would provide assurance that the Farm Board debacle would not be repeated. The balancing of production or available supply with short-period fluctuations in consumption or demand, however, is quite a different problem from that of correlating supply and demand under conditions of a general and prolonged falling away of demand. Differences between these two situations were not generally recognized at that time and, possibly, are not recognized even today.

Attempts to balance existing demand and available supply through control of production may be both possible and practicable for the short run. This is probably not the case during prolonged periods of declining demand or depression. Under these circumstances demand usually falls much faster than supply can be reduced, particularly in agriculture, and, to achieve a balance, severe downward adjustments of supply are required. Furthermore, until the advent of World War II, few associated the relatively low level of income per person in agriculture with a large number of small, uneconomic producing units and with a relatively large number of farm persons per producing unit. These conditions, which result in inefficient utilization of manpower with consequent low per capita income, are to be found in many sections of the country and particularly in some parts of the South. It was about that time too that a few individuals began to explain the relatively low levels of some farm prices by pointing out that such conditions are indicative of improper allocation of productive resources within the economy. To these analysts, existence of chronically low prices and incomes in any industry means that some productive resources, including workers, employed in that industry should be encouraged to transfer to some other industry where such conditions do not exist. The essential point is that unless some of these basic factors of maladjustment in agriculture and the economy are present, conditions of surplus and low income in agriculture should not be regarded as long run and chronic in nature, as commonly assumed, but short run and temporary.

The Agricultural Adjustment Act of 1933

The first AAA program of 1933 provided benefit payments to farmers who signed contracts calling for reduced production and acreage of particular commodities. The Secretary of Agriculture agreed to pay a rental on the land which was not replanted to products considered in surplus. In addition, payments were made to farmers for nonsurplus commodities grown on the land under agreement. In order to finance the benefit payments, a processing tax was imposed on the first processor of surplus commodities undergoing downward production adjustments. The tax equaled the difference between the farm price and the "parity price." Although procedures set forth for calculation of parity price have varied considerably since

1933, it has been defined essentially as that price which will give the commodity the same command over things farmers buy (purchasing power) as it had during the base period 1910-14.

The Act did not have the effects hoped for. Production did not decline materially and prices did not rise much since the voluntary arrangements of the Act did not lead to sufficient farmer participation. Monetary inducements of the Act were not sufficiently great to deter farmers from attempting to maintain net income and counter-balance price reductions by increasing the number of units produced and sold. However, some success in the drive for parity prices was achieved by 1937, largely as a result of increases in rates of consumption and the severe effects of widespread drought.

Agricultural Policy Acts of 1936 and 1938

In January 1936, a decision of the courts invalidated the whole AAA program of 1933. Later, the Soil Conservation and Domestic Allotment Act of 1936 was passed. In this Act, the two basic objectives of an economic balance between agriculture and industry and the reduction of agricultural price instability were maintained. Now, however, the vehicle of production control was soil conservation. It happened that most of the surplus commodities were also soil-depleting commodities. Therefore, payments for the substitution of soil-building commodities for soil-depleting crops were designed to reduce production of wheat and other surplus crops.

Upon experiencing another sharp drop in farm prices in 1937, farmers became dissatisfied with the ineffectiveness of the Soil Conservation and Domestic Allotment Act. Consequently, another statute — the Agricultural Adjustment Act of 1938 — was passed. This Act provided for (1) encouragement of soil conservation and good farm management; (2) nonrecourse loans to farmers,¹ acreage allotments, marketing quotas, and, for some commodities, outright parity payments; (3) marketing agreements and orders; (4) diversion of surplus commodities to new and noncompetitive uses; and (5) crop insurance for wheat. Although it has been drastically amended since, this Act is currently in effect.

The Commodity Credit Corporation

Meanwhile, as it became apparent that efforts of the Federal Farm Board at stabilization had failed, the "ever normal granary" idea became popular with those interested in storage as a device for handling farm surpluses. The Commodity Credit Corporation was organized in 1933, five months after the Federal Farm Board was abolished. Like its predecessor, the CCC was established to stabilize prices against fluctuations in demand as well as supply by operation of an extensive storage program. However, unlike the Federal Farm Board, the CCC was authorized to purchase farm products and make loans to

¹These are loans secured by commodities with the provision that if the price falls below the loan value the Government will take over the product and bear any loss involved.

farmers and agricultural organizations for the avowed purpose of raising the general level of farm prices over a period of years.

Prior to 1938, there was only limited use of loans and purchases for the purpose of raising the general level of prices. The Agricultural Adjustment Act of 1938, however, brought into the foreground the use of loans for this purpose and crystallized it into law. For the first time, price supports were made mandatory rather than discretionary and the emphasis of farm policy shifted away from merely "cushioning" against severe decline to price-raising and to achievement of "equality." Powers of the CCC were circumscribed by the 1938 Act in specifying the range of 52 to 75 percent of parity within which loans were mandatory, under certain conditions, for wheat, cotton, and corn. The conditions specified were (1) that the production of the commodity was in excess of a "normal year's domestic consumption and exports"; (2) that producers had not disapproved a marketing quota; and (3) that prices were below specified levels during the marketing year. The Act of 1938 also permitted but did not require price supports on agricultural commodities other than wheat, corn, and cotton.

In 1941 Congress went further. It took determination of loan rates away from the CCC and directed the Corporation to make loans available at 85 percent of parity on all "basic" commodities (cotton, corn, wheat, rice, tobacco, and peanuts) during the years 1941 to 1946, inclusive. Later, the figure was raised to 90 percent and then to 95 percent and even higher in certain instances. During this period the original objectives of the CCC, storage and price support, were set aside in favor of a new one. This new objective, made necessary by global war, was encouragement of all-out production. Acreage allotments now became goals and price supports were used to provide monetary incentives for expansion of acreage and adoption of improved practices of production.

The CCC increased its loan and price support activities in 1937 as directed by law, but by as early as 1938 it had begun to experience difficulties for three main reasons. These were (1) a series of large crops, (2) the legislative determination of loan rates in terms of parity, and (3) the leveling out of the general price level for a few years after the "recession" in 1937. After 1938, stocks of cotton and corn held by the CCC grew large even though marketing quotas were in effect on cotton in 1938 and 1939. This meant that loan rates had been set above price levels justified by the supply and demand situation. By the fall of 1941 the equivalent of a full crop of cotton, half a crop of wheat, and a quarter crop of corn had accumulated in storage, and by that time some of the cotton stocks were seven years old. Grain storage facilities were overburdened, and embargoes on further shipments for storage had to be applied at several terminal markets. At this time—1941—the CCC had almost \$1¼ billion in purchases on hand and loans outstanding. If war had not broken out in 1939 and spread to the United States in 1941, the CCC might have experienced the fate of the

Federal Farm Board. As it developed, however, these stocks proved of great value to the war effort, and farm policy makers learned that agricultural policy should take account of the possibility of war as well as other emergencies.

Recent legislation and price support operations

The high level of wartime price supports, designed to stimulate production and guard against a postwar deflationary break, expired on December 31, 1948. Those interested in continuing price support to agriculture began well in advance of that time to consider the need for permanent peacetime legislation. Two basically different price support philosophies emerged and each philosophy was advanced by a strong group of supporters. There were (1) those who would use loan, storage, and other price support activities indefinitely to maintain an already high level of agricultural prices and (2) those who would enact permanent price support legislation designed to stabilize relatively short-time farm price fluctuations and to provide only emergency benefits to agriculture. Few policy makers advocated complete dependence on the action of an unregulated market.

Out of subsequent legislative deliberations came a compromise between the two views set forth above in the form of the Agricultural Act of 1948. The 1948 Act provided for price support of basic farm commodities at 90 percent of parity until June 30, 1950. After this date, a flexible sliding scale price support program was to go into effect to provide support of a "normal" supply of each basic commodity at 75 percent of parity.¹ Supplies increasingly greater than normal were to be supported at decreasing percentages of parity. Supplies less than normal were to be supported on a sliding-scale basis above 75 percent of parity. This Act provided, also, for certain adjustments in the parity formula which would keep parity prices of individual farm products adjusted to changing demand and price relationships and which would go into effect gradually with the long-time features of the bill.

The point of view embodied in the flexible support provisions of this law was that there would be restored to the market a substantial part of its traditional function of guiding the farmer as to what to grow and how much of each product. However, proponents of high and fixed price support levels succeeded in forestalling use of flexible provisions with passage of the Agricultural Act of 1949 and with enactment of an amendment in 1952. Considerations of national defense and emergencies such as drought which, logically, should have a place in such deliberations were powerful arguments favoring continuation of high price supports. The 1949 Act became effective January 1, 1950, but some of its flexible sliding-scale provisions were not to become effective until 1954. It also

¹The definition of "normal supply" varies by commodity. It is defined in the Agricultural Act of 1949, as amended, as the estimated domestic consumption for the preceding marketing year plus estimated exports for the marketing year for which determination of normal supply is being made plus from 10 to 30 percent (depending upon the commodity) of such consumption and exports as a carry-over allowance. For some commodities, cotton for example, the consumption estimate used also applies to the marketing year for which normal supply is being determined.

raised considerably the average level of support provided in the 1948 Act and directed the Department of Agriculture to use the "old" or "new" parity formula, whichever was higher, until 1954. An amendment enacted during 1952 makes application of the parity formula which yields the highest parity prices mandatory for basic commodities through 1955 and requires support of basic commodities at 90 percent of parity through 1954. Certain designated nonbasic farm commodities, according to the 1949 Act, must be supported in the range of 60 to 90 percent of parity. Some other commodities may be supported at a maximum of 90 percent of parity.

Some of the effects of these high-level price supports began to emerge in 1948. Larger United States crops were produced that year. At the same time, some weakening in foreign demand occurred because of large crops abroad, and a mild business recession weakened domestic demand. In order to maintain prices of grain at support levels as directed, the Commodity Credit Corporation was forced to accumulate large stocks of wheat and corn. Acreage allotments were established for 1950 crops of corn and wheat while both acreage allotments and marketing quotas were established for cotton. Quotas on tobacco have been in effect right along. However, war—the Korean conflict—again transformed burdensome surpluses into needed reserves.

Acreage allotments and marketing quotas

To provide some control of supply and to adjust it to expected market demand, the Agricultural Adjustment Act of 1938 authorized acreage allotments and marketing quotas. Both these features remain in the law as part of the nation's price support machinery. Acreage allotments as a device are broadly similar to the acreage controls of the original 1933 Act. They are designed to provide a supply of certain commodities sufficient to meet the needs of normal domestic consumption and export plus a reserve for contingencies. In wartime, acreage allotments are used to encourage production. They become goals. When surpluses appear, they serve as inducements to downward adjustment of production. Ordinarily, allotments are distributed to states and sometimes to counties and individual farmers. Compliance with acreage allotments is voluntary, but they are used as a basis for determining eligibility for parity payments or commodity loans.

Marketing quotas have been used when actual or threatened surpluses are sufficiently great to warrant measures designed to protect prices of basic commodities against collapse and when storage stocks held by the CCC become excessive. Before being put into effect, marketing quotas must be approved by producers voting in a referendum. If approved, they then become compulsory and penalties are imposed on quantities marketed in excess of individual farm quotas. Under present legislation, if marketing quotas are disapproved the mandatory level of support becomes 50 percent of parity rather than 90 percent.

Acreage allotments and marketing quotas on the 1954 crop of wheat have been announced and a similar announcement is expected for the 1954 cotton crop. For a third time storage stocks of the CCC are building up to record proportions as foreign demand for farm commodities falls off and the United States production continues to increase.

Which Way Future Agricultural Price Policy?

At this point, certain questions posed earlier in the article return for consideration. While definitive answers still do not appear, some observations may be made.

Under existing law, mandatory support of basic commodities at 90 percent of parity will expire in 1954. This circumstance together with the appearance of surpluses and evidence of falling farm prices is serving to focus, once more, Congressional and public attention on United States price support policy for agriculture. In forthcoming discussions, issues in farm policy are likely to center in (1) the function of Government in lending price and income support to agriculture and (2) the level of support. Methods used by the Department of Agriculture in bolstering farm prices are well established, but the question of how and where to dispose of surplus commodities held in Government storehouses is likely to receive considerable discussion. Even now, many of the older issues are beginning to be revived and the three objectives—(1) minimum price and income safeguards in event of depression, (2) orderly marketing and reduction of marketing charges, and (3) maintenance of a parity relationship between farm and nonfarm prices—are receiving new consideration.

The record indicates that these objectives may not be entirely consistent with one another. For instance, attempts to keep farm prices artificially high may lead to bulging warehouses, disorderly marketing, guarantees of much higher than "minimum" levels of income and price to farmers, and imposition of severe production and marketing controls. This suggests that the overriding objective of farm policies and farm programs has been higher prices or higher incomes as such. If farm prices are supported at levels higher than those which the market would establish, it seems clear that control of production, marketing, or utilization, or control of all of these, will have to be instituted in order to keep prices at the support levels. In addition, it appears that attempts through storage operations to raise prices over a period of years or to support prices above levels justified by market forces may lead to difficulties and heavy financial loss in the absence of very favorable circumstances.

Fairly widespread expectations of substantial revisions in the policy of high level price supports to agriculture appear to exist. As evidence of this, farmers are being encouraged to make greater efforts to solve their own problems. Informal advisory bodies for recommendations to the Secretary of Agriculture have been established.

The devices of marketing agreement and marketing order programs are coming into greater prominence. In these programs, industry committees formulate problem-solving activities financed by the industry itself and act in an advisory capacity to Department of Agriculture officials. These developments may presage the use of Government price support machinery only in emergency situations or under conditions of disaster. Available evidence suggests, however, that agricultural policy, like most other policies of Government, develops slowly over a rela-

tively long period. Although wars and depression have at times speeded and at other times retarded development of policies and programs, agriculture has progressed steadily in the direction of greater dependence upon Government price support activities. With falling farm prices in evidence, the goal of maintaining farm prices at high levels of parity continues to have many strong supporters. If, within the near future, there is a shift in policy away from this goal, it is not likely to be as great a shift as many expect or would like to see.

PACIFIC COAST INDUSTRIAL EXPANSION—1947-1951

MANY measures of economic activity indicate that expansion in the Twelfth District has been more rapid than in the nation since the end of World War II. In population, employment, income, construction, and trade, District rates of gain have surpassed those registered on the national level. Since the start of the Korean conflict, the increase of employment, the rate of defense contract awards, and the growth of many other economic sectors have exceeded the national average. A comparison of the Bureau of the Census Annual Survey of Manufacturers for 1951 with the Census of Manufactures for 1947 adds further evidence of the more rapid industrial growth in the Twelfth District.

Data from the Census of Manufactures offer a measure of the net value contributed by industry to the flow of goods and services. Value added by manufacture is derived by subtracting from the total sales of each firm the cost of raw materials, other products purchased, and utilities and services purchased from others. If prices remain constant, year-to-year changes in the value added figures would show changes in physical output of the individual firm or industry. Prices do change, however, and these changes, as well as changes in physical output, affect increases or decreases in value added from year to year. Thus the comparison of 1947 and 1951 value added data reflects more than changes in physical output. Since the data are presented only for broad industry groups, it is not possible to make precise corrections for price changes. A rough approximation, however, indicates that about one-third of the increase that occurred in value added by Twelfth District manufacturing in 1951 compared with 1947 probably represents price increases. Since about the same general price factors apply to the data for the United States as for the Twelfth District, the value added data furnish a measure of the relative growth of manufacturing in the two areas. They confirm the evidence supplied by other indicators of the relative rates of industrial growth in the Twelfth District and in the nation.

Data in sufficient detail to permit comparisons with the nation are available only for the Pacific Coast states. This group of states accounts for 94 percent of Twelfth District manufacturing and encompasses all of the major types of factory production carried on in the District. In addition to depicting the more rapid growth in the District, the data also point up some interesting shifts in the

importance of individual industries and emphasize the significant contribution in certain lines that Pacific Coast manufacturing makes to national industrial output.

Pacific Coast manufacturing up sharply between 1947 and 1951

Between 1947 and 1949 the Pacific Coast manufacturing industries grew at a slightly more rapid rate than in the country as a whole. The pickup in business in early 1950, supplemented by the defense boom starting in the second half of that year, caused a sharp spurt in Pacific Coast manufacturing. The 1951 value added by manufacture totaled more than \$8.4 billion, 52 percent above the 1947 level. Nationally the gain was roughly one-third smaller, 37 percent. Because of the more rapid rise of Pacific Coast manufacturing, the area accounted for 8.3 percent of the national manufacturing output compared with 7.4 percent in 1947.

Defense contracts were the leading factor in the rapid post-Korea expansion on the Pacific Coast. The Pacific Coast states received 17.4 percent of all prime military orders placed between June 1950 and December 1951 and experienced a large increase in activity at military establishments. In addition, defense activity induced another influx of population into the Twelfth District and also increased income here as well as in the nation. These factors led to growth in various manufacturing industries on the Pacific Coast not directly related to the defense effort. Meanwhile the influence of the basic element in Pacific Coast manufacturing development, the marked

VALUE ADDED BY MAJOR INDUSTRY GROUP, PACIFIC COAST (Percent change, 1947-49)

Industry group	Percent change
ALL INDUSTRIES, TOTAL	51.9
Food and kindred products	20.8
Textile mill products	-18.8
Apparel and related products	41.7
Lumber and products (except furniture)	58.1
Furniture and fixtures	12.5
Paper and allied products	66.4
Printing and publishing industries	26.2
Chemicals and allied products	73.6
Petroleum and coal products	33.3
Stone, clay, and glass products	54.1
Primary metals industries	102.5
Fabricated metal products	49.5
Machinery (except electrical)	58.0
Electrical machinery	67.2
Transportation equipment	92.8
Instruments and related products	82.1

Source: United States Department of Commerce, Bureau of the Census, 1951 Annual Survey of Manufactures, Pacific and Mountain States.

growth in population resulting from World War II, continued to operate, though somewhat overshadowed after Korea by the effects of the defense program. Many Pacific Coast industries, including steel, apparel, petroleum, lumber, machinery, and paper, needed to make substantial capital investments or at least greater use of existing facilities to meet the expanded civilian demand in the District and in their market areas outside this District. Furthermore, a few industries in which the introduction of new products was especially important, such as chemicals and electronics, had shown substantial growth before Korea. The defense effort intensified expansion in many Pacific Coast industries. In some cases the stimulus came directly through added demand from the military, and in others indirectly through an expansion of civilian income and demand.

Durable goods industries show greatest growth in the District

With the exception of the chemical and paper industries, all those District industries with better than average increases in output between 1947 and 1951 produce durable goods. The defense program and its intense demands for aluminum, aircraft, electronics, instruments, and machinery have determined to a large extent the distribution of gains in manufacturing. The metals industry felt the impact of a 40 percent increase in the nation's aluminum capacity, fostered by defense needs for an adequate supply of this metal. The District steel industry, on the other hand, has been considerably less affected by the defense program. Some steel capacity has been directed to satisfying needs of prime and subcontractors, but most of the 40 percent expansion in steel capacity and output represents an attempt to fill the gap that existed and still exists to some extent between District steel consumption and output. The transportation equipment industry on the Pacific Coast is composed largely of aircraft production and, to a much smaller degree, of shipbuilding and automobile assembly. Events after Korea have contributed to some shipbuilding and repair activities, but a very large proportion of the gain in transportation equipment arises from a doubling of aircraft production. Output of electronics equipment has also expanded markedly and constitutes the basis of most of the gain in electrical machinery. Production of instruments and non-electrical machinery has also been stimulated by the defense program.

The expansion of chemical and paper output, though reflecting some defense demand, has resulted mainly from other influences. New synthetics and fertilizers have played a prominent role in expanding output in the chemical industry, and in many cases these products have little direct relationship to the defense effort. Paper production tends to follow the course of consumer spending on nondurables. Growth both within the District and outside has broadened the demand for the District's output of paper considerably. In 1951 Government orders took a greater portion of the paper industry's output than in 1947, but most of the gain came from civilian demand.

Pacific Coast industries lead nation in rate of growth

As a result of population growth in the District, many industries were expanding more rapidly in the District than nationally before 1950. The impact of Korea resulted in a speed-up of this process. In response to these forces the Pacific Coast outpaced the nation in the expansion of most industries between 1947 and 1951. The effects were particularly pronounced in the primary metals, transportation equipment, instruments, and apparel. Military demand caused more intense use of aircraft facilities, a major portion of which exists on the Pacific Coast. Aluminum consumption and stockpiling rose sharply to meet defense needs and provided another source of increased activity. Chart 1 illustrates these developments and points out the more rapid growth in a number of other industries as well.

In a few industries, the national and Pacific Coast percentage increases between 1947 and 1951 were nearly equal. Electrical machinery, receiving a very large part of its impetus from electronics, expanded almost as rapidly in the nation as on the Pacific Coast. Electronic communication equipment for military and civilian use has several areas of concentration which include Los Angeles, Chicago, Boston, New York, northern New Jersey, Philadelphia, and Indianapolis. Television production facilities tend to be concentrated in eastern and midwestern states, and the tremendous expansion of this industry since 1947 has had a sharper effect on industrial growth in those areas. Petroleum production on the Pacific Coast has been restrained because local crude supplies are less plentiful relative to demand than in the mid-continent producing areas. The gains in printing and food production exceed the national average by narrow margins only.

The rise in output of stone, clay, and glass products between 1947 and 1951 fell somewhat short of the national gain. Development of glass fibres and greater demand for pottery had somewhat larger effects in other areas than in this District. Furniture production on the Pacific Coast had less than half the rise of that nationally. Since hardwood supplies, the larger production facilities, and the necessary skills are found mainly in the East and Midwest, these factors have tended to favor producers located in those areas. One California manufacturer of a popular household durable found, for example, that he could buy cabinets more cheaply in the Midwest even after paying freight than he could have them produced locally.

Industries shift in importance

In 1947 the food industry led all Pacific Coast industries in value added by manufacture, but by 1951 it had dropped to second place. The expansion of home building, nationally as well as in the District, led to a rapid rise in lumber output which placed that industry in first place by 1951. In terms of value added, the transportation equipment industry continued in third place. In terms of employment, however, the transportation equipment industry is first while food and lumber tie for second. Dif-

ferences in price structures, degree of processing, and capital intensity, that is, the ratio between capital and labor, all affect the relationship of employment to value added, resulting in different rankings depending on the measure that is used. Charts 2 and 3 illustrate these differences in a number of industries. Industries with high capital intensities, such as chemicals, primary metals, paper, petroleum, and fabricated metals, tend to have a lower ranking in terms of employment than they have when ranked by value added. The aircraft industry employs considerable capital equipment but the production technique calls for a high proportion of labor, particularly in the early stages of developing a particular model.

More interesting than the shift in first position have been changes among Pacific Coast industries further down the scale. The chemical industry moved from seventh to fourth place between 1947 and 1951, and the primary metals industry from eighth to fifth. The electrical machinery industry, though still ranking low on the scale, also moved up in importance. The fabricated metals industry and the machinery industries each slipped slightly because of the more rapid expansion of chemicals and primary metals.

The three leading industries account for 47 percent of the value added by manufacturing on the Pacific Coast. This indicates the degree of concentration of industrial output in a few industries. The next three industries—chemicals, primary metals, and machinery—account for 18.5 percent; and the three lowest industries—furniture and fixtures, instruments, and textiles—account for less than 3 percent.

VALUE ADDED BY MAJOR INDUSTRY GROUP, PACIFIC COAST AS PERCENT OF UNITED STATES, 1947 AND 1951

Industry group	1947	1951
ALL INDUSTRIES, TOTAL	7.4	8.3
Food and kindred products	12.3	12.7
Textile mill products	0.9	0.7
Apparel and related products	4.6	6.2
Lumber and products (except furniture)	34.8	39.0
Furniture and fixtures	8.7	7.5
Paper and allied products	8.8	10.1
Printing and publishing industries	7.7	7.8
Chemicals and allied products	5.7	6.5
Petroleum and coal products	10.8	10.8
Stone, clay, and glass products	7.7	7.7
Primary metal industries	4.5	5.4
Fabricated metal products	6.9	7.1
Machinery (except electrical)	4.2	4.6
Electrical machinery	3.0	3.4
Transportation equipment	11.0	12.7
Instruments and related products	3.0	3.6

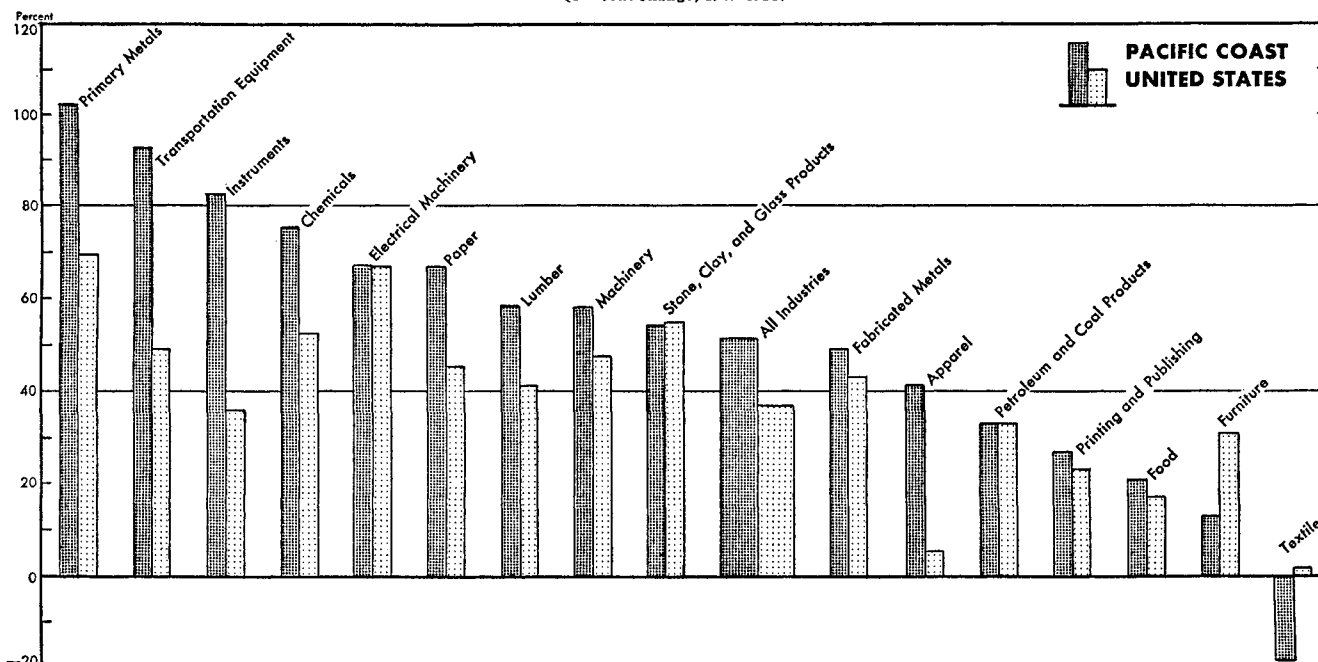
Source: United States Department of Commerce, Bureau of the Census, 1951 Annual Survey of Manufactures, Pacific and Mountain States.

Pacific Coast structure varies from national pattern

In 1951 the machinery industry, in terms of value added, was the most important nationally. Food takes second place in the country as a whole as well as on the Pacific Coast, and primary metals and transportation equipment take third place. Nationally, the lumber industry ranks eleventh compared with first for the Pacific states. Since the Pacific Coast lumber industry produces about 40 percent of the national lumber supply, this difference is not surprising.

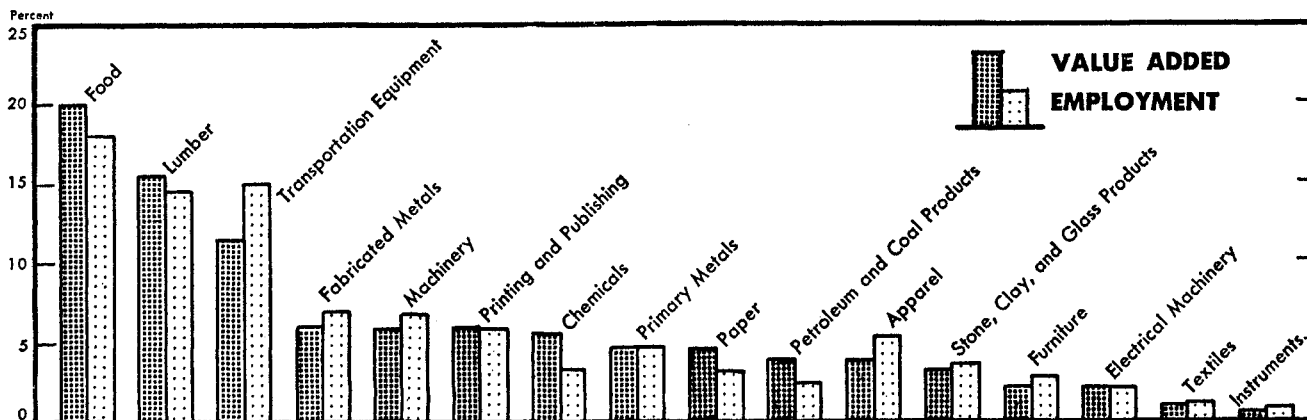
Manufacturing in the nation as a whole tends to be less concentrated by industry than on the Pacific Coast. The four leading national industries account for less than 40 percent of the value compared with 47 percent for the three leaders on the Pacific Coast. If enough decimals are used to break the third-place tie nationally, the three lead-

CHART 1
VALUE ADDED BY MAJOR INDUSTRY GROUP, PACIFIC COAST AND UNITED STATES
(Percent change, 1947-1951)



Source: United States Department of Commerce, Bureau of the Census, 1951 Annual Survey of Manufacturers, Pacific and Mountain States.

CHART 2
 VALUE ADDED AND EMPLOYMENT IN MANUFACTURING, PACIFIC COAST, 1947
 (Percentage distribution)



Source: United States Department of Commerce, Bureau of the Census, 1951 Annual Survey of Manufacturers, Pacific and Mountain States.

ers produce about 30 percent. It is to be expected that the Pacific Coast, which contains as large a national resource as its lumber and specializes in processed foods because of the prolific yields of its agriculture, will show heavy concentration. In the national picture, however, the specialization of one area is toned down by the dominance of particular industries in other areas. Following the three leaders, the rank of individual Pacific Coast industries and the proportion they contribute to total value added in that region do not vary significantly from the national standings in many cases.

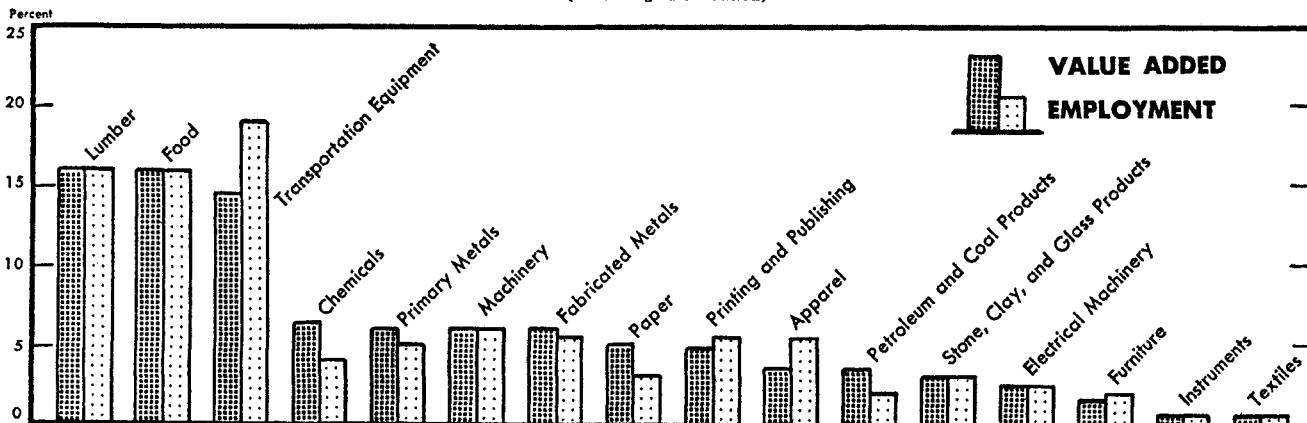
Contribution of Pacific Coast industries to national output

The table on page 84 illustrates the percentage of national output accounted for by Pacific Coast industries in 1947 and 1951. The growing importance of most Pacific Coast industries in national output is apparent from the rise in their share of the value added for the United States. It is also interesting to note the dispersion of the percentages for 1951. Five Pacific Coast industries contributed more than 10 percent of the national value added in their

respective lines. Except for these five industries, the Pacific Coast tends to contribute a moderate, and in a few cases a minor, proportion of national production. This reflects the historically earlier and more intense development of manufacturing in some other parts of the nation. It also points up the specialization of the Pacific Coast in those industries in which it has a resource or location advantage. Nevertheless, many of the Pacific Coast industries which account for small shares of United States output have grown more rapidly than have the same lines nationally. As population in the West continues to grow more rapidly than in the nation, as land in other areas becomes scarcer, and as rising transportation costs make dispersion of manufacturing more profitable, the Pacific Coast shares of industrial output in many lines will tend to rise.

Barriers to growth do exist, however, and should not be overlooked in a desire to have the same share of national manufacturing output in every line as we have of population or income. Resources and skills necessary to some industries may be more abundant in other parts of

CHART 3
 VALUE ADDED AND EMPLOYMENT IN MANUFACTURING, PACIFIC COAST, 1951
 (Percentage distribution)



Source: United States Department of Commerce, Bureau of the Census, 1951 Annual Survey of Manufacturers, Pacific and Mountain States.

the country. For example, the Pacific Coast steel industry is limited in its growth, at present, by the greater availability of iron ore in the East and Midwest. A few industries may operate successfully only if they are very close to a market even larger than that offered by the Pacific Coast. The absence of a substantial textile industry on the Pacific Coast, despite a large cotton crop, re-

flects the greater concentration of apparel manufacturing, which is the immediate market for textiles, along the Eastern seaboard in close proximity to the bulk of national population. Considerations of this type will continue to give the Pacific Coast an advantage in some cases and a disadvantage in others. Progress in any individual industry should be judged against this background.

REDUCTION IN MEMBER BANK RESERVE REQUIREMENTS

On June 24 the Board of Governors of the Federal Reserve System issued to the press the following statement concerning reduced reserve requirements on net demand deposits of all member banks:

"The Board of Governors has reduced reserve requirements on net demand deposits of all member banks as follows:

"Effective July 1—from 14 percent to 13 percent at country banks.

"Effective July 9—from 20 percent to 19 percent at reserve city banks, and from 24 percent to 22 percent at central reserve city banks.

"The present and the new requirements on demand deposits are as follows:

	All member banks	Central reserve city banks (in millions of dollars)	Reserve city banks	Country banks
Present requirements:				
Percentage .....	...	24	20	14
Amount ¹	17,229	5,981	6,886	4,362
New requirements:				
Percentage .....	...	22	19	13
Amount ¹	16,073	5,482	6,541	4,050

¹ Estimates are based on net demand deposits as of the last half of May, and do not include requirements against time deposits.

"This step was taken in pursuance of Federal Reserve policy, designed to make available the reserve funds necessary to meet the essential needs of the economy and to help maintain stability of the dollar. The reduction, releasing an estimated \$1,156,000,000 of reserves, was made in anticipation of the exceptionally heavy demands on bank reserves which will develop in the near future when seasonal requirements of the economy will expand and Treasury financing in large volume is inescapable. The action is intended to provide assurance that these needs will be met without undue strain on the economy and is in conformity with System policy of contributing to the objective of sustaining economic equilibrium at high levels of production and employment."

Note: REVISED BANK DEBIT SERIES

The Bank Debits Index which appears in the table on page 87 has been revised from 1942 to the present. It now reflects debits to demand deposits of individuals, partnerships and corporations, and states and political subdivisions instead of debits to total deposits (except interbank deposits), including demand, time, and United States Government deposits. While the new series on bank debits to demand deposits was extended back only to 1942, the evidence indicates that were the figures revised prior to 1942, there would be little, if any, change in the index. The effect of the revision on the index is slight with the exception of World War II years. In most years, debits to time and Government deposits comprised only a small percentage of total debits. From 1942-45 the exclusion of debits to Government and time deposits from the bank debits series lowered the index from 1 to 4 percentage points, reflecting the wartime influence of Government transactions.

BUSINESS INDEXES—TWELFTH DISTRICT¹

(1947-49 average = 100)

Year and month	Industrial production (physical volume) ²							Total nonagricultural employment	Total mfg employment ⁴	Car-loadings (number) ²	Dep't store sales (value) ²	Retail food prices ^{5, 6}	Waterborne foreign trade ^{5, 6}	
	Lumber	Petroleum ³		Cement	Lead ⁴	Copper ³	Wheat flour ²						Electric power	Exports	Imports
		Crude	Refined											
1929	97	87	78	54	165	105	90	29	....	102	30	64	190	124
1931	51	57	55	36	100	49	86	29	....	68	25	50	138	80
1933	41	52	50	27	72	17	75	26	....	52	18	42	110	72
1935	54	62	56	33	86	37	87	30	....	47	24	48	135	109
1936	70	64	61	58	96	64	81	34	....	54	28	48	131	116
1937	74	71	65	56	114	88	84	38	....	60	30	50	170	119
1938	58	75	64	45	92	58	81	36	....	51	28	48	164	87
1939	72	67	63	56	93	80	91	40	....	55	31	47	163	95
1940	79	67	63	61	108	94	87	43	....	63	33	47	132	101
1941	93	69	68	81	109	107	87	49	....	83	35	40	52	....
1942	93	74	71	96	114	123	88	60	....	121	49	63	....	....
1943	90	85	83	79	100	125	98	76	100	164	59	69	....	....
1944	90	93	93	63	90	112	101	82	101	158	65	68	....	....
1945	72	97	98	65	78	90	112	78	96	122	72	70	....	....
1946	85	94	91	81	70	71	108	78	95	104	91	80	89	57
1947	97	100	98	96	94	106	113	90	99	100	99	96	129	81
1948	104	101	100	104	105	101	98	101	102	102	104	103	86	98
1949	99	99	103	100	101	93	88	108	99	98	98	100	85	121
1950	112	98	103	112	109	115	86	119	103	105	105	100	91	137
1951	114	106	112	128	89	115	95	136	110	119	109	113	186	157
1952	107	107	116	124	86	112	96	144	114	127	114	115	171	200
1952														
April	110	107	114	120	95	117	88	141	112	126	106	116	185	143
May	94	108	114	129	89	116	87	147	112	125	98	118	207	143
June	117	107	116	126	87	112	84	150	113	126	108	114	157	182
July	108	107	116	125	68	106	90	150	114	127	96	110	144	187
August	106	107	122	131	81	105	103	153	114	129	101	116	153	298
September	109	107	122	131	78	112	99	145	114	128	108	114	142	253
October	116	107	117	142	80	115	96	146	115	130	98	118	145	319
November	105	107	118	133	85	116	97	141	116	130	102	128	135	194
December	99	108	114	126	78	111	96	138	116	130	100	119	148	232
1953														
January	116	107	115	105	77	109	99	141	118	131	94	116	151	195
February	117	108	117	131	85	113	92	154	118	133	102	117	158	187
March	120	109	123	126	85r	116	96	142	118	134	121	113	...	336
April	120	108	122	132	83	114	96	165	118	134	131	110	...	...

BANKING AND CREDIT STATISTICS—TWELFTH DISTRICT
(amounts in millions of dollars)

Year and month	Condition Items of all member banks ⁷				Bank rates on short-term business loans ⁸	Member bank reserves and related items ¹⁰					Bank debits Index 31 cities ^{5, 11} (1947-49=100) ²
	Loans and discounts	U.S. Gov't securities	Demand deposits	Total time deposits		Reserve bank credit ¹¹	Commercial operations ¹²	Treasury operations ¹²	Coin and currency in circulation ¹¹	Reserves	
1929	2,239	495	1,234	1,790	.....	- 34	0	+ 23	- 6	175	42
1931	1,898	547	984	1,727	.....	+ 21	- 154	+ 154	+ 48	147	28
1933	1,486	720	951	1,609	.....	- 2	- 110	+ 150	+ 18	185	18
1935	1,537	1,275	1,389	2,064	.....	+ 2	- 163	+ 219	+ 14	287	25
1936	1,682	1,334	1,791	2,101	.....	+ 6	- 227	+ 454	+ 38	479	30
1937	1,871	1,270	1,740	2,187	.....	- 1	- 90	+ 157	- 3	549	32
1938	1,869	1,323	1,781	2,221	.....	- 3	- 240	+ 276	+ 20	565	29
1939	1,967	1,450	1,983	2,267	.....	+ 2	- 192	+ 245	+ 31	584	30
1940	2,130	1,482	2,390	2,360	.....	+ 2	- 148	+ 420	+ 96	754	32
1941	2,451	1,738	2,893	2,425	.....	+ 4	- 596	+ 1,000	+ 227	930	39
1942	2,170	3,630	4,356	2,609	.....	+ 107	- 1,980	+ 2,826	+ 643	1,232	48a
1943	2,106	6,235	5,998	3,226	.....	+ 214	- 8,751	+ 4,486	+ 708	1,462	60a
1944	2,254	8,263	6,950	4,144	.....	+ 98	- 8,534	+ 4,483	+ 789	1,706	66a
1945	2,663	10,450	8,203	5,211	.....	- 76	- 8,743	+ 4,683	+ 545	2,033	72a
1946	4,068	8,426	8,821	5,797	.....	+ 9	- 1,607	+ 1,329	+ 326	2,094	86a
1947	5,358	7,247	8,922	6,006	.....	- 302	- 510	+ 698	- 206	2,202	96a
1948	6,032	6,366	8,655	6,087	.....	+ 17	+ 472	- 482	- 209	2,420	108a
1949	5,925	7,016	8,536	6,255	3.20	+ 13	- 930	+ 378	- 65	1,924	102a
1950	7,105	6,392	9,244	6,256	3.35	+ 39	- 1,141	+ 1,198	- 14	2,026	115a
1951	7,907	6,533	9,940	6,720	3.66	- 21	- 1,582	+ 1,983	+ 189	2,269	132a
1952	8,844	6,627	10,504	7,522	3.95	+ 7	- 1,912	+ 2,265	+ 132	2,514	140a
1952											
May	7,921	6,238	9,306	6,985	.....	+ 52	- 174	+ 185	+ 49	2,347	128a
June	8,062	6,258	9,501	7,083	3.95	- 211	- 97	+ 190	+ 29	2,209	145a
July	8,114	6,507	9,643	7,143	.....	+ 45	- 208	+ 288	+ 7	2,333	135a
August	8,270	6,469	9,679	7,197	.....	+ 213	- 126	+ 163	+ 49	2,535	134a
September	8,444	6,473	9,908	7,249	3.96	- 230	- 153	+ 213	+ 4	2,363	144a
October	8,605	6,765	10,125	7,336	.....	+ 236	- 294	+ 267	+ 32	2,527	146a
November	8,805	6,808	10,281	7,331	.....	+ 72	- 29	+ 79	+ 34	2,616	141a
December	8,844	6,627	10,504	7,498	3.95	- 299	- 240	+ 422	- 12	2,514	157a
1953											
January	8,816	6,633	10,390	7,490	.....	+ 138	- 263	+ 136	- 77	2,565	146a
February	8,838	6,474	9,911	7,551	.....	+ 83	- 119	- 13	+ 22	2,491	150a
March	8,983	6,299	9,937	7,560	4.01	- 220	- 147	+ 240	- 18	2,394	164a
April	9,054	6,173	10,011	7,597	.....	+ 16	- 278	+ 240	+ 11	2,378	153a
May	9,092	6,020	9,843	7,627	.....	- 12	- 195	+ 314	+ 22	2,463	150a

¹ Adjusted for seasonal variation, except where indicated. Except for department store statistics, all indexes are based upon data from outside sources, as follows: lumber, various lumber trade associations; petroleum, cement, copper, and lead, U.S. Bureau of Mines; wheat flour, U.S. Bureau of the Census; electric power, Federal Power Commission; nonagricultural and manufacturing employment, U.S. Bureau of Labor Statistics and cooperating state agencies; retail food prices, U.S. Bureau of Labor Statistics; carloadings, various railroads and railroad associations; and foreign trade, U.S. Bureau of the Census.
² Daily average. ³ Not adjusted for seasonal variation. ⁴ Excludes fish, fruit, and vegetable canning. ⁵ Los Angeles, San Francisco, and Seattle indexes combined. ⁶ Commercial cargo only, in physical volume, for Los Angeles, San Francisco, San Diego, Oregon, and Washington customs districts; starting with July 1950, "special category" exports are excluded because of security reasons. ⁷ Annual figures are as of end of year, monthly figures as of last Wednesday in month or, where applicable, as of call report date. ⁸ Demand deposits, excluding interbank and U.S. Gov't deposits, less cash items in process of collection. Monthly data partly estimated. ⁹ Average rates on loans made in five major cities during the first 15 days of the month. ¹⁰ End of year and end of month figures. ¹¹ Changes from end of previous month or year. ¹² Minus sign indicates flow of funds out of the District in the case of commercial operations, and excess of receipts over disbursements in the case of Treasury operations. ¹³ Debits to total deposit accounts prior to 1942, debits to demand deposit accounts from 1942 on, excluding interbank deposits. ^a—New revised series. See NOTE on page 86. ^r—revised.