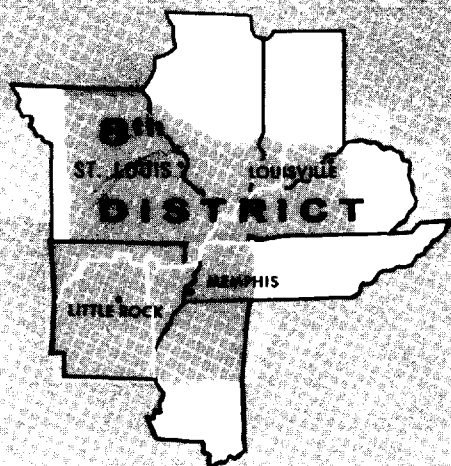


**MONTHLY**



# *Review*

**FEDERAL RESERVE BANK  
OF ST. LOUIS • P. O. BOX 442 • ST. LOUIS 66, MO.**

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This issue released on June 25

**VOL. 41 • No. 6 • JUNE '59**

## *Employment Conditions Brighten*

**T**HE JUNE GRADUATE, if he doesn't already have a job, will be more welcome in personnel offices of the nation than he might have expected to be a few months ago when there was so much concern over the way employment was lagging. No doubt there will be an increase in unemployment when the new graduates and the summer-job seekers enter the market but the current upward course of business activity brightens the prospects that the young and adaptable will not have to spend the whole summer searching for work. Among the encouraging signs are the growth in demand for goods and services of practically every description and the continuing growth in output.

For a time during the early recovery it was possible for production to grow without the addition of many new employees, as the workweek was lengthened and the more efficient facilities were put into use first. More recently, however, it appears that increases in production rates require more recalls and new hiring. Of special interest to the recent graduate, employers are reported again to be willing to take on trainees and to be searching for salesmen, stenographers, and other white-collar workers.

### *Consumer and Business Spending*

One of the outstanding features in the recent economic expansion has been the steady growth in consumer spending. Seasonally adjusted retail sales rose from a recession low of \$16.1 billion in March 1958 to \$17.6 billion in December of last year, an annual rate of increase of more than 11 per cent. During the first two months of this year retail sales remained at about the December level, but since then they have shown a renewed upsurge. May sales, seasonally adjusted, amounted to an estimated \$18.3 billion, \$0.7 billion more than the February total and \$0.3 billion ahead of April sales. The annual rate of increase from March 1958 through May 1959 was nearly 12 per cent.

The increase in consumer spending was to a large extent directed to purchases of durable commodities, among which automobiles and complementary items such as tires, batteries, and other accessories occupied an important place. Sales of durable goods by retail stores rose from a seasonally adjusted recession low of \$5.0 billion in March 1958 to a postrecession high of \$6.1 in April of this year. May sales of durables were virtually unchanged from the April level. Most outstanding in the over-all rise in consumer durables' spending was the performance of the automotive group which increased its sales from \$2.6 billion in September of last year to \$3.4 billion in May.

Increases in consumer purchases of nondurable commodities, although not as spectacular as the rise in spending on durable goods, have contributed significantly to the improvement in business conditions. Last month's sales, seasonally adjusted, amounted to about \$12.2 billion, \$1.1 billion or 10 per cent higher than the recession low reached in February of last year. Compared to April spending, May sales of nondurables were up 2.8 per cent. More than average increases have been registered in recent sales of general merchandise—commodities commonly sold by department and variety stores—and of apparel.

Increased spending by business firms has accompanied the growth in consumer expenditures, thus giving added impetus to the over-all expansion in economic activity. One of the most notable features has been the upturn in business spending on plant and equipment, indicating renewed optimism on the part of businessmen with respect to the long-run business outlook.

Expenditures on fixed investment had declined from their pre-recession high in the third quarter of 1957 to a low in the third quarter of last year. Since then, however, the picture has been steadily improving, and at increasing speed. From a seasonally adjusted annual rate of \$29.6 billion in the third quarter of 1958, spending rose to a rate of \$30 billion in the final quarter of last year, and reached a rate of \$30.6

billion during the first three months of this year. A survey jointly conducted by the Department of Commerce and the Securities and Exchange Commission indicates that expenditures for new plant and equipment are expected to continue to rise for the remainder of the year. Second-quarter outlays, seasonally adjusted, are estimated to run at an annual rate of \$32.3 billion, \$1.7 billion higher than the first-quarter rate, but \$1.1 billion below the rate expected in the third quarter of this year. Seasonally adjusted estimates for the final quarter are at an annual rate of \$33.7 billion, which would bring total expenditures for new plant and equipment in 1959 to the projected \$32.5 billion. The most rapid increase in fixed investment spending so far this year has occurred in manufacturing, notably in the durable goods industries. There also have been sharp increases for transportation equipment, including railroad freight cars, trucks, and aircraft.

Business spending on inventories started to increase in November of last year. The book value of total inventories in that month amounted to \$85 billion, seasonally adjusted, and rose to an estimated \$87.3 billion in April of this year, about the same as a year ago. The largest gains in the manufacturing sector occurred in the metals-using industries, while the trade sector experienced the sharpest increase in the stock of automobiles.

### Production

Advances in economic activity continued in May and early June, with virtually all sectors participating. The industrial production index for May was at 152 per cent of the 1947-1949 average, up two points from the revised April figure, and six points above the pre-recession high. It can be seen from the accompanying chart that expansion of industrial production has been more rapid in the current recovery than in the recovery following the 1953-1954 recession.

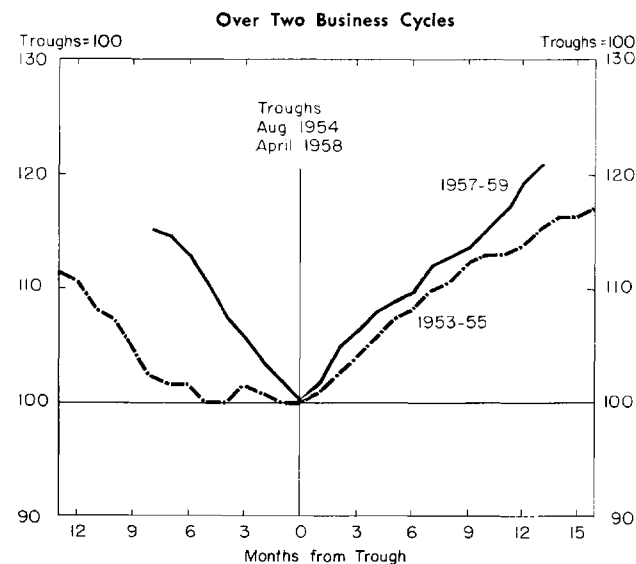
May production of consumer durables, seasonally adjusted, was about 3 per cent above the April level. An important factor in this monthly increase was the sharp rise in seasonally adjusted automobile output which showed a 4 per cent gain over April. Production of durable household goods changed little, with the exception of radio and television sets, laundry appliances, and heating apparatus, all of which registered substantial increases.

Production of steel in May, not adjusted for seasonal factors, remained roughly at the April level.

Aluminum output, on the other hand, increased markedly last month, with all major producers participating in the upswing. The increase has been ascribed partly to the rise in present aluminum consumption, and partly to hedge buying against possible strikes which may occur after July 31, when labor contracts at several major producers expire.

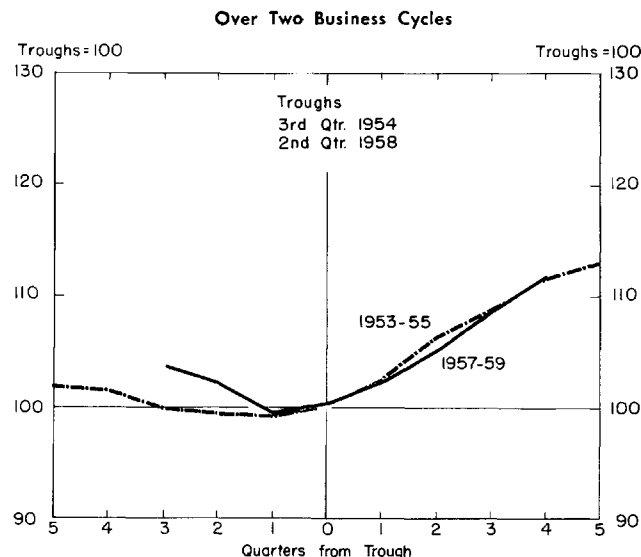
The paper board industry operated at an average of 94.4 per cent capacity during May, a high for the year and about 1.2 per cent above the April average. Freight carloadings, seasonally adjusted, were at 89 per cent of the 1947-1949 average in May, as compared to 87 per cent in April.

### INDUSTRIAL PRODUCTION

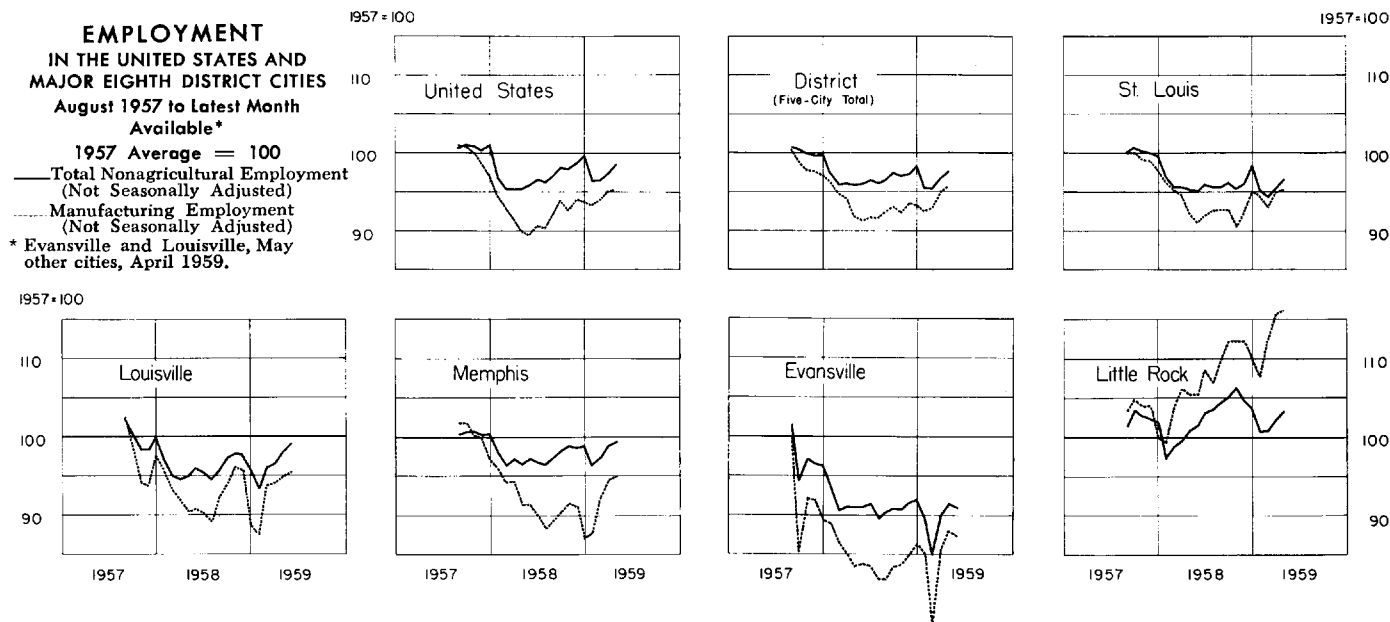


Latest Data Plotted: May 1959.  
Source: Board of Governors of the Federal Reserve System.

### GROSS NATIONAL PRODUCT



Latest Data Plotted: Estimate for 2nd Quarter 1959 by FRB of St. Louis.  
Source: United States Department of Commerce.



Source: Indexes compiled by FRB St. Louis from BLS and State Employment Security Divisions data.

### Employment

Nonfarm employment in the nation (B.L.S. series) rose 1.95 million in the year between the recession low, and May of this year. Manufacturing employment, which had accounted for most of the decline, provided more than half of the growth, rising by 1.1 million. Almost half of the growth in seasonally adjusted manufacturing employment occurred between February and May of this year. The average work-week in manufacturing increased from 38.7 hours in May 1958, to 40.5 hours this May.

Largely because of the increase in manufacturing employment, unemployment declined to 3.4 million at mid-May, from 3.6 million in April and a peak of 5.4 million in May 1958. The seasonally adjusted rate of unemployment in May was 4.9 per cent of the civilian labor force, as compared to the peak rate of 7.6 per cent reached in August 1958. In June of 1957, just before the recession, the rate was 4.2 per cent.

Nonagricultural employment in principal metropolitan areas of the Eighth Federal Reserve District has behaved much like national employment, as can be seen from the chart above. During the recession manufacturing employment in the District did not decline quite so sharply as did manufacturing employment in the rest of the country, in part because the District centers as a group are not so highly concentrated in durable goods manufacturing as is the nation as a whole. It is evident from the chart, however, that there were substantial differences in be-

havior of employment among the individual metropolitan areas. In the recovery, employment in the District centers has grown about in line with the national growth. In January and February of this year, however, strikes in St. Louis, Louisville, and Memphis retarded the rise in employment for a time. Since February, expansion of employment has proceeded at a more rapid rate, and by mid-April total employment in the five centers was approaching the 1957 average level.

### Prices

The wholesale price index for May was 0.2 lower than the April figure which stood at 120.0. Wholesale prices of farm products showed the largest decline from 92.4 in April to 90.8 in May. Nonfarm commodities remained unchanged on the average.

The consumer price index in April, the last month for which data are available, reached 123.9, up .2 from the March index and equalling the record highs of July and November of last year. Virtually the entire increase was caused by a further rise in the cost of services, including transportation.

The current high rates of production and employment may be viewed with a great deal of satisfaction. At the same time, however, it is necessary to consider whether the accompanying financial developments are consistent with maintaining price stability and high production.

# Monetary Developments in the Recovery

EFFECTIVE MAY 29, 1959, the Federal Reserve Banks of St. Louis, New York, Chicago, Dallas, and Minneapolis, followed shortly by the remaining Reserve Banks, raised their discount rates from 3 to 3½ per cent. This marked the fourth increase in the rate since the recession ended and recovery began in April 1958. The rate increase came at a time of strikingly uniform reports of a broadly based and rapidly developing business boom. The most recent statistics portray a vigorously expanding economy in which increasing industrial production, construction, plant and equipment expenditures, and consumer outlays have caused employment to rise and National income and output to expand.

As was pointed out in this Bank's *May Review*, the expansion has intensified the demand for funds. Although the money supply has increased in recent months, heightened demands for credit by businesses, consumers, and governments have pushed interest rates up. The four discount rate adjustments during the current economic upsurge, together with open market operations by the central bank designed to help contain the growth of economic activity within sustainable limits, constitute the response of monetary authorities to a vigorous expansion in business activity.

While economic and financial developments during the 14 months since the end of the 1957-58 recession have a character and individuality of their own, the course of this expansion has not been vastly different from those which preceded it in the postwar American economy. A comparison of business statistics for the recoveries of 1958-59 and 1954-55 reveals marked similarities. Gross national product, the total value of the nation's output, in the first year of each recovery increased about 11 per cent. Industrial production rose 20 per cent from April 1958 to May 1959 as compared with a 15 per cent rise from August 1954 to September 1955. In employment, a major problem area of the recent recovery, an improvement of four per cent over the past thirteen months roughly matched the earlier expansion.

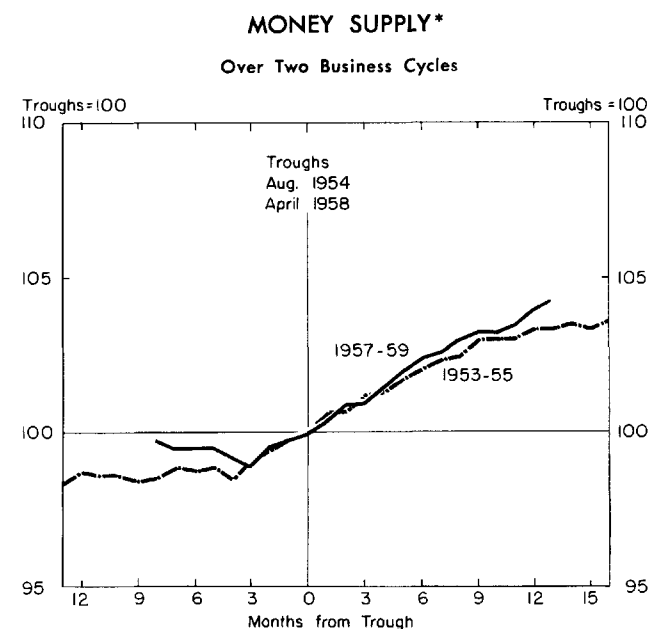
## Money Supply

Although the increase in business activity has been about in line with that of the previous recovery, the money supply has moved up slightly faster. From

the recession's end in April 1958 to May 1959, daily average demand deposits and currency rose 4.3 per cent. In the comparable period of the previous expansion the money supply expanded 3.3 per cent. Going back even further to the pre-recession peak, from August 1957 until May 1959 the money supply rose at an annual rate of 2.6 per cent. By comparison, from the start of the earlier recession (July 1953) until September 1955, also 13 months after the trough, the money supply rose at the rate of 2.3 per cent per year.

In recent months the money supply has increased at an unusually high pace. Daily average demand deposits and currency (seasonally adjusted) rose at an annual rate of 3.7 per cent from February to May this year, as against 1.2 per cent at the similar stage of recovery in 1955. The growth in the money supply from the first half of April to the last half of May (latest data available) was at a rate of 2.2 per cent per year. In view of the high current rate of use of money it may be doubted whether any greater rate of expansion would have been justified.

The rise in the money supply during the business upswing has been occasioned by an expansion in



\*Monthly Averages of Daily Figures Seasonally Adjusted.  
Latest Data Plotted: May 1959.

credit by commercial banks. Loans and investments of all commercial banks in the nation increased 5.7 per cent in the twelve months ending with April this year. During the like twelve months of the 1954-55 recovery commercial bank credit increased 4.8 per cent. Early in the recovery banks expanded credit by buying securities, but in recent months banks have been increasing their outstanding loans.

Bank reserves needed to support the larger volume of deposits and to meet the drain from an increase in currency in circulation have been supplied primarily by the Federal Reserve System. Open Market purchases of securities and loans to member banks added \$2.9 billion to reserves on a daily average basis from April 1958 to May 1959. This gain was partially offset by a \$1.8 billion gold outflow. In the corresponding thirteen months of the earlier recovery, Reserve Bank credit rose \$600 million, and a gold movement absorbed \$200 million.

Not only has the supply of money been rising at a relatively rapid pace in recent months but it also has been utilized more intensively. In the three months ending April 1959, demand deposits at the 337 reporting centers, outside the seven big financial cities, turned over at the seasonally adjusted rate of 24.5 times per year, or 9 per cent above the rate in the three months centered on April last year. In the corresponding period of recovery in 1954-55 the velocity of money rose 7 per cent, from 19.2 times to 20.6 times per year.

### Interest Rates

Reflecting strength in the demand for funds, interest rates have risen sharply over the past year despite a substantial increase in the money supply and in its rate of turnover. Yields on three-month Treasury bills rose 1.73 percentage points from April 1958 to May 1959, compared to 1.20 percentage points in the corresponding period of the 1954-55 recovery. The same pattern has been manifest in long-term securities, where interest rates on long-term Government bonds increased almost 1 percentage point while the gain in the previous recovery was less than half as great.

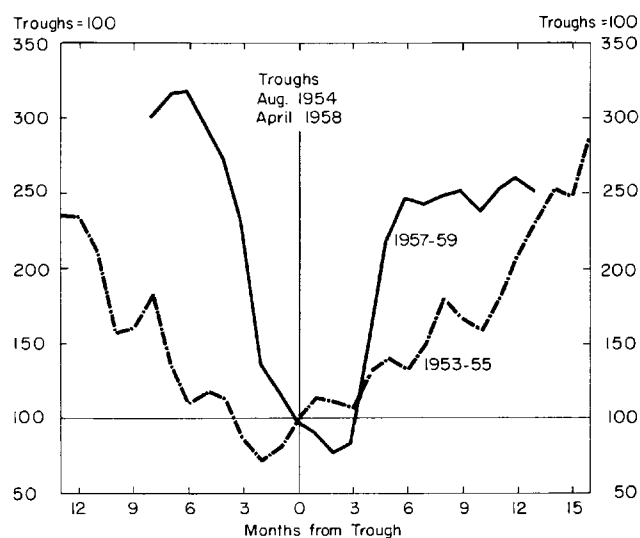
The more rapid rise in interest rates in the 1958-59 recovery than in the 1954-55 recovery reflects a host of factors. One development which may have caused rates to adjust upward sharply last summer was the unloading of Government bonds by those who had made speculative purchases in the spring of 1958. Such purchases made in the hopes that bond prices would continue to work upward may have depressed the yields on securities more rapidly than in the

earlier recession. Conversely, when it became evident that a recovery was in process and that the demand for credit was increasing, securities may have been sold thus accelerating the decline in bond prices (the rise in interest rates).

In addition, demands for funds have probably been stronger during recent months than they were during the corresponding months in 1954-55. The Federal cash deficit, estimated to be about \$12.5 billion in fiscal 1959, totaled \$2.1 billion in fiscal 1955. Mortgage debt outstanding is currently rising at an annual rate of approximately \$20 billion in comparison with \$16.2 billion in 1955. Also, with increased spending

### TREASURY BILL YIELDS

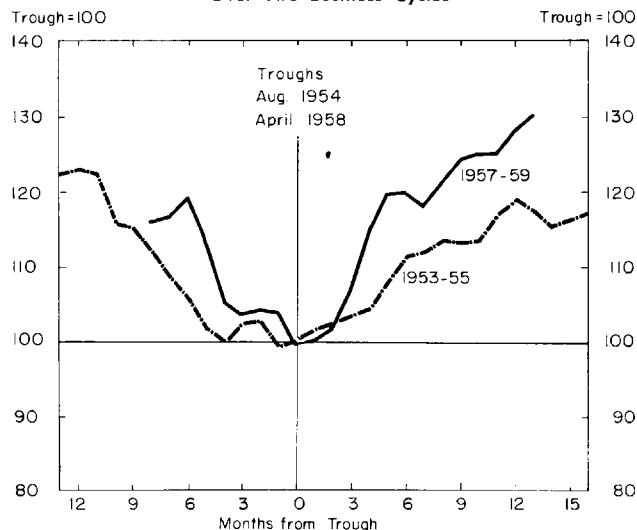
Over Two Business Cycles



Latest Data Plotted: May 1959.

### LONG-TERM GOVERNMENT BOND YIELDS

Over Two Business Cycles

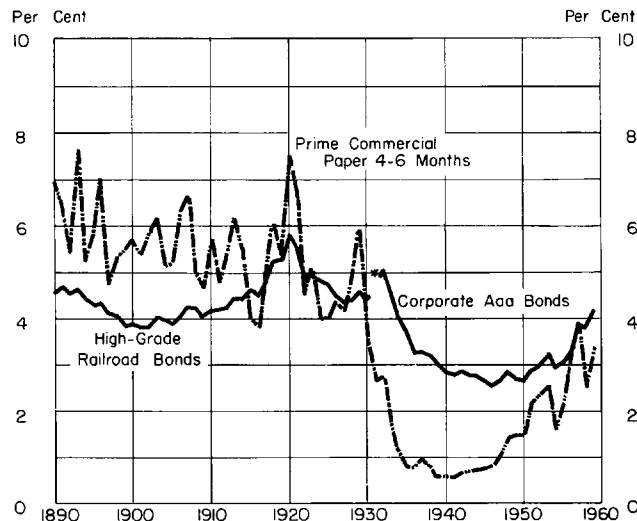


Latest Data Plotted: May 1959.

on research and development the productivity of capital may be increasing more rapidly causing a greater rise in the demand for funds by business firms. For a fuller discussion of the recent demand for funds see "Demand for Credit Strengthens" in the May 1959 *Monthly Review* of this Bank.

Perhaps, the rise in interest rates to higher levels in 1959 than in 1955 reflects a continuation of the postwar tendency of yields to rise to the levels which have commonly prevailed in periods of high productivity of capital (see chart). During the major de-

#### LONG- AND SHORT-TERM INTEREST RATES

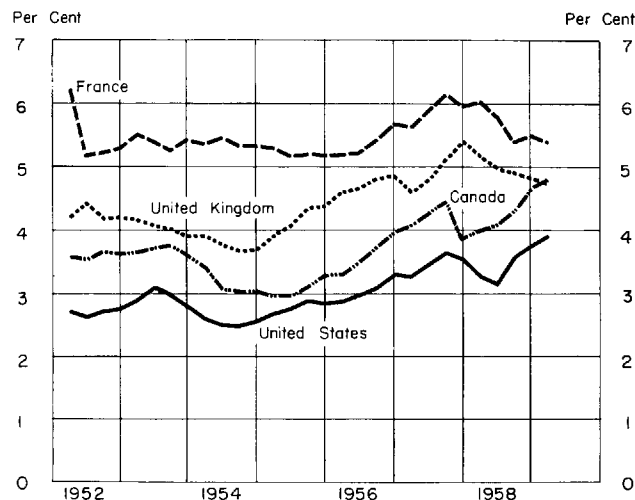


Latest Data Plotted: 1959, Based on first 5 months.

pression of the 1930's interest rates fell to unprecedented lows as the effective demand for funds declined considerably. During World War II interest rates were continued at the relatively low level in an attempt to minimize the interest cost of Treasury borrowing. One of the costs of maintaining an artificially low structure of interest rates was an increase in inflationary pressures as demands for funds were stimulated and savings discouraged. Since the mid-1940's interest rates have been moving irregularly upward, but they have generally been below their historic averages. Similarly, interest rates in the United States are currently below interest rates in most other parts of the world (see chart).

Along with the increase in interest rates generally the discount rates, as alluded to earlier, were raised  $\frac{1}{2}$  of 1 percentage point to a level of  $3\frac{1}{2}$  per cent by the Federal Reserve Banks in late May and early June. The  $3\frac{1}{2}$  per cent discount rates restored a more usual relation between them and other money market rates. For the period 1951 through 1958, discount rates were .29 of 1 percentage point below an average of money market rates, shown in the follow-

#### YIELD ON LONG-TERM GOVERNMENT BONDS



Latest Data Plotted: First Quarter, 1959.  
Source: International Monetary Fund.

ing table. On May 29, the effective date of the discount rate adjustment, the spread was .27 of 1 percentage point. In early June the discount rates were .35 of 1 percentage point less than the mean of these market rates. It would thus appear that the new discount rate did not put that rate out of line with other short-term interest rates, and that since May 29 the rise in interest rates may be regarded as a continuation of the trend in response to heavy demands for credit.

#### SELECTED MONEY MARKET RATES Daily Averages

	1951 through 1958	May 29 1959	June 1-17 1959
Prime rate on Commercial Loans....	3.34%	4.50%	4.50%
Prime 4-to-6-month Commercial Paper	2.54	3.63	3.82
Bankers' Acceptances.....	2.05	3.25	3.28
Government securities:			
Treasury bills (3-month).....	1.93	3.08	3.24
9-to-12-month issues .....	2.11	3.93	3.93
3-to-5-year issues .....	2.57	4.20	4.31
Average of above yields.....	2.42	3.77	3.85
Discount Rate (N.Y.).....	2.13	3.50	3.50
Spread between average rate and discount rate.....	.29	.27	.35

Over the thirteen months from the low points in each of the past two business cycles, the improvement in business activity has been approximately the same. Perhaps the current recovery has shown even greater vigor as evidenced by the increased demands for credit and the course of interest rates. With the advantage of hindsight, it appears that monetary policy was not unduly restrictive during the 1954-55 expansion period, and it now appears that the expansion of the money supply during the 1958-59 recovery of the economy has exceeded that of the earlier period.

# The Production and Marketing of Tobacco

**T**OBACCO is one of the nation's leading farm commodities. Sales of the 1958 crop of more than one billion dollars amounted to 7 per cent of total cash receipts from farm crops and 3 per cent of total cash receipts from farming (see table). Production on the 1.1 million acres harvested in the United States in 1958 was about one and three-quarter billion pounds, which amounts to over 14 pounds of tobacco for each person 15 years of age and over in this country.

CASH RECEIPTS FROM FARMING, UNITED STATES  
1958

	Millions of Dollars
Livestock and Products: .....	18,846
Meat animals .....	10,790
Dairy products .....	4,547
Poultry and eggs .....	3,212
Other .....	297
Crops: .....	14,360
Food grains .....	2,485
Feed crops .....	2,769
Cotton (lint and seed) .....	2,174
Oil-bearing crops .....	1,402
Tobacco .....	1,027
Vegetables .....	1,578
Fruits and tree nuts .....	1,550
Other .....	1,375
Total .....	33,206

Source: U. S. Dept. of Agriculture, *The Farm Income Situation*, February, 1959, table. 4.

Almost two billion pounds of United States tobacco were used commercially in 1958 of which almost three-fourths were used domestically. The remaining one-fourth entered world trade to make the United States the world's largest exporter. By comparison, the amount supplied this country from abroad was relatively small, 139 million pounds. Foreign supplies are used primarily as a blend in cigarettes.

Cigarettes account for 80 per cent of total domestic tobacco use. Of the balance, one-half goes into cigars and most of the rest into smoking and chewing tobacco and snuff.

Tobacco production is concentrated in the South. Most of it is grown on the Atlantic Coastal Plain, which stretches from Maryland to Florida, and in the central Appalachian states of Kentucky and Tennessee (see map). North Carolina, which shares both

the Coastal Plain and the Appalachians, alone produced more than 40 per cent of the nation's crop in 1958. Kentucky was next in importance with about 20 per cent, followed by Virginia, South Carolina, and Tennessee. Although these states produce a wide variety of crops and livestock, tobacco is the most important single source of farm income in North Carolina and Kentucky, with 45 and 36 per cent respectively of cash farm receipts from tobacco in 1958. South Carolina derived 23 per cent of its cash farm income from tobacco, Virginia, 17 per cent, and Tennessee, 14 per cent.

Study of the tobacco crop is complicated by the fact that "tobacco" is the generic name for a group of crops each of which has distinctive characteristics and uses. The United States Department of Agriculture classifies the crop into 26 principal types, grouped into six classes—flue-cured, fire-cured, air-cured, cigar filler, cigar binder, and cigar wrapper. Types are determined by variety, soil, climate, cultural practices, and the method of curing. When seed is taken from one area to another the quality is often changed. In a few instances overlapping has occurred between two areas which produce different types of tobacco. Competition between areas for the domestic market is generally limited, since substantial quantities of one type of tobacco cannot be substituted for another.

## Tobacco Production in the Eighth Federal Reserve District

Eighth District tobacco production is concentrated in the Bluegrass Region of central Kentucky. Early settlers from North Carolina and Virginia brought the plant across the Appalachian Mountains and continued its culture along the navigable streams of western Kentucky. This Kentucky area was the first center of tobacco production in the state and became known as the "Black Patch," from its concentrated production of dark-type tobacco. During the Civil War, Burley was introduced into Kentucky and its production spread rapidly throughout the central part of the state and into adjoining states. High calcium and phosphorus soils, the development of railroads and other transportation facilities, and the fact that Burley found a good market in cigarettes and in smoking



and chewing tobaccos, contributed to its rapid rise. As production of Burley grew, production of dark types declined. A decline in use of snuff and other tobacco products made from dark types also contributed to the shift.

Burley is now the predominant tobacco type throughout eastern and central Kentucky and westward to Logan and Muhlenberg counties where production of Burley and the dark types overlap. Burley is also the major type produced on relatively small acreages in southern Indiana and Missouri.

From Logan and Muhlenberg counties westward, dark-fired and dark air-cured tobaccos are grown along with Burley. Dark-fired is the principal type produced in the district portion of west Tennessee.

Approximately eleven per cent of the nation's tobacco crop in 1954 was produced in the Eighth District and about ninety-five per cent of the district total was harvested in Kentucky. Burley production of 197 million pounds was by far the most important type, accounting for more than four-fifths of the district total. About 30 per cent of the nation's Burley crop was produced in the district. Eighth District portions of Kentucky and Tennessee produced more

than one-third of the nation's fire-cured and over 60 per cent of the dark air-cured tobaccos.

EIGHTH DISTRICT TOBACCO PRODUCTION BY TYPES, 1954  
(Thousands of pounds)

(Eighth District Portions of)	Burley	Dark-fired	Dark air-cured	Total
Indiana.....	9,725	-----	-----	9,725
Kentucky....	186,552	20,184	20,682	227,418
Tennessee...	11	2,502	371	2,884
Missouri.....	712	-----	-----	712
	197,000	22,686	21,053	240,739

Source: Derived from the 1954 *Census of Agriculture*.

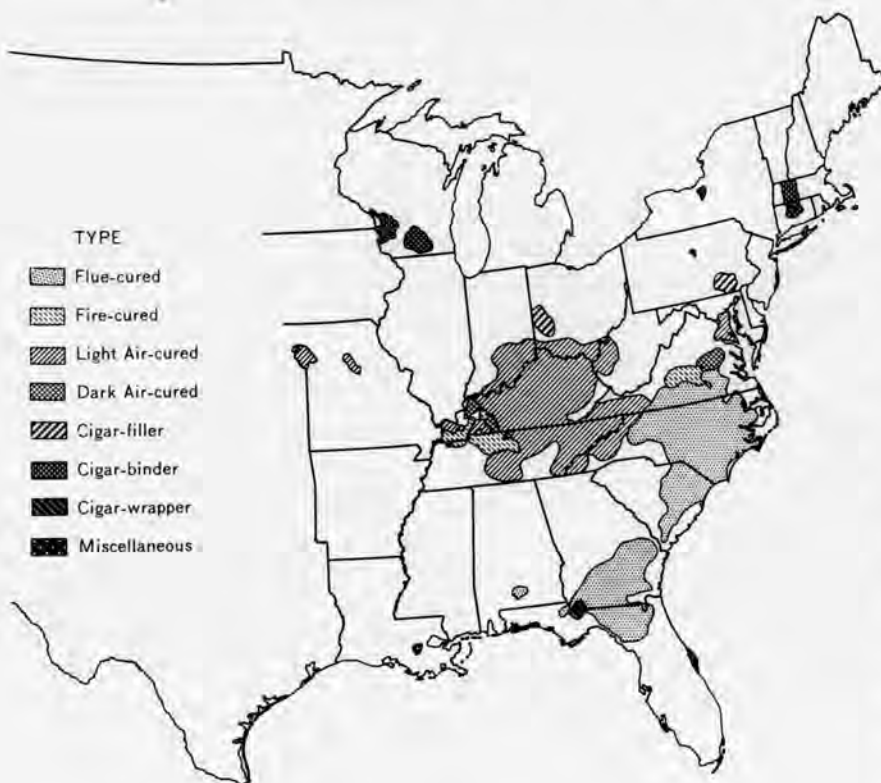
### Production Controls and the Market

**Collective Action by Producers**—Tobacco producers have a long record of collectively dealing with their production and marketing problems. Before World War I the "Burley Society" was formed at Winchester, Kentucky, to pool the Burley crop and sell through a single agent. This group held its 1907 crop off the market when the American Tobacco Company (then the major processor of Burley) refused to buy at the asked price. When the society pledged itself to grow no tobacco in 1908, as a large portion of the 1907 crop was still on hand, troubles began. There was much resentment against nonmembers who continued to produce. "Night ride" groups proceeded to punish the nonmembers by whipping them, burning their barns, and, in some instances, killing them. The movement soon died down. However, the property loss inflicted by the lawless bands was estimated to have been in excess of a million dollars.

Other centralized tobacco marketing organizations were started in the early 1920's, but like the earlier attempts most of them collapsed after a few years. The Burley Tobacco Growers Association, one of this group, handled tobacco for about six years. The Dark Tobacco Association was less successful, but was reorganized into three associations which still are in operation in price-support activities.

**Legislative Control of Production**—Legislative provisions for acreage control and marketing—quota elections were provided for by the Agricultural Acts of 1933, 1936, and 1938. At subsequent elections, tobacco growers

TOBACCO PRODUCING AREAS OF THE NATION



U.S.D.A. Photograph

generally chose acreage controls coupled with price supports. The election of 1938 was an exception, however. Growers, dissatisfied with the marketing quota system, voted against quotas for the year 1939. Without these restrictions, more acreage was planted and production soared 36 per cent. Prices dropped from an average level of 19.6 cents per pound to 15.4 cents per pound. Quotas were re-established in 1940 and have been in effect continuously since then.<sup>1</sup>

Acreage allotments have been used as a lever to adjust production and stocks. Following high production in 1935 and 1939, stocks were substantially greater than the market would take at Government price support levels, and allotments were reduced to clear away the excess. Another argument used for maintaining acreage allotments and quotas during World War II when prices were above the support level was that tobacco production should be prevented from encroaching on the production of other needed products. In recent years, stocks have moved up again and there have been successive reductions of allotments. The present tobacco carry-over, that of the 1958-59 marketing season, is down slightly from levels of the previous season, reflecting the impact of the acreage reserve program, which took about 10 per cent of the 1958 allotted acreage out of production. Since Congress made no provisions for maintaining the acreage reserve portion of the Soil Bank Program in 1959, another cut in allotments may be in the offing to offset the impact of this additional acreage if average yields of recent years are attained.

**Acreage Allotments and Tobacco Yields**—Farmers complain about the decline in tobacco acreage allotments. They prefer to produce at near-maximum capacity, and the substantial increase in tobacco yields of recent years has led to a marked decline in acres allotted to each producer. Acreage per farm has always been relatively small, averaging only 4.36 in 1929. Average acreage per farm declined to 2.93 in 1934, the first year of allotments. The rise in demand in the late thirties permitted an increase in allotments, and the acreage per farm rose to 3.73 in 1939. But, in the postwar years allotments were reduced again, declining to 2.80 in 1954, and reduced allotments since 1954 indicate that a further reduction in tobacco acreage per farm has occurred.

<sup>1</sup> Maryland growers voted against marketing quotas for 1959.

NUMBER OF FARMS IN THE UNITED STATES PRODUCING TOBACCO,  
TOTAL ACRES HARVESTED AND ACRES PER FARM

Year	Number Farms Reporting	Acreage	Acres Per Farm
1929.....	432,975	1,888,365	4.36
1934.....	422,166	1,237,117	2.93
1939.....	498,348	1,853,230	3.72
1944.....	490,585	1,630,221	3.32
1949.....	531,922	1,532,298	2.88
1954.....	556,000 <sup>1</sup>	1,557,039	2.80

<sup>1</sup> Estimate based on 1956 allotments.

Source: 1954 Census of Agriculture.

Yields of tobacco in the nation, a major factor in reduced acreage allotments, rose from a 1934-1938 average of 865 pounds per acre to an average of 1,500 pounds per acre for 1954-1958.

**Acreage Allotments and Tobacco Consumption**—Acreage allotments doubtless would have been reduced even more had it not been for the rapid expansion of consumption over much of the past quarter century. Cigarette consumption, a major outlet for Burley and flue-cured tobaccos, climbed rapidly and possibly at the expense of other tobacco products. United States consumption of cigarettes in 1957 was almost three times the 1935-39 average. Output of cigarettes in western Europe doubled during the period. Since outlets for fire-cured and dark air-cured tobacco failed to expand, acreage allotments were reduced more sharply for these tobaccos than for Burley and flue-cured.

### Other Problems

Other problems tobacco producers face in maintaining their dual objectives of high price supports and high production are increased tobacco production abroad and changes in the use of tobacco in cigarettes.

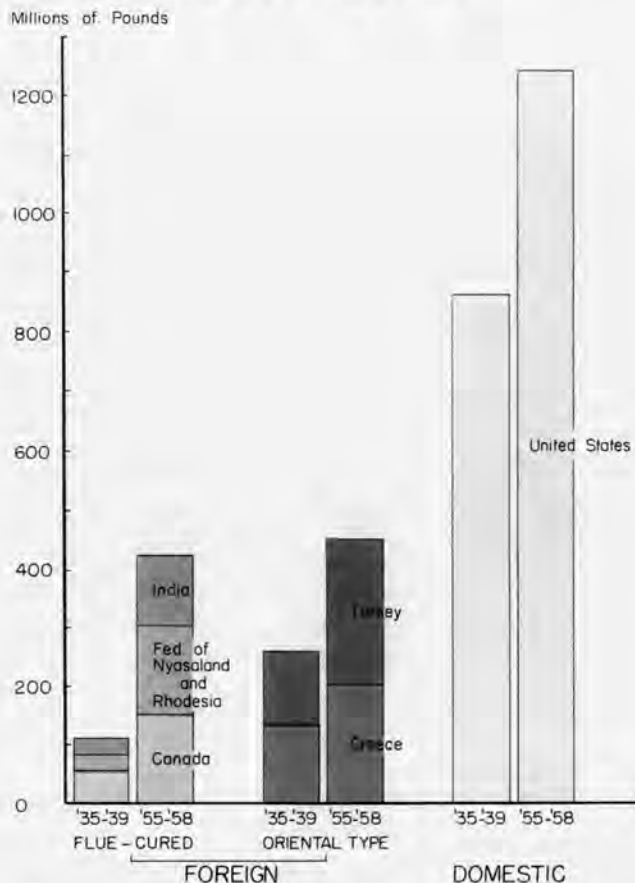
**Tobacco Production Abroad**—Although the United States is still the largest exporter of manufactured tobacco, supplying about one-third of the 1½ billion pounds moving in free world trade in 1957, production and exports of other countries have increased substantially in recent years. Average production of flue-cured (about four-fifths of total United States exports are this type) in the United States increased about 40 per cent from 1935-39 to 1955-58. Nevertheless, production of this type in other major exporting countries increased almost four-fold in the period.

Annual net exports (exports minus imports) of tobacco, largely flue-cured, by major foreign exporting countries increased three-fold from 1935-39 to 1956-57.

## PRODUCTION

Annual Average Production of Flue-Cured and Oriental Tobacco in Principal Countries with Exportable Surpluses

1935 - 39 compared to 1955 - 58



Source: U. S. Dept. of Agriculture, *Annual Report on Tobacco Statistics, 1958*, March 1959, Tables 39 and 40.

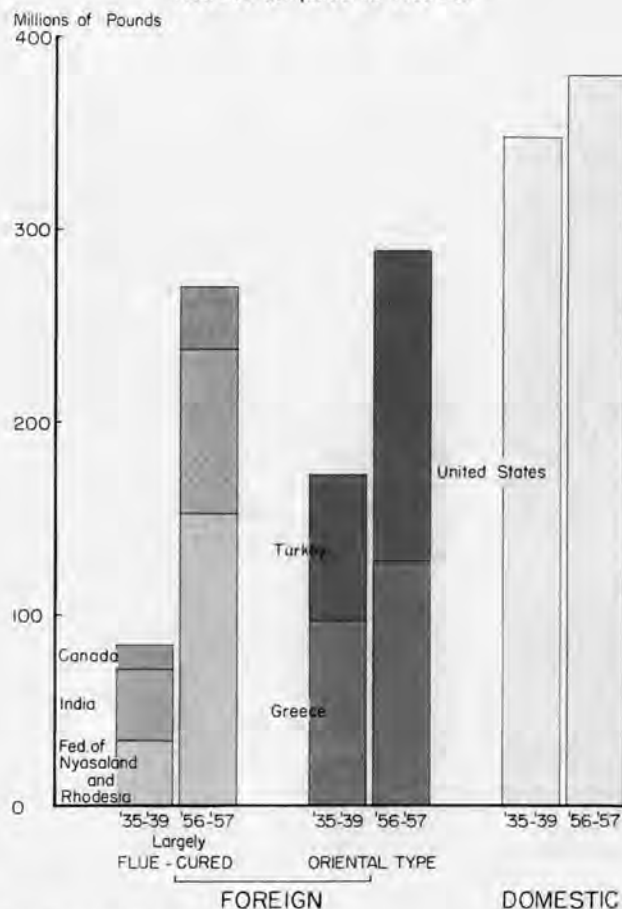
Net exports of oriental tobacco from Greece and Turkey increased about 70 per cent, while gross tobacco exports from the United States increased only about 20 per cent and net exports rose only about 10 per cent. United States imports (primarily oriental tobacco from Greece and Turkey) nearly doubled in the period. Oriental tobacco is used with Burley and flue-cured in blended cigarettes, and the proportion in European manufactured cigarettes is becoming especially important. However, cigarettes in most foreign countries are also blended with some American tobacco.

Producers of Burley are in a more favorable position marketwise than producers of most other types because little Burley enters the export market where the head-on competition is becoming so critical. The impact of increased exports from other countries is primarily on flue-cured which constitutes about four-fifths of total United States exports. About forty per cent of the domestic flue-cured crop is normally exported.

## EXPORTS

Annual Average Net Exports of Unmanufactured Tobacco by Selected Exporting Countries

1935 - 39 compared to 1956 - 57



Source: *Ibid.*, Table 42.

**Use in Cigarettes**—Although cigarette consumption fell off somewhat after 1952, when smoking became associated with the incidence of cancer, it again rose to a peak in 1958. This increase, however, has not had a corresponding effect on the demand for tobacco, largely because of the introduction of filter tips. Many cigarettes of today contain less high-priced leaf tobacco. Stronger tobaccos, such as Burley, are used more than formerly, and cigarettes may contain processed stems and small pieces of leaves that ordinarily were not used in manufacture of this product in prior years. Other factors in the declining use of tobacco per cigarette are the generally smaller space filled with tobacco in filter tip types and the smaller circumference of some cigarettes in recent years.

## Allotments and Labor Requirements

Although the acreage allotment and marketing quota program for tobacco has not been expensive to the Government, the program has probably been a factor in retaining labor in tobacco production that

might have been more productive in other segments of the economy or other lines of farm production. Excluding tobacco, only one major crop—oats—was produced by a larger number of farmers in 1954 than in 1934. During this period when the number of farms in the nation was declining from 6,812,000 to 4,782,000, the number of tobacco producers increased from about 422,000 to an estimated 556,000, an increase of 32 per cent. Part of the increase may have resulted from a change in the classification of farmers. Nevertheless, the data indicate that, during a period when nontobacco farmers were leaving agriculture and acreage allotted to tobacco production was being reduced substantially, the allotment program for tobacco not only provided sufficient incentive to hold old producers, but also to attract new ones.

PERCENTAGE CHANGE IN NUMBER OF PRODUCERS  
OF MAJOR CROPS, 1934 TO 1954

	1934	1954	% Change
Tobacco.....	422,166	556,000 <sup>1</sup>	+ 32
Winter Wheat.....	1,150,863	837,026	-27
Corn.....	4,849,724	2,844,369	-41
Barley.....	344,626	320,125	- 7
Cotton.....	1,920,123	864,138	-55
Oats Threshed.....	1,234,231	1,405,599	+14
Hay (Alfalfa, Clover, and Timothy).....	2,124,532	1,986,616	- 6
Soybeans, all purposes.....	694,830	628,120	-10
Peanuts.....	576,985	151,227	-74
Irish Potatoes.....	3,102,231	1,432,466	-54
Sweet Potatoes.....	1,750,266	629,564	-64

<sup>1</sup> Estimate based on number of allotments in 1956. Producers in 1949 numbered 531,922.

Source: 1954 Census of Agriculture.

The production of tobacco per man-hour of labor has moved upward, but at a slower rate than most other crops since the control program began. The output of tobacco per man-hour rose 45 per cent from the 1932-34 average to the 1955-57 average, while the increase for vegetables was 55 per cent; for hay and forage, 122 per cent; for cotton, 176 per cent; and for feed grains, 332 per cent.

INDEX NUMBERS OF FARM PRODUCTION PER MAN-HOUR  
FOR SELECTED GROUPS OF CROPS, 1947-49 = 100

	All Crops	Feed Grains	Hay and Forage	Food Grains	Vege- tables	Cotton	To- bacco	Oil Crops
1932- 1934.	52	40	58	40	76	55	80	33
1955- 1957.	143	173	129	150	118	152	116	187
Per Cent Increase	175	332	122	275	55	176	45	467

Source: U. S. Dept. of Agriculture, *Changes in Farm Production and Efficiency*, Bulletin No. 233, August, 1958, Table 15.

The acreage allotment program for tobacco has probably been a factor in the small increase in output per man-hour. Mechanization of farming operations generally effects cost reductions through increased acreage and output per man. The declining tobacco allotments per farm offer little inducement for large investments in producing equipment or for research by equipment manufacturers in the development of labor-saving equipment for tobacco production. The mechanization of tobacco production has been limited primarily to field preparation and cultivation. Even on large farms the planting of seeds and transplanting are essentially hand operations. One possible solution to the problem of small acreage per farm is to permit the transfer of allotted acres from one individual to another (i.e., sell rights to produce which have heretofore been incorporated in tracts of land and transferred only with the land). Such a change in the program, which has been discussed by producer groups, would probably permit individual farmers to acquire sufficient acres for more efficient production.

### Summary

Tobacco, a leading cash crop in the Eighth District and in the nation, has been produced under acreage controls and marketing quotas for the past quarter century with the exception of 1939. The program was successful in restricting production and raising prices. The allotments generally served their purpose in adjusting production and stocks to average domestic and export market requirements at prevailing support prices. Nevertheless, several facets of the program have not been conducive to the expansion and healthy development of domestic tobacco production. The proportion of American grown tobacco in the world market has decreased sharply in recent years. Conversely, the proportion of foreign grown tobaccos has increased. Also, in part reflecting the higher price of tobacco, domestic cigarette manufacturers are using a smaller quantity of high-priced leaf tobacco and a larger proportion of stems and broken leaf fragments per cigarette. The acreage of tobacco allotted to each producer has declined markedly, possibly inhibiting production efficiency as production per man-hour has increased at a slower rate than for most other crops since the control program began.