

AMERICAN INSTITUTE for ECONOMIC RESEARCH

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MASSACHUSETTS

WEEKLY
BULLETIN
November 9
1953

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Farm-Support Program

The Administration's farm program, Secretary of Agriculture Benson, and problems of the American farmer have been, and probably will continue to be, front-page news for several months. In order that readers may have a more complete understanding of what is being discussed, we have assembled the following background material.

The Argument Leading to a Federal Farm Program

One of the major arguments of those supporting the farmers' demands for Government regulation of farm prices is that farm prices are inherently unstable because of unpredictable fluctuations in weather; that because of the length of the production period and the seasonal nature of agricultural production, agricultural production is relatively slow to respond to changes in demand. Consequently, relatively large agricultural "surpluses" or "deficiencies" have occurred, accompanied by wide fluctuations in prices and a marked instability of farmers' income. Farmers, believing that they are not responsible for this "inherent" instability, have demanded protection.

Federal Action

In order to satisfy these demands the Federal Government has enacted much legislation in recent decades. One of the first steps was the creation of the Federal Farm Board in order to deal with the farm "surplus" of the late 1920's and early 1930's. The Board was considered unsuccessful and was replaced by direct production controls in the Agricultural Adjustment Acts of 1933 and 1938. Other legislation in 1933 provided for the creation of the Commodity Credit Corporation, the purpose of which was to make loans on or to purchase "surplus" farm products. The Agricultural Adjustment Act of 1938 made mandatory loans on wheat, cotton, and corn at prices ranging from 52 to 75 percent of parity. From 1941 to 1946 loans were made mandatory on six basic crops (wheat, cotton, corn, rice, tobacco, and peanuts) at a price equal to 85 percent of parity. In 1946 the support price was raised to a minimum of 90 percent of parity.

The legislation requiring prices to be supported at 90 percent of parity was to have expired on December 31, 1948. However, prior to the expiration date Congress passed the Agricultural Act of 1948, which extended the price support for the basic farm commodities at 90

percent of parity until June 30, 1950. The Agricultural Act of 1949 and the 1952 amendment extended this program until December 31, 1954. Present legislation requires that certain commodities, designated as nonbasic, must be supported somewhere in the range of from 60 to 90 percent of parity, the specific figure being decided upon by the Secretary of Agriculture. According to present law, the fixed farm-price support is to be replaced after December 31, 1954, by the following flexible scale of price supports: for the "normal" supply of each basic commodity, a price of 75 percent of parity; for supplies greater than "normal," a decreasing percentage of parity; and for supplies smaller than "normal," a percentage above 75 percent of parity.

How the Farm-Price-Support Program Operates

According to the Agricultural Adjustment Administration Act of 1938, "Parity * * * shall be that price * * * which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodities in the base period." In other words, the parity price of a bushel of wheat, for example, is intended to be the price that enables a farmer to buy a physical quantity of goods and services equivalent to those he could have purchased with the price of a bushel of wheat during the base period, i. e., the 1910-14 period. For example, if wheat was \$0.80 a bushel in 1910-14 and prices of goods and services bought by farmers in October 1940 were 3 times what those goods and services cost the farmer in 1910-14, the parity price of wheat in October 1940 would be \$2.40 a bushel.

The price at which a farm commodity is supported is not a fixed dollar amount, such as \$1.50 a bushel. If prices of the goods bought by farmers decrease substantially, the support price will also decrease. Of course, price changes in other goods are related to farm-product prices, but readers should realize that the farm-price-support program does not automatically prevent farm-product prices and prices of other goods from decreasing substantially.

The Agricultural Act of 1949 attempted to adjust parity prices for changes that had occurred in farming methods during recent decades. For example, extensive mechanization of the production of some commodities, mainly wheat and other field crops, presumably had resulted in substantial reductions in costs. With parity prices for all commodities calculated on a 1910-14 base, the growing of wheat and other field crops (because of

relatively lower costs) would have become unusually profitable in relation to the production of other farm products. In order to overcome this difficulty, a revised parity formula was introduced in which the parity price is the average price of the commodity during the past 10 years divided by the average index (1910-14=100) of prices received for all commodities sold by farmers during the last 10 years adjusted for the change in prices paid by farmers since 1910-14.

If the market price of a commodity falls below the support price, the Commodity Credit Corporation is required to make or to guarantee a 1-year loan to any farmer who assigns the commodity to the Corporation. Within the year the farmer may sell the mortgaged commodity on the market and pay off the loan plus 3-percent interest if the price goes above the loan rate; or, if the price decreases, he may deliver the commodity in full payment of the loan and the Commodity Credit Corporation becomes the owner.

The total dollar amount invested in agricultural products by the Commodity Credit Corporation at the end of May 1953 was \$3,200,000,000; about 60 percent of this amount was loans on commodities, and the remainder was direct investment in commodities. Commodities acquired by the Corporation through purchases or through loans are kept in storage facilities owned or approved by the Federal Government. At times the CCC has been able to sell the commodities stored (as during World War II and during 1950-51). However, much of the stored commodities are exposed to deterioration. According to Mr. Benson, Secretary of Agriculture, the CCC has had a net loss of approximately \$1,100,000,000 during its 20 years of operation.

In addition to the price-support program, present legislation provides for marketing quotas and acreage allotments for basic crops. These provisions are intended to prevent farmers who are assured of relatively high prices from expanding production unduly.

Marketing quotas can be proclaimed by the Secretary of Agriculture if he expects the total supply of a product for the following marketing year to exceed the "normal supply" by more than a stipulated percent. (The "normal supply" is defined as the domestic consumption of the preceding marketing year plus estimated exports for the coming marketing year plus a carryover allowance of from 10 to 30 percent, depending upon the commodity, of such consumption and exports.) For wheat, the excess is 15 percent; for corn, 7 percent; cotton, 30 percent; peanuts, 15 percent; and rice, 10 percent.

Once the intention of quota marketing has been announced by the Secretary of Agriculture, he is required by law to conduct a referendum within 30 days of farmers who will be subject to the quota. In order to become effective, the quotas must be approved by two-thirds of those voting. If the farmers do not approve the marketing quotas, the support prices of those commodities are to be decreased to 50 percent of parity and the Federal Government is permitted to sell its storage supplies at the support prices. A marketing-quota referendum for wheat was conducted on August 14, 1953, and the farmers voted in favor of quotas.

When marketing quotas are put into effect, farmers are required not to sell more than a specified amount during the year. If farmers sell more than their marketing quotas, they must pay certain penalties.

The Secretary of Agriculture may also announce acre-

age allotments if plantings are expected to exceed a certain stipulated acreage. Farmers not abiding by acreage allotments are not eligible for CCC loans. Acreage allotments have been used somewhat more frequently in the farm-price-support program than have marketing quotas.

Conclusions

In spite of the questionable wisdom of Government attempts to administer economic justice by offsetting what are believed to be privileges of one group through granting of privileges to another group, there does not seem to be much doubt at present that the farm-price-support program will be retained without major changes. During his election campaign President Eisenhower indicated that he would carry out present legislation providing for 90-percent-of-parity-price support through December 31, 1954. Since then, the President indicated that his staff was studying the issue and would propose new legislation at the coming session of Congress. According to rumors, the Administration was not basically opposed to the idea of farm-price support but intended to propose a much more flexible program. However, according to more recent rumors, the results of the Wisconsin elections and the pressure of organized farm blocs have influenced the thinking of the Administration to such an extent that any proposed agricultural legislation may not be much different from that at present in effect.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 92.9 percent of capacity for the week ended November 7, 1953, was 2 percent less than that in the preceding week and was 5 percent less than production in the corresponding week last year.

	1929	1932	1937	1938	1952	1953
Percent of Capacity†	78	21	47	58	106	93p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.08	.32	.71	.89	2.20	2.09

Automobile and truck production in the United States and Canada during the week ended October 31, 1953, was estimated at 145,354 vehicles, compared with a revised total of 149,794 vehicles during the previous week.

	1929	1932	1937	1938	1952	1953
Vehicles (000 omitted)†	73	10	90	73	155	145p

Electric-power production in the week ended October 31, 1953, increased to 8,361,593,000 kilowatt-hours from 8,306,426,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1952	1953
Billion Kilowatt-Hours†	1.82	1.53	2.30	2.28	7.75	8.36

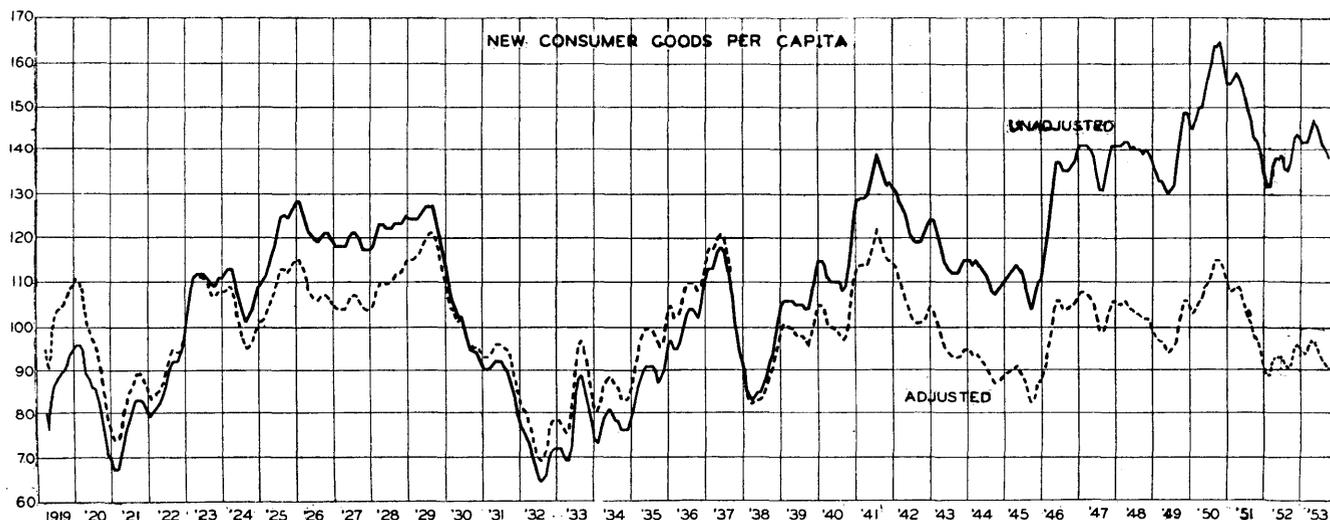
Lumber production in the week ended October 24, 1953, increased. *The New York Times* seasonally adjusted index was 5 points above that for the preceding week but was 5 points below that for the corresponding week last year.

	1929	1932	1937	1938	1952	1953
<i>The New York Times</i> Index†	127	37	78	99	120	115

†Latest weekly data; corresponding weeks of earlier years
p=preliminary

New Consumer Goods Per Capita

The index of new consumer goods per capita (a 3-month moving average plotted at the last month) unadjusted for long-term trend decreased 1 percent further during September to a level 6 percent below the 1953 high reached during April. The September index was



1 percent above that for September last year but was 16 percent below the alltime high reached in October 1950.

The index adjusted for long-term trend decreased 1 percent during August and 1 percent during September; the September index was 1 percent below that for September 1952 and was only 1 percent above that for January and February 1952, when a post-Korean low was reached.

Production of consumer goods, which increased slightly during August, decreased 2 percent during September. All components of the index, except food production, decreased as follows: automobile production, 7 percent; residential construction, 4 percent; and textile production, 3 percent. Food production increased 1 percent. September data for shoe and tobacco production, which are not heavily weighted in the calculation of the index, were not available.

Automobile production, which totaled 615,000 cars and trucks during August, decreased to 573,000 cars and trucks during September; but, according to estimates based on weekly production data, October production of new cars and trucks was 620,000 units. According to preliminary estimates by the automobile industry, the total output of passenger cars during 1953 may be as great as 6,150,000 cars, 8 percent less than production during the record year, 1950, but more than that during any other year in the industry's history. Estimates by several automobile companies of passenger-car production during 1954 have ranged from 5,900,000 to 5,250,000 units. Dealers' inventories of new cars, which were somewhat more than 500,000 units during the second and third quarters of this year (compared with an average level of approximately 300,000 units during 1952) decreased somewhat during September, as did inventories of used cars. Apparently, reductions in prices of some new and used cars helped to increase sales.

The September figure for residential-construction contract awards, which is a 3-month moving average, decreased 4 percent to a level equal to that during the preceding 8 months but 3 percent below the average level for 1952. The number of new dwelling units started during September was 92,000, 9 percent less than those started during September last year. The total started during the first 9 months of 1953 was 863,400, slightly less than the corresponding total during 1952. The amount of new dwelling units started during all of 1952 was 1,127,000, the second largest figure on record.

The curtailment of activity in the consumer-goods in-

dustries has directed the attention of many individuals toward attempts to ascertain potential demand for consumer goods. Unfortunately, experience suggests that consumer spending behavior has not been a "stable function," but, on the contrary, has been highly unstable. However, recent actions of the Federal Reserve Board and the substantial purchases of new 8-year Government bonds by the commercial banks have made available a substantial amount of additional purchasing media. Moreover, consumers may have larger funds at their disposal after January 1, 1954, if the personal income tax is decreased 10 percent.

Because the July production figure probably will be replaced by an almost equal October figure in calculating the 3-month moving average, the October index of new consumer goods per capita may not change greatly. If automobile production is as much as is expected by the automobile industry during the next 2 months, some slackening of the recent rate of decrease of new consumer goods per capita may occur. The decrease in automobile production now being contemplated for 1954 suggests that a leveling-off or a further decrease are both somewhat more probable than an increase of the index.

DEMAND

Department-Store Sales

Department-store sales for the week ended October 31, 1953, were unchanged from sales in the preceding week but were 2 percent less than sales in the corresponding week last year.

PRICES

Consumers' Prices

The consumers' price index, published by the Bureau of Labor Statistics, rose slightly during the month ended September 15 to an alltime high. The September index was 1 percent above that of September a year ago and 13 percent above the level of June 1950, when the Korean War started. Since February, when the index turned up following a 3-month decrease, consumers' prices have risen steadily. However, the increase has been so slight, two-tenths of 1 percent a month, that the index may be said to have virtually leveled off. The termination of certain price and rent controls during the last 7 months may have been largely responsible for the increase.

The slight increase during September was attributable

primarily to higher prices for apparel, medical care, and housing. However, all other components, with the exception of food, also increased. Apparel prices, which had leveled off this year after decreasing throughout 1952, increased a full point. The increase of medical-care costs also was relatively substantial, slightly less than one point. Housing costs have continued upward with minor interruptions since the end of World War II. Transportation costs increased further, but the rise was even less than the slight increase of the previous 2 months. The costs of personal care, reading and recreation, and the costs of other goods and services, although higher, were virtually unchanged. Food prices, which increased slightly during each of the 4 months from May to August, decreased slightly during September.

Although in previous articles we have discussed several reasons for the seemingly inconsistent upward trend of the consumers' price index compared with the decrease of wholesale prices, two additional points may be of interest.

First, the consumers' price index may be designated as a lagging statistical indicator of business-cycle movements. Presumably some time is necessary before a decrease of wholesale prices is reflected in consumers' prices. In five of the six business cycles since 1919 the peaks and troughs of the consumers' price index have lagged the peaks and troughs of general business activity. The average lag was 5 months at the peaks and 7 months at the troughs. Thus, even if a cyclical downturn of general business activity either began a short time ago or is about to occur, a continuing rise in consumers' prices for at least a few months would not be surprising.

Second, the decrease in the wholesale price of food and farm products may not have been reflected by a corresponding extent in the consumers' price index because of counterbalancing increases in the marketing costs of foods. For example, according to the Agriculture Department, the farmer's share of each consumer's dollar spent for choice beef in the second quarter of 1951 was 75 percent, compared with 60 percent in the corresponding period of 1953. The share of the marketing system increased during the same period from 25 cents to 40 cents.

Conclusions

Further minor increases in the consumers' price index during the next few months would not be surprising. Any major change within a short period seems highly improbable.

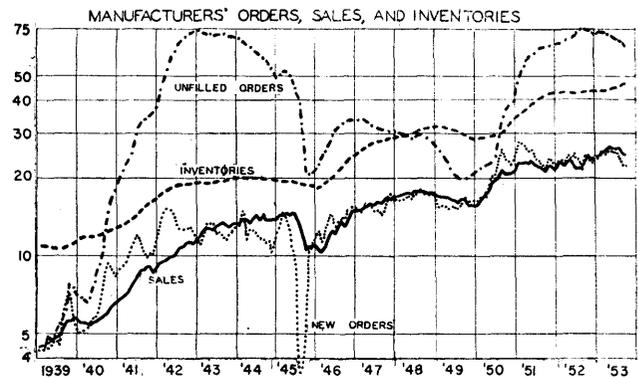
Commodities at Wholesale

(August 1939=100)	1952		1953
	Nov. 5	Oct. 29	Nov. 5
Spot-Market Prices (22 basic raw materials)	281	267	265
Commodity Futures Price (Dow-Jones Daily Index)	356	331	332

BUSINESS

Manufacturers' Orders, Sales, and Inventories

The seasonally adjusted dollar value of manufacturers' new orders was unchanged during September at a level 12 percent below the record level of April, May, and June, 1953. Moreover, the September figure was 9 percent below that for September last year and was



21 percent below the alltime high reached in January 1951.

The seasonally adjusted dollar value of new orders for durable goods (one of the eight "leading" statistical indicators of business-cycle changes chosen by the National Bureau of Economic Research) increased 1 percent during September but was 21 percent below that during September last year. The trend of the series appears to have been downward since February 1953.

The seasonally adjusted dollar value of manufacturers' sales, which leveled off from April through July, decreased 4 percent during August, and decreased 2 percent further during September to \$24,900,000,000. The September level was 5 percent above that for September last year. The entire September decrease occurred in the durable-goods industries; sales of the nondurable-goods industries increased 1 percent.

Unfilled orders (this series is not adjusted for seasonal variations), which have been decreasing each month since March, decreased 4 percent further during September to a level 15 percent below the alltime high reached in September 1952. The decrease was the largest since 1949. Almost all of the decrease occurred in the durable-goods industries. Since September last year, unfilled orders of the durable-goods industries have decreased 15 percent, and those of nondurable-goods industries also have decreased 15 percent.

The seasonally adjusted dollar value of manufacturers' inventories, which has increased 1 percent each month since April, increased slightly during September to a record total at \$46,400,000,000. The September inventory increase was distributed nearly equally between the durable- and nondurable-goods industries.

The ratio of manufacturers' inventories to sales increased 3 percent during September to a 1953 high and was 3 percent above that during September last year. However, the September ratio was 9 percent below the alltime high reached in December 1951.

The September data of manufacturers' orders, sales, and inventories further confirm our conclusions of the last few months that a peak of manufacturing activity probably was reached earlier this year.

BOOK REVIEW

Charting Statistics by Mary E. Spear
McGraw-Hill Book Company, Inc., New York (\$4.50)

The author presents nearly every conceivable type of graph. Samples of line charts, surface (pictorial) charts, column charts, bar charts, map charts, and others are shown. Furthermore, applications to particular data are suggested as well as ideas for improving clarity and avoiding illusions.