FARM BUSINESS NOTES

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Wartime Price Developments

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FRIENDLY ROAD—7:00 a.m.

MID-MORNING MARKETS—10:30 a.m.

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Prices have increased by a substantial amount since September, 1939 when World War II began. By January, 1942, the 29th month of the war, the general level of wholesale prices had risen about 28 per cent, farm prices for the United States as a whole by about 70 per cent, Minnesota farm prices by nearly 90 per cent, the cost of things bought by farmers by 23 per cent, and the cost of living of city wage earners by about 10 per cent. The present prospects are that prices will continue to rise, the extent depending largely upon the rapidity with which controls are instituted and the effectiveness of these controls.

The fundamental reason for the rise in prices that accompanies a major war is the new demand by the government for the machines and materials needed for conducting the war. This is added to the civilian demand and leads to the employment of more people and to increased wages. The result is that people have increased money income with which to buy things. Until early in 1941 it was possible to expand both war production and production of civilian goods. In consequence, the cost of living did not rise greatly. Now, however, we are close to the peak of our productive capacity and since the middle of 1941 we have secured part of our increase in output of war goods by decreasing our output of goods for consumers. Most of the increase in the output of war goods during the coming year must come by shifting our factories and workers from the production of consumers' goods to the production of war materials. Present estimates indicate that the production of civilian goods will be at least 20 per cent smaller in 1942 than in 1941. With more money to spend on these goods in the hands of consumers and a smaller quantity of goods available in the market, the only result can be a rise in prices. We are thus on the brink of a considerable inflation unless strong measures are taken to prevent further price rises.

Two principal methods are being employed to restrain price increases. The first is to absorb excess purchasing power in the hands of the public by means of taxes and borrowings. The second is to fix ceilings on certain prices and to ration some of the goods on which these price ceilings have been fixed. Income tax rates have been increased and exemptions lowered with the result that many will pay an income tax for the first time and payments will be larger for previous payers. Corporation taxes are also larger and new excise taxes have been added. It is estimated that about 17 billion dollars will be secured from taxes in 1942. This will be insufficient to pay for the war expenditures of the government and borrowings of about 20 billion dollars will be necessary. Insofar as these borrowings are secured from the sale of Defense Bonds to persons who would otherwise have spent their money in the market for goods, the borrowings will have no inflationary effects. Insofar as it is necessary to borrow from other sources, the borrowings will largely act as an increase in purchasing power and contribute to a rise in prices. Unfortunately present sales of Defense Bonds are only at the rate of about 5 to 10 billion dollars a year and other borrowings must be resorted to.

Price Control Act

Direct control over certain prices is provided by the Emergency Price Control Act of 1942 which was approved by the President on January 30. This Act provides for extensive regulation of commodity prices, rents, and marketing margins. The Price Administrator is granted wide latitude in the establishment of maximum prices. He is directed to establish prices which in his judgment "will be generally fair and equitable and will effectuate the purposes of the Act," which in general are to check "speculative and excessive price rises, price dislocations, and inflationary tendencies." The Administrator, however, may not regulate wages, common carrier rates, insurance rates, nor newspaper, periodical, motion picture, or other theater, radio broadcasting, or outdoor advertising. Certain limitations are provided on the establishment of ceilings on agricultural prices. The mere fixing of prices will not, however, prevent inflation so long as excess purchasing power remains available for buying goods. Successful price control depends upon the curtailment of purchasing power as well as price fixing.

No maximum price is to be established under the Act on any agricultural product below the highest of any of

Table 1. Minimum Level at Which United States Agricultural Prices of Selected Commodities May be Established under the Provisions of the Emergency Price Control Act

Commodity	October 1, 1941	December 15, 1941	Average 1919-1929	110 Per Cent of Parity January 15, 1942
Butterfat (per lb.)	$ 0.371	$ 0.36	$ 0.44	$ 0.445
Hogs (per 100 lbs.)	10.59	10.21	9.77	11.59
Beef Cattle (per 100 lbs.)	9.27	9.38	6.85	8.37
Chickens, live (per lb.)	0.162	0.158	0.214	0.183
Eggs (per doz.)	0.311	0.341	0.332	0.328
Wheat (per bu.)	0.934	1.022	1.325	1.41
Corn (per bu.)	0.678	0.669	0.889	1.03
Oats (per bu.)	0.394	0.452	0.474	0.64
Flaxseed (per bu.)	1.74	1.78	2.34	2.72
Potatoes (per bu.)	0.658	0.827	1.241	1.15

the following prices, as determined and published by the Secretary of Agriculture:

(1) 110 per cent of parity or comparable price for the commodity, adjusted by the Secretary of Agriculture for grade, location, and seasonal differentials.
(2) The market price on October 1, 1941.
(3) The market price on December 15, 1941.
(4) The average price during the period July 1, 1919 to June 30, 1929.

In addition no maximum price is to be established for any agricultural commodity under the Act without the prior approval of the Secretary of Agriculture, and nothing in the Act is to be construed to invalidate any marketing agreement, license, or order approved by the Secretary under the Agricultural Marketing Act of 1937.

Minimum Levels for Price Ceilings

Table 1 shows the minimum levels at which the Price Administrator could establish ceilings on January 15, 1942. The most important of these ceiling limitations is evidently the provision preventing the establishment of a price at a level below 110 per cent of parity. This provided the minimum that could be set for all of the prices included in the table except for beef cattle, chickens, eggs, and potatoes. If prices rise considerably, even the prices of these commodities which were higher on specified dates will be exceeded by the 110 per cent of parity price. As the cost of things which farmers buy increases, the minimum level at which the Price Administrator may set a price will thus also rise.

Table 2. Farm Prices on January 15, Their Per Cent of Parity, and Announced Level of Price Support

	United States Farm Prices January 15, 1942	Actual Prices as a Per Cent of Parity January 15, 1942	Announced Level of Price Support or Loan Value
Butterfat	.405	90	.34*
Hogs	10.54	100	8.96*
Beef Cattle	7.61	128	....
Chickens	.17	102	.14*
Eggs	.30	105	.25*
Wheat	1.29	82	.98†
Corn	.94	78	.75†
Oats	.58	86	....
Flaxseed	2.47	79	2.10‡
Potatoes	1.04	94	....

* At 85 per cent of parity.
† Loan values.
‡ For crop of 1942.

In connection with his call for increased agricultural output the Secretary of Agriculture has announced his intention to support the prices of certain products for specified periods. These levels are shown in table 2 together with the loan values for wheat and corn which are likewise price supporting measures. The United States farm prices for January 15, 1942 and the per cent which these actual prices were of parity prices on the same date are likewise shown in the table. Present prices are above the indicated minimum for price support. Except for beef cattle, however, January 15 prices were below the 110 per cent of parity level.

Because the minimum level at which price ceilings can be established will rise with the cost of things which farmers buy it is improbable that ceilings will be established on many of the important agricultural products for some time. There are no important shortages of the major agricultural products in prospect at the present time. There are possible shortages in a number of things which farmers buy. It is probable in consequence that the costs of things bought by farmers will rise as rapidly or even more rapidly than the prices of farm products. Under these circumstances the real concern of farmers about price controls is that of holding their costs down.

Suggestions for Meeting The Labor Shortage

S. B. Cleland

No one can foresee how acute the labor shortage will be this summer, because each farmer will attempt to adjust his own program to the situation which he thinks will confront him personally. There is considerable talk among farmers of reducing the number of cows to be milked; of maintaining a machinery program which will enable the operator to farm alone; of more utilization of women at farm work. How much these and similar devices will ease the pressure, no one can tell as yet.

There is a widespread demand for more information on methods of computing custom and exchange rates for machinery and power, indicating an increase in this field of activity. The program which one farmer says he expects to use is typical of what many may use. This farmer, on 440 acres of southern Minnesota land, has a good line of machinery, and ordinarily employs two hired men one of whom may stay. A neighboring farmer on 160 acres, with more limited machinery, has a 15-year old boy who is good with the tractor and machinery. The boy will help on the larger farm and, in turn, the tractor and machinery of that farm will be used as needed on the smaller farm.

The greatest opportunity for any given farmer would seem to be in a thorough study of his farm operations to reduce the actual labor required to get the work done. Records of the Southeast Minnesota Farm Management Service show that of 197 farms reported in the 1941 records, 48 accomplished less than 250 work units per worker per year, while 67 accomplished 325 or more per worker. On an average basis, the low group reached only 77 per cent of an average man's achievements, while the better group averaged 133 per cent.

Many reasons can be pointed out for the better showing of the high group. More adequate machinery and power, of course, is one; year round work is another, so all available workers have a steady load of work at all seasons. Still another, and an important one, is the way the operator plans his work. His chores are done by a studied system, so that extra steps are avoided and every motion counts. His field operations are done at the best time and in the right order. Repair jobs needed on fences and buildings are noted in time, and the work is done when time can be found, and before emergencies occur. Machinery is ready when needed.

Pasturing land is a labor-saving method of harvesting, whether one thinks in terms of cows eating grass, or hogs eating corn. Some farms could increase their pasture programs to advantage; electric fences very often are used for temporary pastures.

There is one phase of the labor situation which should not be overlooked, and that is, that frequently a given volume of production can be produced with fewer units provided higher efficiency is secured per unit. For example, if a dairy herd is producing at a low or medium level of production, the same amount of production could often be obtained from fewer cows if these remaining cows were fed more grain, or perhaps a tank heater was used, or some other improved management was put into effect.

Ten litters of pigs, given clean pasture and plenty of good protein mixture along with their corn, will often produce as much pork as twelve or thirteen poorly managed litters, and do it quicker. Careful study of how to do these things will often yield big dividends in labor economy.

Proposed Changes in the Freight Rate Structure and Agriculture

EDMUND A. NIGHTINGALE*

Two freight rate proceedings of prime importance to users of common carrier transportation services have been given recent consideration by the Interstate Commerce Commission.

The first case, popularly known as the Ten Per Cent Case, is a revenue case. It originated from the petition of the Class I railroads on December 13, 1941 calling attention of the Interstate Commerce Commission to the immediate need of the carriers for additional revenues to meet increased annual costs. Recent wage increases were estimated at $332,000,000, and protection of carriers' properties and defense shipments against sabotage will cost at least $30,000,000. Public hearings took place at St. Louis in January. Interested representatives of rail, motor, and water carriers, business enterprises, state regulatory commissions, agricultural groups, including national farmers' organizations, cooperative associations, agricultural colleges, and the United States Department of Agriculture testified and presented supporting exhibits.

The railroads asked for a uniform increase of ten per cent on all fares, rates, and service charges including those on milk and cream and excepting coal, coke, and iron ore on which specific increases per gross or net ton were requested. Rates on coal in Western Territory, e.g., Missouri to Minnesota on which existing rates are over $1.00 per net ton, would be increased by ten cents. Some service charges, such as those for loading and unloading livestock, would remain unchanged.

* On the staff of the School of Business Administration.

Opposition to Increases

Dr. Frederick Waugh of the United States Department of Agriculture stressed the importance to the nation of an adequate food supply at reasonable prices and opposed the proposed increases on the grounds that they were inflationary and unjustified. Other agricultural representatives expressed similar views. Western fruit, vegetable, grain, and livestock shippers were opposed to the uniform percentage increase chiefly on account of the long distances which separate producers from large consuming markets and insisted that an increase in rates on agricultural products, if granted, should be a flat increase of a few cents per hundred pounds. Mr. A. F. Cleveland, Vice President, Association of American Railroads, indicated that this organization had appointed a committee of twenty-one railroad chief traffic officers with power to consider problems arising from the freight rate increase and to make any changes or exemptions from the increase that can be justified by evidence presented by the Secretary of Agriculture or other parties.

The Interstate Commerce Commission subsequently granted a uniform increase of ten per cent in passenger fares which became effective February 10. Freight rate increases of three per cent on agricultural products, three to six cents a ton on coal and coke, and six per cent on all other traffic were allowed by the Commission on March 2, effective on ten days' notice but not later than May 15, for the duration of the war and six months thereafter. The Commission took into account the present high level of traffic in allowing increases less than those requested.

New Rate Investigations

The second case, *Class Rates Investigation,* I. C. C. Docket No. 28300, formal hearings on which began at St. Louis in July, 1941, is one of four investigations initiated by the Interstate Commerce Commission on its own motion to determine the appropriateness to present economic conditions of all class rates and underlying freight classifications between all points lying generally east of the Rocky Mountains and whether any of these class rates may be unlawful under present provisions of the Interstate Commerce Act. Commodity rates, such as those on grain, coal, and other basic articles, are not involved. This case is generally regarded as the most important since the Western Trunk Line and Eastern Class Rate decisions of 1930 because of implications in connection with intra- and interterritorial class rates and possible effects in Minnesota and Western Trunk Line Territory. Hearings in this case will be resumed shortly.

Minnesota Farm Prices For February, 1942

Prepared by W. C. WAITE and H. W. HALVORSON

The index number of Minnesota farm prices for the month of February, 1942, was 110. When the average of farm prices of the three Februarys, 1924-25-26, is represented by 100, the indexes for February of each year from 1924 to date are as follows:

1924— 88	1929—106	1934— 54	1939— 70
1925—100	1930—102	1935— 86	1940— 69*
1926—115	1931— 69	1936— 87	1941— 76*
1927—113	1932— 46	1937—101	1942—110*
1928—101	1933— 36	1938— 77	

* Preliminary.

The price index of 110 for the past month is the net result of increases and decreases in the prices of farm products in February, 1942, over the average of February, 1924-25-26, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, February 15, 1942, with Comparisons*

	Feb. 15 1942	Jan. 15 1942	Feb. 15 1941		Feb. 15 1942	Jan. 15 1942	Feb. 15 1941
Wheat	$1.04	$1.06	$0.69	Cattle	$9.70	$9.40	$8.00
Corn	.65	.63	.43	Calves	11.70	11.70	10.20
Oats	.46	.46	.27	Lambs-Sheep	10.17	10.17	8.65
Barley	.68	.67	.38	Chickens	.14	.14	.11
Rye	.65	.65	.37	Eggs	.25	.29	.14
Flax	2.09	1.97	1.53	Butterfat	.39	.39	.33
Potatoes	.85	.75	.42	Hay	6.00	6.13	5.61
Hogs	11.80	10.50	7.10	Milk	2.10	2.15	1.55
				Wool†	.37	.38	.29

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

† Not included in the price index number.

During February, prices received by Minnesota farmers rose by about 5 per cent. Wheat, milk, eggs, and hay were the only Minnesota products included in the index which declined in price, and of these only hay by more than the usual seasonal decline.

The relative increases in grain prices have brought about recent declines in the egg-grain and butterfat-farm-grain ratios. This, of course, means an increase in costs for egg and butterfat producers. The hog-corn and beef-corn ratios remain at levels favorable for increased production of hogs and beef cattle.

Indexes and Ratios of Minnesota Agriculture*

	Feb. 1942	Jan. 1942	Feb. 1941	Average Feb. 1924-26
U.S. farm price index	102.1	104.9	72.5	100
Minnesota farm price index	110.3	105.0	76.1	100
U.S. purchasing power of farm products	108.4	108.5	92.0	100
Minn. purchasing power of farm products	117.1	108.5	96.5	100
Minn. farmers share of consumers food dollar	....	54.6	44.3	53.3
U.S. hog-corn ratio	15.2	14.5	12.8	11.4
Minnesota hog-corn ratio	18.2	16.7	16.5	13.7
Minnesota beef-corn ratio	14.9	14.9	18.6	8.4
Minnesota egg-grain ratio	17.2	19.7	14.8	18.3
Minnesota butterfat-farm-grain ratio	28.6	28.9	40.7	36.4

* Explanation of the computation of these data may be had upon request.

Annual Livestock Industry

During 1941 sharp increases occurred in the number of livestock on farms in the United States according to the January 1, 1942 Livestock Inventory of the United States Department of Agriculture. On a grain-consuming animal-basis the total number of livestock on farms was 6 per cent larger than a year earlier. Horses and mules on farms continued their decline with all other categories of livestock increasing in number. The number of meat animals on farms was the largest on record.

The following table gives the percentage increases for specific classes of livestock on farms over that of January 1, 1941 for the North Central region and the United States.

Table 1. Percentage Increase in Various Classes of Livestock on Farms Between January 1, 1941 and January 1, 1942*

	North Central	United States
All cattle and calves	4.2	4.4
Cows and heifers	3.3	3.2
Beef cattle	4.7	5.0
Sheep and lambs	3.5	3.1
Hogs, including pigs	15.8	11.6

* Preliminary.

The North Central region contributed about nine tenths of the total United States increase in hog numbers on farms, about nine tenths of the total increase in sheep and lambs, and slightly less than one half of the total increase in all cattle and calves.

Relatively favorable prices and favorable supplies of feeds can account for a substantial part of the increase in livestock numbers on farms in the past year. In the case of cattle other than milk cows the increase was in large part a continuation of the upward movement of the cattle cycle which began in 1939, while in the case of milk cows the increase appears to be a continuation of their slow upward movement. A part of the increase in hog numbers must be attributed to governmental encouragement for expanded production.

All classes of livestock, except horses, increased in value per head during the year raising the total inventory value by 31 per cent above January 1, 1941.

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