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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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NO. 242

UNIVERSITY FARM, ST. PAUL

FEBRUARY 20, 1943

Rationing of Agricultural Products

WARREN C. WAITE

AGRICULTURAL production last year was in total the largest on record. The goals for 1943 announced by the Secretary of Agriculture call for a still larger output of many agricultural products than last year. In spite of large production there are currently reported shortages of particular products such as butter, meats, and canned goods in many parts of the country.

Moreover, statements have been made by government officials that extensive rationing of food products will be necessary during the coming year. Therefore, the principal reason for rationing must arise from the greatly increased demand for agricultural products rather than from physical shortages of supplies as compared with earlier years.

The increased demand for agricultural products comes chiefly from the larger money incomes of the civilian population. More people are working and at higher wages than ever before. Added to this are the demands for food for our own armed forces and for our allies under lend-lease arrangements. The quantities utilized by the latter two categories vary considerably in their relative importance by commodities. Adequate data are unavailable but it appears that roughly one fifth of our dairy production and one third of our meat and lard will be taken for these purposes during the coming year. The amounts disposed of under lend-lease are, of course, net decreases in the supplies available for consumption by civilians in this country. The total military requirements are not to be thought of as a net decrease by their entire amount since they are used by persons who are a part of our civilian population in times of peace. The rations supplied the military forces are considerably above the per capita averages of the country as a whole, but the members of the armed forces are drawn from the group that includes those consuming at higher than average rates. Consumption of this group is above its average rate in civilian life but certainly not by the excess of the military ration above the average per capita civilian rate.

The largest increase in demand thus results from enlarged incomes of the civilian population which remain, after taxes and loans to the government, for the purchase

University Farm Radio Programs

HOMEMAKERS' HOUR—10:45 a.m.

UNIVERSITY FARM HOUR—12:30 p.m.

THE FRIENDLY ROAD—1:00 p.m.

Station WLB—770 on the dial

of goods. The income to be received in the United States in 1943 has been estimated at 135 billion dollars. The spendable income will be reduced to 90 billion dollars by the payment of 30 billion dollars in taxes, and by loans to the government by consumers of 15 billion dollars. If the goods which are expected to be produced during the current year are priced at their

present prices they would sell for 70 billion dollars. There is thus an excess of 20 billion dollars of purchasing power in the hands of consumers after they have bought all the goods available at present prices. This excess purchasing power exerts a strong influence toward a rise in prices.

Under the ordinary operation of the price system, as in say 1938 or 1939, these spendable funds would result in an increase in prices. The prices of particular commodities would rise, depending upon the quantities available and the demand for them, until the goods passed into the hands of those who were willing to pay these higher prices. There would thus be an automatic rationing or distribution of goods by the price system. Many goods would become very high in price and consumers would complain bitterly over the higher prices. There would, however, be little talk of shortages since goods would be available in the market for those who were willing and able to pay the higher prices.

To control inflation, ceiling prices have been placed upon the majority of commodities. The result is that consumers have more spending means than needed to buy all the goods in the market. This results in a depletion of stocks so that consumers with funds in their pockets and still willing to buy commodities at the prevailing prices are unable to find goods to buy. Some system of allocating supplies, therefore, becomes necessary in order to prevent a haphazard distribution of goods.

The rationing of commodities may proceed either upon the basis of a formal plan worked out by the government or informally by the dealers in the commodity. Until shortages of considerable magnitude develop the latter is likely to be used. In the informal system the dealer is left free to divide the product which he has for sale among his customers in any manner which he sees fit. This is the

practice followed at present in the case of meats, where the packers limit supplies to the retailer and the retailer in turn limits the purchases of at least some of his customers. The retailer has several alternatives in this allocation. Some merchants sell as customers come to them until their supplies are exhausted, others limit the amounts which each customer may take at a level expected to provide at least some quantities for each customer, while others sell only to selected customers. All of these practices involve difficulties for the merchant and these difficulties increase as supplies become smaller relative to the demand for them. As a result, dealers are likely to favor formal rationing whenever considerable shortages occur.

The government has a number of alternatives in developing a rationing plan. The most generally considered are the individual rationing of the commodity and the rationing of a group of related commodities under a point system. There has also been discussion of a system of general expenditure rationing. Thus far we have rationed commodities individually. For example, in the case of sugar and coffee each person or persons above a specified age is entitled to purchase a given quantity of the product upon presentation of his ration tickets. This works fairly well where per capita consumption is similar in different parts of the country and does not differ greatly among income groups. Where there are great differences in consumption or need some more elaborate system is needed. Where there is public recognition of the equity of the differences in requirements, it is not difficult to establish different rates for consumption. For example, there is little complaint because the fuel oil ration in the North exceeds that in the South.

As rationing is extended to additional commodities, administrative difficulties increase and the consumer is inconvenienced by a variety of ration books and rates, and by a growing restriction in his choice among commodities. Some commodities have important substitutes among other commodities, and when one is rationed demand shifts to the substitutes with resulting shortages and rationing required for the substitute commodities. Thus the rationing of fuel oil may lead to the rationing of coal and that of meats to the rationing of cheese.

Point rationing has been developed as a device for meeting this situation. Under this system a group of related commodities is rationed together. A limit is placed upon the total consumption of the group but the consumer is left free to choose among the group. This choice is modified by allowing the consumer a total number of points for the group as a whole and by placing a different number of points on a unit of each commodity within the group. For example, canned vegetables might be rationed as a group under a point system. Let us assume that the consumer was allotted four points for purchase during the specified period. A can of string beans, tomatoes, and corn might have a value of one point, and peas and asparagus two points. The consumer might select his purchases in any he wished so as to make up his four points. He might buy either four cans of corn, or two of peas, or two of corn and one of peas, making up any combination he wished as long as it did not exceed four points. Such

a system lessens the complexities of having somewhat arbitrary rates for each consumer regardless of his consumption habits and allows him some freedom of choice in the quantities of particular commodities which he purchases. The taking of commodities for which the demand most greatly exceeds the supplies at the established prices may be curtailed by increasing the number of points charged against them. The Office of Price Administration will issue a rationing book shortly which will provide for rationing on the point system.

General expenditure rationing has been discussed as a means of allowing the consumer maximum choice. Under such a plan a minimum expenditure would be set for each consumer, for which he would be provided by points or other evidence, permitting him this expenditure.

Expenditures above this minimum level would be permitted only by granting points at a greatly increased cost. There thus would be a graduated tax upon spending at a rapidly increasing rate. By establishing the tax rate high enough the total amount spent by the public on goods could be curtailed sufficiently to keep it within the value of goods available in the market at their prevailing prices. The price system would again operate to allocate purchases and the amount of specific rationing would be very small. As we have begun other ration plans, however, general expenditure rationing does not appear likely.

Governmental Action in the Wheat and Flour Markets

R. W. Cox

Domestic wheat production in 1942, which was the second largest in history, exceeded 980 million bushels. Up to January 9, the Commodity Credit Corporation had extended loans on 397 million bushels at an average farm price of \$1.14 per bushel, which represented a price of 85 per cent of parity. This loan value has more or less acted as a floor under wheat prices, because in most cases producers have hesitated to dispose of free milling wheat at less than the loan value.

During the first part of October the OPA established a ceiling on flour prices based on the maximum prices of flour prevailing during the week of September 28 to October 2. The ceiling prices were such that the highest average price which the millers could afford to pay for wheat would correspond closely to the price which they paid during the base week, or a price averaging about 76 per cent of parity. Although the millers had been obtaining some wheat at prices below the loan value, they recognized that the time would soon come when practically no wheat of milling quality would be available at these prices, and consequently they would be caught between a floor on wheat prices and a ceiling on flour prices.

The OPA set ceiling prices on flour as a part of its program of stabilizing the cost of living. A simpler way of achieving this end in the case of wheat would have been to lower the loan values for 1942 wheat established by the CCC. This, however, was impossible because Congress

had already established loan rates at 85 per cent of parity.

The CCC, realizing the difficulties confronting the millers, arranged to make wheat available to flour millers at prices approximating the levels which prevailed during the base period. This was more or less a subsidy program and was to be accomplished by the release of loan wheat back to the farmer at a price which would permit him to sell the released wheat in the open market. This indirect method of subsidizing was necessary because the CCC was prevented by law from selling any wheat for milling purposes at prices less than 100 per cent of parity. At the same time the CCC arranged to exchange with the millers comparable quantities from its own stock for those held by millers but which were not of desired milling quality. Neither of these plans proved to be very successful and it was not until the OPA revised the price ceilings on flour that the situation of the millers improved.

The revision of ceilings on flour prices involved an increase from 40-75 cents per barrel or an adjustment upward of about 10 per cent. The new ceilings reflected an average farm price of wheat of 89 per cent of parity, which together with conservation and parity payments would represent a return to the producer the equivalent of at least 100 per cent of parity.

With a market price somewhat above the loan value farmers were afforded an opportunity to market all of their resealed 1941 farm-stored wheat at a substantial profit. In addition most producers would be able to dispose of wheat from the 1942 crop, both farm-stored and warehouse-stored, at prices in excess of the 1942 loan values, plus accrued carrying charges. The comparatively light sales at the terminal markets indicate that the response has not been extensive. The reason probably lies in the producers' anticipation that market prices may increase, notwithstanding our very large supplies.

The CCC recently announced that some of its stocks would be offered for sale at parity prices. As parity prices are considerably above present market prices, the action is of psychological rather than commercial significance. The real significance of the order is that of serving notice that wheat prices will not be allowed to go above parity.

The Farm Machinery Situation In Southern Minnesota

G. E. TOBEN

Only one third of a group of southern Minnesota farmers who were interviewed recently indicated that they could maintain production during the next two years with their present supply of machinery and equipment. The 370 farmers supplying information are members of the Farm Management Services in southern Minnesota.

The farmers' estimate of the cost of needed machinery and equipment including tractors averages \$372 for each of the 370 farms. Of this amount \$204 is for the replacement of items that will wear out in 1943 and 1944 even though the usual amount of repairs are available. The other \$168 is for machinery and equipment not now owned

but needed because of the reduced number of laborers. No provision is made in these estimates for unexpected demands resulting from accident or other damage. Of the \$372 cost, \$117 is for corn machinery, \$61 for tractor, \$61 for small grain machinery, and \$60 for hay machinery. The other 20 per cent of the cost is distributed in smaller amounts to the other classes of machines.

Some of the 423 items of machinery or pieces of equipment needed for replacement or to offset labor shortage are listed in order of the number indicated as needed:

43 corn pickers	13 feed grinders
28 hay mowers	11 spike tooth harrows
25 manure spreaders	10 combines
25 corn planters	10 portable poultry houses
22 hay loaders	8 tractor plows
21 grain drills	8 hay loaders
20 portable hog houses	7 field cultivators
18 grain binders	7 grain elevators
18 side delivery rakes	6 spring tooth harrows
16 tractors	6 wagons
14 tractor disks	6 buckers
13 hay stackers	6 balers
13 milking machines	5 corn binders

All other machines are mentioned by less than five farmers.

The average cost of needed machinery and equipment other than tractors in the southeastern area of the state is \$288 per farm and in the southwestern area it is \$330. This difference between the two areas is primarily due to difference in size of farm. The average cost of the tractor in the respective areas is \$75 and \$49.

The \$288 worth of machinery and equipment other than tractors needed during the next two years in the southeastern area is about \$144 per year. This is about the same as the annual depreciation during the 10 years 1932-1941 (table 1). However, the annual needs are more than the amount spent for new items during the low income period of 1932-34 but less than the amount spent in the last three years, 1939-1941. This difference in expenditure is to be expected because the farmers were depleting their inventory to the extent of \$29 per year during the period 1932-34. As farm income increased in 1935 and later years, these farmers began increasing their machinery and equipment inventory.

Table 1. The Amount Spent Per Year for Repairs and New Machinery and Equipment Other Than Tractors in Southeastern Minnesota, 1932-1941

	1932-34 average	1939-41 average	1932-41 average
Cost of repairs	\$ 52	\$ 74	\$ 65
New items purchased	\$100	\$342	\$247
Depreciation during the year	129	167	146
Increase in inventory	\$-29	\$175	\$101

During the period of low income, farmers managed to get along with their supply of machinery, but they did so at the expense of their inventory and with an adequate labor supply. The present labor supply is less than that available during the period 1932-1934; therefore, the demands for the use of machinery will be greater. However, if sufficient machinery is not available during the present war emergency, farmers again may have to deplete the present supply faster than it is replaced. If this is done, farmers should create a reserve in war bonds or other securities for new machinery when it is again available.

Minnesota Farm Prices For January, 1943

Prepared by R. W. Cox and H. G. HIRSCH

The index number of Minnesota farm prices for January, 1943, is 162. This index expresses the average of the increases and decreases in farm product prices in January, 1943, over the average of January, 1935-39, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, January, 1943, with Comparisons*

	Jan. 15, 1943	Dec. 15, 1942	Jan. 15, 1942		Jan. 15, 1943	Dec. 15, 1942	Jan. 15, 1942
Wheat	\$ 1.17	\$ 1.10	\$ 1.06	Hogs	\$14.00	\$13.20	\$10.50
Corn .....	.76	.69	.63	Cattle	11.70	11.50	9.40
Oats .....	.48	.42	.46	Calves	13.50	12.80	11.70
Barley .....	.67	.60	.67	Lambs-Sheep	12.72	12.29	10.17
Rye .....	.59	.51	.65	Chickens .....	.18	.17	.14
Flax	2.51	2.37	1.97	Eggs .....	.34	.34	.29
Potatoes .....	.95	.90	.75	Butterfat .....	.52	.51	.39
Hay	6.80	6.00	5.50	Milk	2.45	2.45	2.15
				Wool† .....	.39	.39	.38

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

† Not included in the price index number.

Prices of most important commodities have risen during the past month. Fluid milk and wool prices have remained at their December, 1942 level. No price declines occurred. In general, this seasonal movement of prices follows the pattern of the average of the years 1935-39. However, the increase in most livestock and livestock product prices is more pronounced than it was in the base period. The livestock price index of 178 is about as high as it was in January, 1919. The average amount of hogs marketed in Minnesota in the five months of January, 1935-39, and priced at the January, 1943 price, has a value almost as high as that of all species of livestock marketed in the base period at base prices. All Minnesota feed ratios are narrower than in the previous months, which is in line with their movement in the base period.

Indexes and Ratios for Minnesota Agriculture*

	Jan. 15, 1943	Jan. 15, 1942	Jan. 15, 1941	Average Jan. 1935-39
U. S. farm price index	167.6	137.2	95.8	100
Minnesota farm price index	162.3	128.3	98.1	100
Minn. crop price index	122.1	108.0	71.6	100
Minn. livestock price index	178.3	138.7	106.0	100
Minn. livestock product price index	155.5	121.7	97.5	100
U. S. purchasing power of farm products	130.3	116.9	97.0	100
Minn. purchasing power of farm products	126.2	109.3	99.2	100
Minn. farmers' share of consumers' food dollar	60.4	54.5	46.9	48.4
U. S. hog-corn ratio	16.0	14.5	13.0	12.7
Minnesota hog-corn ratio	18.4	16.7	15.9	14.9
Minnesota beef-corn ratio	15.4	14.9	17.4	11.7
Minnesota egg-grain ratio	21.1	19.7	15.4	15.0
Minnesota butterfat-farm-grain ratio	36.2	28.9	40.2	33.9

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

The Flax Situation

Farmers in the flax-growing states have been requested to plant 5 million acres of flax in 1943. This goal is more than twice the average acreage in 1937-41 and exceeds the 1942 goal by 500,000 acres. If this goal is realized and we obtain the same yield per acre as in 1942 which was 9.6 bushels, the production will exceed the 1942 output of 42.5 million bushels by 10 per cent. If only normal yields prevail, our production in 1943 will be less than 35 million bushels.

To implement the 1943 production program the U. S. D. A. has set a support price of \$2.70 per bushel at Minneapolis. The current market price is above the support level, having advanced from \$2.43 in November to \$2.74 during the last half of January. The price of flax seed is more or less a reflection of the price of linseed oil and to some extent the price of linseed oil meal. Although linseed oil is exempt from ceiling prices, ceilings have been applied to paints, varnishes, and other products of the drying industries. As long as these ceilings prevail it is doubtful if the prices of linseed oil and therefore the price of flax will show any large increase in the near future.

Linseed oil is being used extensively in the war industries. Not only do these industries require an increased amount of paint, but also every piece of armament and munitions is given a protective coating of linseed oil or compounds containing this oil. In addition, the lend-lease program demands large quotas of linseed oil not only for supplying our allies with oil for armaments and munitions but also for augmenting their fat and oil food supplies. The people of Russia use large quantities of linseed oil just as we use cottonseed and soybean oils either directly as cooking oils or in the manufacture of certain edible food products. In order to permit the accumulation of a strategic supply of linseed oil, the War Production Board has limited the amounts of this oil which the manufacturers in the drying industries may use in each quarter of 1943.

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PAUL E. MILLER, Director

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UNIVERSITY FARM, ST. PAUL, MINNESOTA

Cooperative Extension Work in Agriculture and Home Economics, University of Minnesota, Agricultural Extension Division and United States Department of Agriculture Cooperating, Paul E. Miller, Director. Published in furtherance of Agricultural Extension Acts of May 8 and June 30, 1914.