# FARM BUSINESS NOTES

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# Significance of the Rising Federal Debt

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A growing number of people in all walks of life who ordinarily are not interested in problems of public finance are becoming deeply concerned with regard to the rapidly rising federal debt. During the decade of the 1930's the federal debt rose steadily from a post World War I low of $16 billion in 1930 to $43 billion in 1940 and caused many to forecast that the limit to further expansion of the debt was near. Since then the debt has more than quadrupled and estimates are that it may reach $258 billion by June 30, 1945.



Increasing debt means heavier demands on the budget for interest payments and continued high taxes for this purpose. For instance, in the present fiscal year the interest payments, although averaging less than 2 per cent, are estimated at $2,650 million. A debt of $258 billion at similar rates would require annual payments of $5 billion for interest alone. This compares with $659 million in 1930. Beyond these costs, the war will leave other heavy obligations in the way of pensions and other payments to veterans. With these and the large regular governmental expenditures in prospect, the public has cause for concern as to how the federal debt may be managed.

The average citizen holds the notion that the public debt should be handled like a personal or business debt such as a mortgage on the farm, or bills owed the doctor and grocer. It is believed that the debt cannot continue to increase and must be paid off or reduced if the burden is not to get out of hand. To the public the rising debt suggests possibilities of national bankruptcy, repudiation, and uncontrolled inflation. The history of a number of nations, particularly postwar France, provides some basis for these fears. However, there is also some error in this general viewpoint. Public debts differ from private debts in that they need not be paid off completely in view of the continued life of the government. Furthermore, a debt which is not reduced or which continues to grow need not be dangerous if it does not increase at a more rapid rate than national income.

A contrasting viewpoint which has gained considerable acceptance recently is that the dangers of a rising government debt are greatly exaggerated. This viewpoint holds that we need not be concerned about the size of the public debt as long as it is held internally because "we owe it to ourselves." This contention is not without merit. Collectively speaking the money obtained from the people in taxes flows back to the people in interest on the bonds they hold. The money, so to speak, is taken out of one pocket and put into another.

The error in the idea that the debt is not a burden because "we owe it to ourselves" lies in the fact that the people who pay the taxes do not as a rule receive a corresponding amount in interest from the government. Some receive much more in interest than they pay in taxes; others receive much less. The process involves a considerable redistribution of wealth. The taxpayers who are called on to pay increasing amounts to provide the interest collected by the bondholders are in time bound to object. Political pressures will be directed against further increases in taxes which may unbalance the budget, therefore requiring further resort to borrowing.

Some have argued that, if taxes were levied on the holders of government bonds in such a way as to absorb a considerable proportion of the interest received, the difficulties of redistribution of wealth mentioned above could be reduced. Such an arrangement would increase the government's difficulty in selling bonds. It would require higher rates of interest to make the bonds attractive and the debt burden would be increased in consequence. It is doubtful if the debt burden can be relieved by such a manipulation of the tax structure.

Another aspect of the thinking of those who hold that we need not have any fears concerning the debt is that the government may with safety continue its borrowing provided that the national income is maintained at a high level. With this we can agree. It is true that a farmer may successfully carry a large mortgage debt when his income is $5,000 a year, but may run into trouble when his income is only half that amount. To maintain the national income on a high level it is proposed that chief reliance be placed on government borrowing and spending and that any business decline be countered in this way. A review of our deficit financing experiences in the 1930's suggests that continuous resort to the remedy is likely to occur, and the intervals of debt reduction are likely to be brief indeed. Owing to political considerations, a deficit financing policy may easily deteriorate into a process of continually increasing the government debt and gradual inflation to maintain income and employment.

It is frequently asserted that a large debt accompanied by heavy interest charges and taxes is likely to have a seriously deterrent effect on production and investment. It is reasoned that the mounting debt creates fears among business men as to future taxes and income which tend to discourage incentive and investment of the kind which create employment and new opportunities for many individuals. While this danger is real, it is manageable if an appropriate tax policy designed to encourage investment in new ventures is adopted.

It is also to be noted that a large proportion of the federal debt is being financed by the commercial banks, giving rise to an inflationary expansion of credit. During the war this source of inflation has been held in check by large sales of bonds to individuals and to nonbanking institutions. The sale of bonds to individuals and business concerns other than banks is a deterrent to inflation in so far as current incomes are diverted from the purchase of the limited supply of civilian goods. When the war is over, it is probable that many bonds will be redeemed by business firms seeking funds for conversion and expansion and also by individuals seeking goods not available during the war. In this event the banks may be asked to buy even larger amounts of bonds which will add to postwar inflation dangers. To control these inflationary forces will require a continuation of some degree of government control of price and credit policies for some time after the war.

It should be clear that not all borrowing on the part of the government is harmful. Borrowing which is held well within income possibilities and which is for necessary public purposes is warranted. In times of *serious* depression some deficit financing may be necessary to provide for those in distress and to provide time for readjustments. It is also to be recognized that a considerable growth of the debt as a result of the war was unavoidable. However, the increase could have been held within more reasonable limits by a more realistic tax policy. In fact many of those who have professed the greatest fears concerning the growth of the public debt at the same time have opposed the higher taxes which are needed to hold the debt in check. This inconsistency rests on the fallacious belief that we may become prosperous through war.

The dangers inherent in our large and rapidly rising federal debt should not be minimized. The danger which the layman sees in the situation is that the interest and principal on his bonds may not be repaid. There should be no cause for concern on that account because the government may readily obtain the money to make the payments. Others share the unwarranted fear, probably carried over from bond experiences after World War I, that the bonds may somehow be repaid at a discount. The series E, F, and G bonds held by most individuals are designed to eliminate this danger and are redeemable at the holder's option at the purchase price and the accumulated interest any time after a brief holding period. The more potent danger is that owing to fiscal mismanagement further increases in the debt may create inflationary conditions which may drastically reduce the purchasing power of the bonds. In fact there are those who argue that the way to pay off the debts accumulated during the war is to allow a considerable degree of inflation to occur. This would enable the government to collect a much larger volume of taxes; but government costs would also rise. The proposed remedy involves many dangers and many inequities between economic groups and consequently should be avoided.

The large federal debt can be successfully managed but it will require the adoption of sound fiscal and credit policies, including a balanced budget, as soon as the more urgent needs of the war are met. Easy and expansionary financing of the debt through the commercial or Federal Reserve banks must be avoided in favor of larger purchases of bonds by the general public. More adequate taxes must be adopted and these must be maintained at high rates as long as wartime and postwar incomes remain relatively high. Strict economy on the part of the government must be effected. This will require forbearance by all groups urging the adoption of policies which drive prices and costs up and which involve serious drains on the federal treasury. It should be recognized by all that there is no easy and costless way of paying for the war. In fact the real costs of war cannot be postponed by borrowing. We shall be vastly better off in the postwar period if increased war incomes are used to pay war costs rather than to force up the prices of limited supplies of goods.

# The Situation in Butter Rationing

WARREN C. WAITE

The administration of civilian butter supplies during the past year has proven difficult. It was necessary to curtail usual civilian consumption by about 20 per cent and the rationing controls were inadequate to distribute this uniformly over the country. Some areas curtailed their consumption a great deal, while others, particularly the producing territory, reduced consumption only slightly. Market reports from cities on the east and west coasts indicate that many stores were without butter for extended periods and that merchants in others were limiting customers to purchases of ½ and ¼ pound. The data in table 1 illustrate the situation.

The Chicago retail sales represent a nearly complete tabulation by the Bureau of Agricultural Economics of the sales in that city. The 42 Minnesota creameries are a

**Table 1. Butter Consumption and Sales in 1943 as a Proportion of 1942**

| | |
|---|---|
| U. S. per capita consumption, farm and creamery | 79.0 |
| Chicago retail sales | 71.5 |
| Local and patron sales of 42 Minnesota creameries | 93.7 |

small sample but are widely scattered and probably approximate the situation in the state as a whole.

It would appear that consumers in the producing area had sufficient points available for butter to enable them to maintain their consumption relatively closer to the old level than was possible for consumers generally throughout the United States. If consumers are willing to take more of a product at the point value set upon it than there are supplies available, those closer to the source of supplies tend to get the product and shortages appear in other areas. This seems to have been the situation in butter. The usual corrective measure is to raise the point value of the product. Butter was set at 8 points at the beginning of rationing, raised to 10 points on August 1, to 12 points on September 5, and to 16 points on October 3.

The poor geographical distribution was not, however, corrected by the increase in ration points. This may have been in part due to smaller civilian supplies as the year progressed and to increased points available for butter due to the lessening of the pressure of red point rationing from the decreased point values on meat. In table 2 an estimate has been made of the creamery butter available for civilian consumption after deducting the amounts required to be set aside for purchase by government agencies. Boston and Philadelphia receipts and Chicago retail sales are shown as a proportion of these estimated civilian supplies. Market receipts are not entirely representative of consumption but in the case of Boston and Philadelphia are reasonably close. Civilian supplies appear to have declined as the year progressed. The proportion of these supplies reaching Boston and Philadelphia and purchased by Chicago consumers also declined indicating the increased difficulties which these areas faced in drawing supplies to their markets. The increase in civilian supplies since the first of the year has greatly improved the geographical distribution of butter.

**Table 2. Boston and Philadelphia Receipts and Chicago Retail Sales of Butter as a Proportion of Civilian Butter Supplies, 1943**

| | January to March | April to June | July to September | October to December |
|---|---|---|---|---|
| Civilian supplies (Mill. lbs.) | 314,192 | 325,638 | 314,325 | 298,260 |
| Boston receipts (per cent of civilian supplies) | 4.30 | 5.72 | 4.87 | 3.85 |
| Philadelphia receipts (per cent of civilian supplies) | 5.37 | 5.43 | 4.41 | 4.05 |
| Chicago retail sales (per cent of civilian supplies) | 3.69 | 2.84 | 2.62 | 2.86 |

# Save Time by Simplifying Work

S. A. Engene

Meeting war food demands at a time of farm help shortage puts a premium on increased production per worker. Ways of attaining this without longer work days, increased speed of working, or impairing the quality of the work done are particularly important.

A study of chore work on a representative farm in south central Minnesota showed that the farmer spent one hour and traveled a mile and a half a day in feeding hay, silage, and grain to 19 cows and 25 head of young stock. A systematic analysis of this job is revealing many methods for reducing both time and travel without lowering the quality of the job. All farmers can study their own farming operations in the same manner.

The first step in the analysis of a job is to outline in detail the different operations involved. For example, the operations involved in feeding grain to the cows on this farm were:

Go to granary with basket.
Fill basket with shovel.
Go to barn, to cow No. 1, with full basket.
Feed cows, carrying basket in one hand and using grain scoop with other.
Go to feed alley in front of cow No. 1 with basket.
Set basket down, fill pail with concentrate.
Feed concentrate to cows.
Return to manger in front of cow No. 1 with pail.

A careful study of each operation in the job may reveal many opportunities for improvement. This study will be most valuable if a definite set of questions is asked about each operation. Past studies have demonstrated the following questions to be most effective:

1. *Can the operation be eliminated?* Carrying the grain to the barn could have been eliminated if it had been practical to put some of the grain in a bin in the barn at threshing time.

2. *Can a substitute method be found that will save time, effort, and cost?* A feed box on wheels would make it possible to move at one time enough grain to last for several feedings. On this farm this box could be moved down the feed alley, feeding directly out of the box.

3. *Can two or more jobs be combined to save travel?* Since all cows in this herd receive the same proportion of grain and concentrates the two could be mixed when grinding. Or if the proportions had varied, a small box for concentrates could have been fastened on the wheeled cart.

4. *Can the order in which the job is done be changed to save time or travel?* No benefit would be obtained by changing the order on this farm, but on many farms work is arranged in such an order that much time is lost in picking up and setting down equipment.

5. *Can tools and materials be located in more convenient places?* By setting the sack of concentrates in front of cow number 19, and feeding out of the basket instead of the pail, it would be possible to feed the concentrate on the way back from feeding grain.

6. *Can some special tools, machines, or carts be used to reduce the load on the man or save time?* Handy catches on doors, springs on doors, convenient scoops of the right size can save time and effort.

Such an analysis as this will make it possible to save time by making work simpler and easier. Output can be increased, and frequently the speed of work and length of day can be reduced.

# Minnesota Farm Prices for March, 1944

Prepared by W. C. WAITE and R. W. COX

The index number of Minnesota farm prices for March, 1944, is 168. This index expresses the average of the increases and decreases in farm product prices in March, 1944, over the average of March, 1935-39, weighted according to their relative importance.

**Average Farm Prices Used in Computing the Minnesota Farm Price Index, March, 1944, with Comparisons***

| | Mar. 15, 1944 | Feb. 15, 1944 | Mar. 15, 1943 | | Mar. 15, 1944 | Feb. 15, 1944 | Mar. 15, 1943 |
|---|---|---|---|---|---|---|---|
| Wheat | $ 1.49 | $ 1.48 | $ 1.25 | Hogs | $13.10 | $13.00 | $14.60 |
| Corn | 1.01 | 1.02 | .81 | Cattle | 11.90 | 11.70 | 12.80 |
| Oats | .72 | .72 | .54 | Calves | 12.90 | 12.90 | 13.90 |
| Barley | 1.10 | 1.09 | .74 | Lambs-Sheep | 12.70 | 12.55 | 13.77 |
| Rye | 1.09 | 1.10 | .67 | Chickens | .20 | .21 | .19 |
| Flax | 2.85 | 2.86 | 2.88 | Eggs | .29 | .29 | .33 |
| Potatoes | 1.15 | 1.20 | 1.35 | Butterfat | .54 | .54 | .53 |
| Hay | 9.60 | 9.60 | 7.90 | Milk | 2.65 | 2.70 | 2.60 |
| | | | | Wool† | .40 | .40 | .39 |

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

† Not included in the price index number.

The reported prices of products sold by Minnesota farmers have shown marked stability during the past two months. Among the crops, the price of potatoes was the only one which changed significantly from February to March. The prices of livestock changed but slightly and those of livestock products remained about the same. The returns actually realized from the sale of milk and butterfat were larger than the reported prices because the latter do not include the subsidy payments for these products. The Minnesota farm price index is about 5 points lower than in March, 1943. The index of crop prices increased about 6 per cent but the index of livestock prices declined 9 per cent.

The feed ratios are only slightly different from one month ago but are much below the respective ratios in March, 1943. If the subsidy payment of 8 cents per pound of butterfat is added to the reported price in March, the butterfat-farm-grain ratio would be raised to 28.8.

**Indexes and Ratios for Minnesota Agriculture***

| | Mar. 15, 1944 | Mar. 15, 1943 | Mar. 15, 1942 | Average 1935-39 |
|---|---|---|---|---|
| U. S. farm price index | 182.5 | 178.8 | 137.8 | 100 |
| Minnesota farm price index | 167.9 | 172.8 | 134.4 | 100 |
| Minn. crop price index | 174.8 | 164.3 | 123.3 | 100 |
| Minn. livestock price index | 164.3 | 179.5 | 147.3 | 100 |
| Minn. livestock product price index | 168.5 | 169.2 | 124.5 | 100 |
| U. S. purchasing power of farm products | 128.9 | 137.1 | 116.4 | 100 |
| Minn. purchasing power of farm products | 119.5 | 132.5 | 113.5 | 100 |
| Minn. farmers' share of consumers' food dollar | 62.2† | 62.3 | 56.0 | 48.3 |
| U. S. hog-corn ratio | 11.5 | 15.5 | 15.7 | 13.4 |
| Minnesota hog-corn ratio | 13.0 | 18.0 | 18.9 | 16.5 |
| Minnesota beef-corn ratio | 11.8 | 15.8 | 15.3 | 12.9 |
| Minnesota egg-grain ratio | 13.4 | 18.8 | 16.9 | 13.6 |
| Minnesota butterfat-farm-grain ratio | 25.1 | 33.3 | 28.1 | 32.4 |

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

† Figure for January, 1944.

# March Planting Intentions

The farmers' intentions to plant as reported in March to the Bureau of Agricultural Economics indicate a total crop area of 374 million acres which is below the goal of 380 million acres announced for the 1944 production programs. If the farmers carry out their intentions, however, they will have planted about 13 million more acres than last year.

The largest deviation from the goals appears in the intended oil crop planting. Flaxseed acreage is estimated at 4.4 million acres or a decrease of over 30 per cent from the 6.3 million acres of the previous year. Soybeans at 14.6 million acres are a little below the 14.7 million acres of 1943. The goals ask for a 7 per cent decrease in the harvested acreage of flax and a 26 per cent increase in harvested soybean acreage.

The feed grains, corn and oats, are to be expanded. Corn acreage at 99.6 million acres nearly reaches the goal of 100.3 million acres. Oat acreage is to be expanded by nearly 8 per cent, although the goals asked for a decrease of the same percentage. Barley acreage shows a sizeable decrease from 17.3 million acres to 15.1 million acres, although the goals call for no change in acreage.

Farmers intend to expand spring wheat acreage by about 16 per cent and durum wheat acreage by about 3 per cent. All spring wheat intended acreage is 19.8 million acres, of which 2.2 million acres is durum wheat and 17.6 million acres is of other spring wheat. The intended changes in wheat are especially large in Minnesota with indications of a 12 per cent increase in durum wheat and a 77 per cent increase in other spring wheat.

Weather conditions, seed and fertilizer supplies, and the availability of labor and machinery may change these intended acreages. Present conditions for planting are probably about normal for the United States as a whole. Recent rains and snows have improved conditions in some of the dryer sections of the country. Field work in the southern states has been delayed to some extent by wet fields.

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