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# THE FEDERAL RESERVE BANK OF CHICAGO

# AGRICULTURAL LETTER

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The controversy over the future level of Government farm price supports is fast becoming the number one topic in farm news. Last week Secretary of Agriculture Brannan, in speeches at conventions, said he would lend his aid to achieving stronger price supports, and that his reason was he did not believe the economy "has to" adjust downward from current high levels, and that if constriction does come, "we are not going to start it with the farmer ... if it doesn't start with the farmer it may not get started at all," that in his judgment stable farm prices and farm incomes will go a long way toward stabilizing the whole economy. He said that war and boom times started a spurt in agricultural production that cannot be reversed, and even more production is likely. Smaller farm output, he said, would prove too costly in view of the mechanization of agriculture. He expressed the belief that future production shifts necessitated by economic considerations will take us in the direction of better land management and soil conservation—the growing of more grass and legumes, the production of more livestock. As to parity, he said he regards it as more than an ideal of justice, that it is an economic imperative essential to the general welfare.

Senator Aiken (Rep. Vt.), co-author of the Agricultural Act of 1948, expressed an opposing view on the question of the level of price supports, that a continuation of the present high level of supports, generally at 90 per cent of parity, will alienate the American consuming public and cost farmers friends they need. He said the 90 per cent level is "cost plus" on basic commodities and that is not fair to guarantee cost plus to one segment of the economy and not to others. These levels will, if maintained, he said, retard the shifting of production to areas and situations where production costs are lowest. As danger signs of future consequences of continued high level supports, he cited wheat farmers as ignoring the Government's wheat goals, and the public's unfavorable reaction to the potato price support program.

At the American Farm Bureau Association's annual convention last week both Brannan and Aiken reiterated these points. New elements revealed in these speeches included the indication by the Secretary that he was thinking of using high price supports in a "positive" way to stimulate high production of the commodities needed most for better diets and nutrition, or of those commodities needed in greater quantities. To an economist a "positive" use of price supports for such purposes has little meaning unless there are wide differences in the levels of support for various commodities, and levels very different than the more or less accidental historical relationships that may have little or no relationship to either current and prospective consumptive demand or social "needs" as conceived by policy makers for agriculture.

Back of the Secretary's speech there were a pair of factors that seem to explain his latest position. One was a sense of urgency, or emergency, arising from the recent declines in farm prices and income and continued high production costs. The other was his explanation of the farm vote in the recent elections in which he said the farmers voted out of a fear of depression or unequal treatment. He cited the ban on CCC owning and leasing storage facilities as the reason for Corn Belt farmer feeling; the failure to ratify the International Wheat Agreement as antagonizing wheat farmers; dissatisfaction of farmers with the record of the 80th Congress on cooperatives, soil conservation, and rural electrification; and the demand by farmers generally for very specific assurances on future price supports.

(over)

Senator Aiken amplified his position at the Farm Bureau convention by spelling out the price support issues as a choice between the "rigid support road to regimentation or the flexible support road to free enterprise." He said the national economy may stand or fall on the outcome of the struggle over this issue. His warning to high level support advocates was that consumer reaction might again jeopardize any support program at all. Support levels as high as to induce overproduction of certain crops not only throw agriculture further out of balance, he said, but assure Federal controls over acreage, production and marketing, and punitive measures to enforce them.

A resolution was adopted by the Farm Bureau delegates referring the organization's position on the issue of the support levels to its board of directors for further study and action.

Price supports for dairy products were asked of Secretary Brannan this week by the National Cooperative Milk Producers Association. They asked that a study be conducted to work out a satisfactory method of computing a "comparable" parity for dairy product prices for support purposes. Also requested was the use of more foreign aid funds for the purchase of evaporated and dried milk and cheese.

World milk production is reported to have been higher in the third quarter of 1948 than during the same quarter last year, according to the Office of Foreign Agricultural Relations of USDA. Output of butter, cheese, and dried milk was down, but this was more than offset by the increased output of evaporated and condensed milk. U.S. butter output was down eight per cent, and cheese was off six per cent, while canned milk output was up 12 per cent.

The Canadian Supreme Court last week handed down a decision legalizing the manufacture and sale of margarine in Canada, previously banned. At this time the most likely effect will be to free more Canadian butter for sale to Great Britain, and to increase the demand for oil-bearing crops. Imports of margarine to this country are not feared now. There is a 22¢ tariff.

Preliminary estimates of cash farm income including Government payments for the U.S. for the fourth quarter of this year show the first drop in recent years. The rate is five per cent below fourth quarter of last year, but six per cent above 1946, and 39 per cent over 1945. If this quarterly estimate turns out to be right, it will mean a 1948 total of 31.1 billion dollars, the highest on record, two per cent over 1947, 22 per cent above 1946, and 40 per cent over 1945. But remember, this is U.S. farmers' gross cash income, not net income, which is expected to show a decline for this year.

World soybean production for 1948 will reach a new high level at 585 million bushels (it was 507 million last year). The U.S. crop of 220 million bushels resulted from a yield of 21.4 bushels per acre. Yields in Illinois, Iowa, and Indiana were 24.0, 23.0, and 21.5, respectively. China's crop this year is reported at 210.8 million bushels, largest since the middle 1930's.

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