

agencies. The prospective administrative advantages and disadvantages of various alternative rating schemes do not come within the scope of this article.

Finally, it must be noted that, if the reserve-ratio formulas are altered or abandoned, considerations of administrative convenience will be only one among many factors. It is possible that the existing clauses will be ineffective; that unjusti-

fiable penalties or bonuses to employers will arise; that the income of the pooled funds will be reduced; that the benefit formulas on which the merit-rating clauses are based will be revised; and that emphasis will be placed by employers upon reduction of benefit claims without a corresponding regularization of employment. All these possibilities indicate that a basic revision of the present rating schemes may be required.

## STATE DIFFERENTIALS IN PRICES PAID BY FARMERS FOR FAMILY LIVING

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Data on differentials in the costs of living of the various States have long been needed. As Federal-State programs have been developed, under the Social Security Act and other legislation, to cope with social and economic problems, the need has become more acute. In cooperation with other Federal agencies, the Social Security Board is exploring the possibilities of developing new data in this field.

Several Federal agencies collect data regularly on retail prices in the States and compute indexes of costs of living. The Bureau of Agricultural Economics publishes a periodic index<sup>1</sup> of prices paid by farmers for commodities used in family living, and the Bureau of Labor Statistics issues periodic indexes<sup>2</sup> showing retail prices in selected cities and changes in urban living costs. The Works Progress Administration published a study<sup>3</sup> for 1935 on urban differentials which supplemented the Bureau of Labor Statistics studies. No Federal agency, however, had published State differentials for either rural or urban populations, and the obvious difficulty of combining rural and urban data has impeded efforts to develop composite State indexes of costs of living.

At the suggestion of the Social Security Board, the Bureau of Agricultural Economics consented to process its unpublished data on prices of goods

purchased by farmers for living, provided that some technical assistance could be furnished by the Board. As a result an index was constructed showing State differences in such prices as of March 15, 1938, and has recently been published by that Bureau.<sup>4</sup>

In the compilation of the State indexes the same commodities and weights were used as in the Department of Agriculture's United States index of prices paid by farmers for commodities used in living. The value of this fixed market basket of consumer's goods, at United States average prices for March 15, 1938, was taken as 100. These commodities include 94 selected foods, clothing, household supplies, furniture and furnishings, fuels, automobiles, and other important commodities purchased for use in rural living. The State averages of commodity prices used in constructing the index were compiled from retail price data reported from more than half the counties of the United States; these data are obtained periodically from cooperating retailers throughout the United States as a part of the regular reporting service of the Bureau of Agricultural Economics. In devising the State indexes, the consumption weights for individual commodities and for commodity groups based on budgetary proportions were kept constant for all States.

The resulting index, therefore, reflects only actual differences in prices paid by farmers. The basic price data, however, do reflect existing differences in the quality of articles bought in various parts of the country, as each respondent was asked

\* Bureau of Research and Statistics, Division of Economic Studies. The study on which this article is based was made from published and unpublished data of the Bureau of Agricultural Economics, U. S. Department of Agriculture.

<sup>1</sup> U. S. Bureau of Agricultural Economics. *The Agricultural Situation, A Brief Summary of Economic Conditions.*

<sup>2</sup> U. S. Bureau of Labor Statistics. "Retail Prices," and "Cost of Living," *Monthly Labor Review.* (Series.)

<sup>3</sup> Works Progress Administration. *Inter-city Differences in Costs of Living in March 1936, 59 Cities.* Research Monograph XII, 1937.

<sup>4</sup> U. S. Bureau of Agricultural Economics. Press release, July 29, 1938.

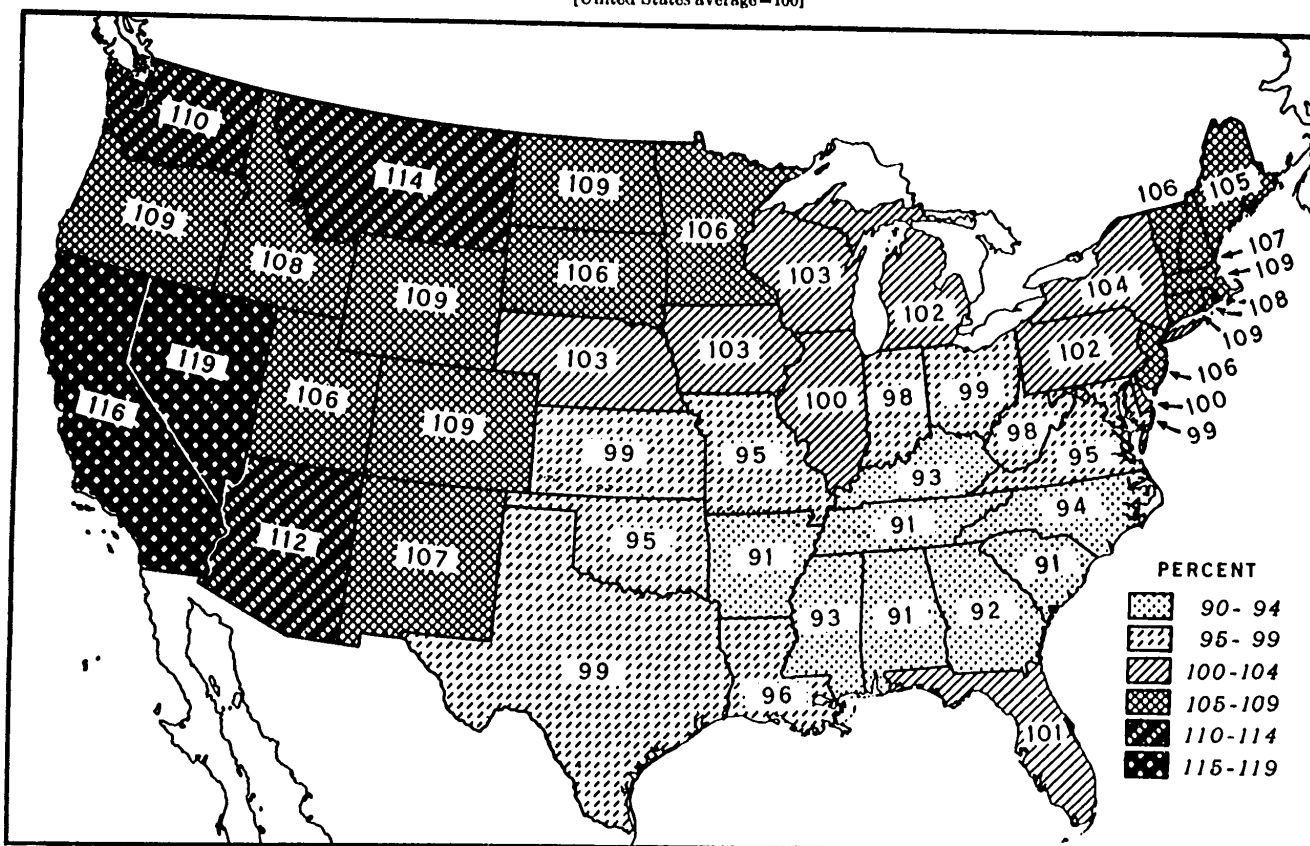
to report on the type of each commodity "usually sold" to farmers in his locality. Since farmers make many purchases in large towns and cities, prices in these centers are included in the averages. In computing the United States average price for each commodity, the ratio of State farm population to total farm population and other factors were used State by State as weights for the basic price data. The index of prices paid by farmers for articles used in living (1910-1914=100) is already widely known through its use, in combination with prices of production goods, by the Department of Agriculture in the analysis of the relationship of prices received by farmers for their products sold on local markets to the prices which farmers pay for commodities purchased.<sup>5</sup> As is true of the Bureau of Labor Statistics index also, changes in weights are pending at the time of writing, and new weights based on 1935 consumption studies are in the process of development.

<sup>5</sup> U. S. Bureau of Agricultural Economics. *Index Numbers of Prices Paid by Farmers for Commodities 1910-1935*. (Mimeographed) 1935.

The new index marks a small but important step in the problem of measuring variations among States in the costs of living. Actual differences in living costs are affected, of course, by variations in the quantities of the several articles purchased by consumers as well as by differences in price. The index, however, discloses price differences both by regions, as indicated in table 1, and by States, as shown in chart I. This chart indicates State differences as shown by broad groups and also as measured by the index number for each State.

Table 1 shows index numbers by regions. If these regions are grouped roughly into three geographic groups—the far West, the North, and the South—certain interesting relationships stand out. The highest prices were paid in the far West, that is, in Nevada, California, Montana, Arizona, and Washington. In other words, States which lie relatively long distances from main sources of supply pay, in general, high prices for many commodities. Prices nearest to the average

**Chart I.—Differentials in prices paid by farmers for family living, as of March 15, 1938**  
[United States average=100]



were paid mainly in the States in the region of the Great Lakes.

**Table 1.—Regional differences in prices paid by farmers for commodities used in living**

[United States average=100]

Region	Index	Region	Index
New England.....	107	East South Central.....	93
Middle Atlantic.....	103	West South Central.....	96
East North Central.....	100	Mountain.....	110
West North Central.....	102	Pacific.....	114
South Atlantic.....	94		

Source: Bureau of Agricultural Economics.

Higher prices were paid in the predominantly urban or industrial regions than in the predominantly rural South. The lowest prices were paid in the Old South—in Alabama, Arkansas, Georgia, Kentucky, Mississippi, South Carolina, and Ten-

nessee, in the order named. In using these differentials, one factor to be kept in mind is that "the difference in the average quality of many articles purchased \* \* \* is a reflection of variations in the customary mode of living. The Southeast is a region of low family income where the farmer must sacrifice grade and quality for a low per unit cost of his purchases."<sup>6</sup> It is hoped that a further analysis of available material, covering an entire year, may be made in order to determine whether or not the State differentials are affected by the seasonal factor. Research which aims at refinements in the techniques used is now in progress. It is felt, however, that the index should provide a useful tool in the development of measurements for further analyses of State economic differences.

<sup>6</sup> U. S. Bureau of Agricultural Economics. Press release, op. cit., p. 23.