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FARMERS
and the fight against
INFLATION

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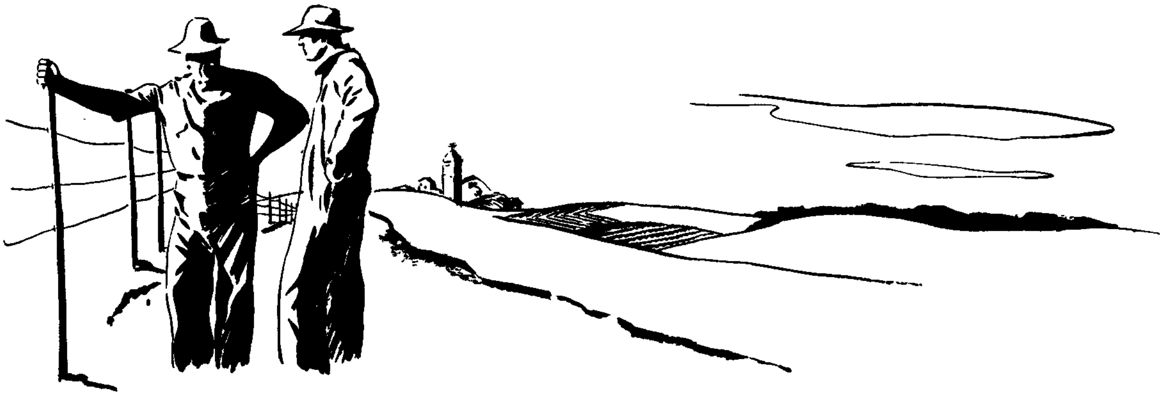
FARMERS AND THE FIGHT AGAINST INFLATION



I. THE PROBLEM

The American farmer has a high stake in the fight against rising prices and the crash which would be the certain consequence of an inflationary boom. Many farmers know from bitter experience that the kind of price collapse which occurred after the last war may mean not only temporary hardship but the loss of everything patiently built up through the years.

From their experience in both good times and bad, farmers also know that their long-range interests are closely linked with those of the rest of the population. Although they by no means shared to the extent they should have in the good times of the 'twenties, in general farm income has been relatively high when the Nation as a whole has prospered, and has plummetted when depression and unemployment struck the cities. Farmers have the same stake as every other important group in the population in the maintenance of the kind of stable-price structure which is most likely to perpetuate prosperity.

The farmer has a unique role in the fight to prevent a recurrence of the roller-coaster price movements which occurred during and after the last war. He is not only an individual consumer and worker, but the manager of an important business. His actions in this latter capacity significantly affect the Nation's struggle to hold prices stable.

Two things, in particular, will play a part in determining the outcome of that struggle: (1) the farmer's attitude toward the price of his own products; and (2) the way in which he manages his wartime income. What farm people do in these two important areas can either set the stage for another post-war price collapse or contribute to the long-term economic security of America's farm people and the Nation.

The remaining pages of this section describe the choices which confront the farmer with respect to prices and the disposition of his wartime income. Part II outlines an information program which, it is hoped, will help farmers to reach decisions that will serve their own long-range interests and the Nation's in the critical days ahead.

The Problem with Respect to Prices

It is generally agreed that there must be price adjustments from time to time *among* various farm products, as changes occur in the Nation's food and fiber requirements, in production costs, etc. However, a series of demands for excessive prices on one commodity after another might lead to a rise in the general price level which would sooner or later reverse itself into deflation and depression.

According to Bureau of Agricultural Economics figures, for 20 years, from 1921 through 1941, the prices of farm products were low in relation to other prices. Now, however, the situation is reversed. At all levels, from the farm to the final consumer, agricultural prices on the average are relatively high.

To the extent that higher farm prices have contributed to a better economic balance, corrected past injustices, and stimulated production, they are of course a healthy development. It is important to maintain the stability achieved by ceilings over, and support "floors" under, the prices of farm products. In wartime any marked rise in the general level of farm prices might only spell trouble. It can even be said that such advances would not necessarily increase the farmer's present purchasing power. Under war conditions the farmer may have enough money to pay the wages of additional farm workers, yet be unable to hire them simply because they are not available. Similarly, he may be unable to buy improved farm equipment or many of the things he wants for himself and his family.

Furthermore, in a war economy higher farm prices would set in motion a chain of events which would mean ultimate losses for the farmer and everyone else. The cost of food now represents more than 40 percent of the total cost of living. An increase in the cost of living inevitably leads to demands for higher wages on the part of city workers. Higher wages mean higher prices for most goods, including many of the things the farmer must buy for his everyday living and for the operation of his farm.

The farmer knows how detrimentally such a spiral-like advance in prices works out from his actual experience during the last war, when neither farm nor nonfarm prices, nor wages, were controlled. During that period the prices of farm products rose very rapidly—but nonf arm prices moved up sharply too; the farmer could buy very little more with his larger income. By the fall of 1920 farm prices were already relatively low in relation to nonfarm prices. By 1921, after the collapse of farm prices which began in the summer of 1920, the farmer was at a very sharp disadvantage.

In this war, prices of farm products have risen in about the same proportion as in the last war. But the increase in the prices of commodities bought by farmers has been held to one-third the amount of the increase that occurred between 1914 and 1920, the peak of World War I inflation. Thus in this war the farmer has had a real, not an illusory, gain in buying power. And farm prices have been brought into better balance with other prices.

Any further significant increase in farm prices would destroy the balance which has been achieved under the present stabilization program. It is extremely doubtful, moreover, if higher prices could be supported under peacetime conditions, with the vast areas now devastated by war returned to agricultural production and increased acreage put under cultivation in this country. A decline in prices would be the more likely prospect, and Government action might be necessary to avert a complete collapse. But an uncontrolled rise in prices now might antagonize the very groups who, under other circumstances, would support such a program, for example, the millions of people living on low and relatively fixed incomes. Although these people have often made common cause with the farmer in the past, they would unquestionably change their attitude if what they regarded as profiteering made it difficult for them to support their families. Broad social and economic considerations alike suggest that the farmer might jeopardize his own long-term welfare and the Nation's by pressing for still further price increases during wartime.

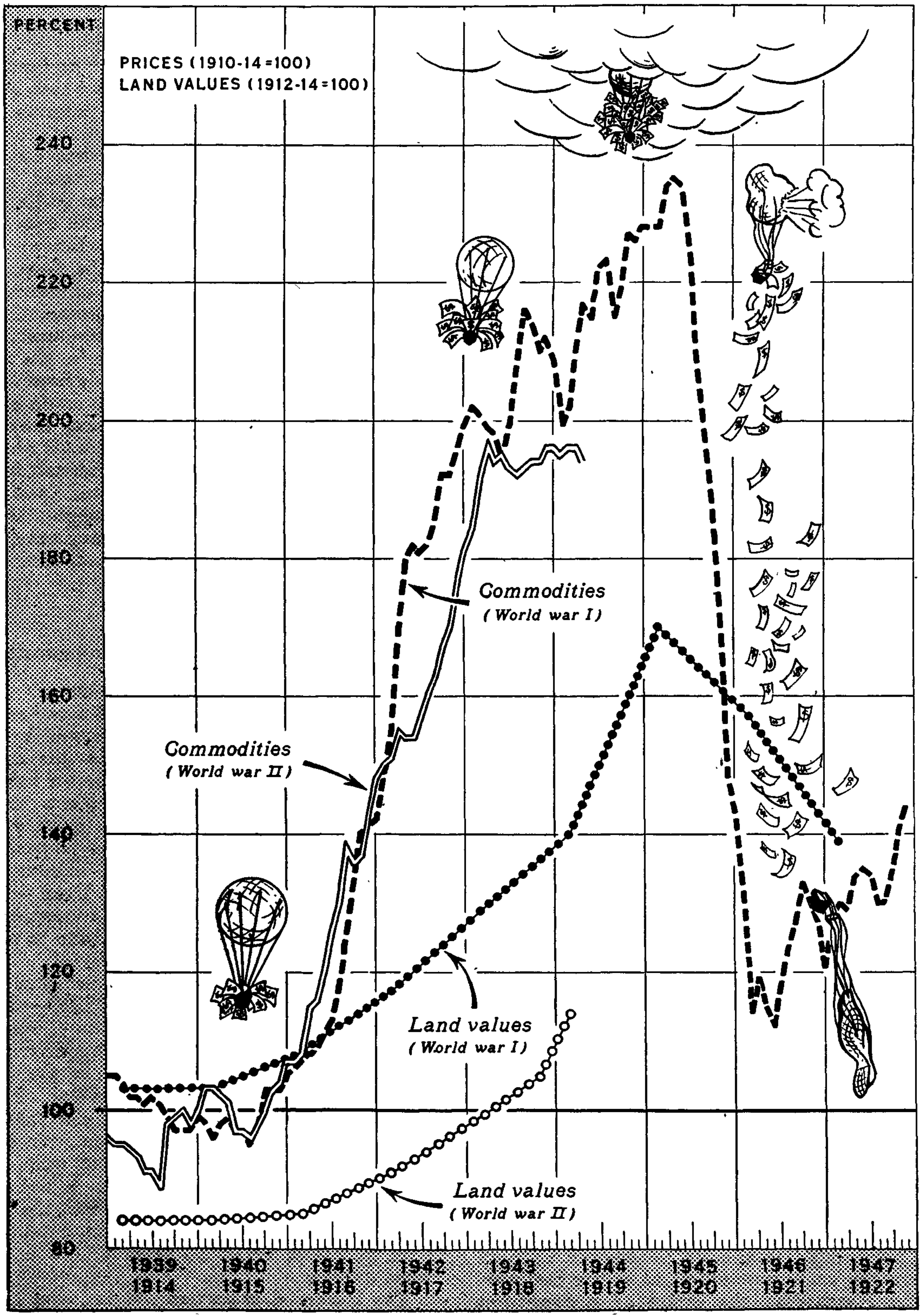
The Problem with Respect to Income Management

How farmers use their wartime income will also help determine whether we shall have economic stability or a dizzy inflation followed by a collapse. The farmer's present economic situation consitutes a challenge. Never before have cash receipts from sales of farm products exceeded expenses by so large a margin as they do at present. Misused, this money can jeopardize the farmer's position and make him extremely vulnerable to a post-war collapse. Used wisely, it can put the American farmer in an unprecedentedly strong position and contribute to national well-being.

In the 5 years preceding the outbreak of the present war—between 1935 and 1939—the realized net income of farm operators (gross farm income minus total expenses of agricultural production) averaged \$4.7 billion. In the 3 years 1941–43, it averaged about \$9.4 billion. Furthermore, farm people are now receiving larger amounts of money than ever before from nonfarm sources—from wages for part-time work in factories and from royalties, dividends and profits from nonfarm investments. In 1943, the Bureau of Agricultural Economics tentatively estimates, farm people received an extra \$3.7 billion from these sources.

The increased importance of financial management today is even greater than these figures

LAND VALUES AND PRICES RECEIVED BY FARMERS FOR COMMODITIES
WORLD WARS I AND II



U. S. DEPARTMENT OF AGRICULTURE

NEG. 39932 BUREAU OF AGRICULTURAL ECONOMICS might suggest. When farm income is low, a farmer has little choice as to its disposition; much of what he makes is usually needed for payment on debts and living expenses. Today the farmer has large sums he can use as he pleases—including large amounts which normally would be expended on purchases which now must necessarily be deferred.

Only once before did the American farmer have an opportunity of equal promise to improve his long-term financial position—during the period of the first World War. Farm people who lived through that era will be the first to acknowledge that most of them failed to take advantage of the opportunity. Numerous individual farmers, of course, acted wisely. But many became involved in a land boom which drove land prices up about 70 percent between 1913 and early 1920. With few exceptions, these increases were based on the ill-founded hope that farm prices would remain high indefinitely or even rise further. On the basis of this hope, many farmers went deeply into debt to purchase farm land. Farm mortgage debt rose from $4.7 billion on January 1, 1914, to $10.2 billion on January 1, 1921. In the hope that the downtrend was only temporary, many farmers continued to go more deeply into debt even after the agricultural depression started. The peak of mortgage indebtedness was not reached until 1923.

With the collapse of farm prices in 1920, thousands of farmers lost their farms—farms which in many cases represented the labor and savings of years. The hardship caused by lower prices was not limited to those who had contracted excessive debts, nor were farmers the only people who speculated in land. In retrospect it seems fair to say, however, that the unwise way in which numerous farmers used their inflated wartime income both contributed to the collapse which ensued and made them more vulnerable to it.

The Present Prospect

Are farmers going to repeat the same mistake they made a quarter of a century ago? This is one of the most critical questions facing the Nation today. It is frequently said that the consequences of "last time" are too fresh in their memory. And it is a fact that, to date at least, in notable contrast to the situation during the last war, both total farm-mortgage debt and total short-term debt are being reduced.

But there are ominous storm clouds on the horizon. In many areas there has been what appears to be speculative buying of farm land. Tracing the same pattern as in the last war, the price of farm land for the country as a whole has increased more than one-third in the last 3 years. (See chart.) In some important agricultural States increases of 50 percent and more have been registered. In some instances land values have already reached levels which many agricultural economists feel cannot be supported on the basis of the long-range prospects for the prices of farm products. And farms are changing hands at an all-time record rate.

Furthermore, despite the *over-all* reduction in farm debt, a great deal of new debt has been incurred in connection with land purchases. Increases have been witnessed in the average size of mortgages and in the average debt per acre on farms being sold. Heavy debts are being placed on many of the farms now being bought. M. M. Regan of the Bureau of Agricultural Economics points out:

> **The average mortgage debt per acre in sales financed by credit has increased about 25 percent during the last 2 years. About one-third of the credit-financed sales currently being made involve mortgages for 75 percent or more of the sales price, and in almost four-fifths such sales mortgages equal or exceed 50 percent of the sales price. The number of farms becoming heavily indebted is more indicative of the real danger of future debt difficulties than are changes in the over-all total outstanding mortgage debt, ratios of over-all total debt to total value of all farm real estate, or the proportion of farms being sold for cash.***

Since speculation feeds on itself, there is still a real possibility that many more farmers will forget what happened "last time," start bidding land prices up, and begin buying on a shoestring. Dean W. I. Myers of Cornell University, former Governor of the Farm Credit Administration, has characterized present developments in the farm real-estate markets as "an incipient land boom"—and termed the situation "close to the number one problem of America today." Of course, speculation in farm land is not confined to farmers, any more than it was in the last war. But there are particularly good reasons for calling farmers' attention to the danger of the present situation. As a result of the prosperity of recent years, farmers generally have unprecedentedly large sums of money at their disposal. Yet War Bond sales have lagged in many rural areas. Demand deposits and money in circulation, on the other hand, have reached an all-time high.

In the present economic environment such funds are liquid dynamite. They can be used to fan the fuel of a wartime inflation—or they can be put to work in such a way as to strengthen the position of farm people and the Nation. George L. Peterson, formerly an economist of the Department of Agriculture, writes " the financial welfare of farmers during the next two or three decades may depend to a large extent upon the disposition which they make of their wartime incomes."

**Are Farm Land Values Inflated?* The Agricultural Situation, April 1944. Washington: U. S. Department of Agriculture, Bureau of Agricultural Economics.

II. THE PROGRAM

A VIGOROUS, comprehensive information program is needed to make farm people better acquainted with the economic facts bearing upon their present situation and to put those facts in long-range perspective.

Such a program cannot tell any individual farmer how to manage his war income. Even in the same area, the purchase of land may be undesirable for one farmer and desirable for another because it permits him to enlarge his farm unit to a more efficient size.

An information program can, however, suggest to farm people the desirability of consulting their long-term, as well as their immediate, interests in connection with both their prices and their financial management. It can point out that their actions now will have a very important bearing on the way the country withstands the difficult transition from war to peace. More than half the farmers interviewed in a recent public opinion survey indicated that they expected a depression after the war. But depressions are not something to be accepted fatalistically, like bad weather. Our own wisdom as a Nation, as reflected in our actions both now and after the war, will help determine whether we will have good times or bad after the war. And the actions of farm people, who are businessmen as well as consumers, will be of particular importance. Information can help make this clear.

The information program can also suggest specific ways in which farmers can manage their money so as to strengthen their own economic position and the Nation's. There are many things they can do which will at once help stabilize the economy and provide protection against a slump, should one occur. Almost all farm economists agree that certain financial practices are desirable today both from the point of view of the Nation and the individual farm family. Among these are the following:

1 ***Reduce outstanding debts. Be cautious about contracting new ones.*** **This applies to all kinds of debts. Since both principal and interest payments are harder to meet when farm prices are low, indebtedness leaves farmers particularly vulnerable to price declines.**

2 ***Don't pay too much for land.*** **Stick to values based on long-term earning capacity. Where land is bought at a high figure to round out a farming unit, write off the excess cost of such land as quickly as possible.**

3 ***If labor and material are available, invest in farm practices which will increase the productive capacity of the land*—in such things as contour planting, strip cropping, terracing, and repair of farm buildings (within Government wartime limitations).**

4 ***Carry adequate insurance.*** **For example, a farmer who is in debt might consider the purchase of low-premium term life insurance, so that in the event of his death his family can pay off the debt without having to break up the farm. A farmer without debt might consider insurance that will protect his family when he dies and provide a saving reserve for contingencies during his own lifetime.**

5 *Build financial reserves.* The present level of farm income gives the farmer an unsurpassed opportunity to build up reserves for the future. And the best way of doing this, as is explained under point 6, is through the purchase of War Bonds.

Part of the reserves set aside today should be earmarked for specific post-war expenditures, including expenditures which must necessarily be postponed at present. A part of the income farmers are receiving today should really be regarded as payment for used-up capital. Reserves must be set up for farm-machinery depreciation, building repairs now necessarily being postponed, and depletion of soil fertility.

Funds should be set aside not simply to replace machines presently in use, but for the purchase of new ones which will contribute to more profitable operations. Still other reserves might be earmarked for remodeling and building. Chris L. Christenson, former dean of the University of Wisconsin College of Agriculture, and now an executive of a building supply company, estimates that properly constructed farm buildings could increase food output by as much as a third.

Many farmers find it useful to set up reserves against such hazards as crop failure, livestock losses, and illness. Another portion could be put aside for the realization of personal plans—a new home, a long-wanted trip, home and farm ownership, the children's education. Finally, as large a share as possible should be put aside as permanent savings for the future.

6 *Buy War Bonds.* For a number of reasons War Bonds represent the best haven for the financial reserves of farmers. Unlike the Liberty and Victory Bonds of the first war, the present War Savings Bonds cannot decline in market price. Although both patriotic and personal considerations make it desirable that they be held to maturity wherever possible, they are highly liquid; after 60 days they can be cashed in at any time. Yet they are a bulwark against careless spending. Most people are more hesitant about cashing in a War Bond than about spending money in their pockets or drawing money from the bank. Finally, War Bonds are an unsurpassed investment and yield a relatively high rate of interest.

One important informational job is to keep such sound financial practices as the foregoing constantly in the forefront of farmers' minds. In addition, forms can be made widely available which will encourage farmers to take account of farm machinery depreciation and make it easy to compute. The Agricultural Extension Service has developed a Ten-Year Capital and Inventory Record which represents years of experience in helping farmers with their accounting problems and nearly all of the state Extension Services have prepared farm record books that fit the needs of their particular area. Forms and records of this character deserve the widest possible distribution.

III. SOME NOTES ON INFORMATION POLICY

1 What is needed above all else is factual economic material which shows the farmer how much he personally has to gain from price stability and the practices which contribute to it. Part I contains some material of this character. Additional material may be obtained by writing the Office of Program Coordination, Office of War Information, Domestic Branch, Social Security Building, Washington 25, D. C.; or the Office of Information, U. S. Department of Agriculture, Washington 25, D. C.

2 This factual information, to be most effective, must be linked with the farmer's personal hopes and desires. The average farmer is not interested in abstract economic theory. He is concerned with such goals as improving the farm and leaving it to his children in good condition and free of financial encumbrances. Similarly, he is interesed in War Bonds because they will help win the war and bring those children back home sooner; and because they can contribute to the realization of personal financial goals. To the greatest extent practicable, economic data should be translated into concrete, personal terms.

3 Informational material should give due credit to the immense contributions the farmer is making both to military victory and to success in the fight against rising prices through his production achievements. It should be made clear that the actions this program recommends represent no more than additions—though highly important ones—to things the farmer is already doing to help win the war.

4 Informational material should not fail to remind farmers of the consequences of the unwise management of farm income a quarter of a century ago. But the main emphasis of the program should be positive rather than negative. Above all, it should not be suggested that inflation is inevitable; the belief that it is encourages speculation and other actions which may, in fact, make inflation inevitable. Continued stress should be put on the innumerable benefits *to farm people themselves* of wise money management now.

HELP US KEEP PRICES DOWN

This program is part of a comprehensive information program on economic stabilization for the entire public. Information media and Government officials can obtain a booklet on the over-all program by writing the Office of Program Coordination, Office of War Information, Washington 25, D. C.

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Also available is a booklet called *Planned Spending and Saving*, which outlines an information program developed to implement the over-all program. The Planned Spending and Saving Program emphasizes specific practices which will enable individuals and families to manage their wartime income to best advantage.

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Advertisers interested in this special anti-inflation program for farmers can secure a "Formula Folder," containing suggestions for ads, by writing the War Advertising Council, 11 West Forty-second Street, Suite 1781, New York 18, N. Y.

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