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The impact of sharply increased defense expenditures on agriculture and the economy generally was one of the top problems considered this week by agricultural economists at the annual meeting of the American Farm Economics Association held at Montreat, in the mountainous section of North Carolina. Major concern was expressed as to the nation's apparent reluctance to face up to the important problem of financing increased military expenditures in a manner which would minimize inflationary pressures.

There was general agreement that Government expenditures at the present time should be covered fully by taxes. Emphasizing the importance of allowing prices to perform their conventional function of guiding production, allocating resources, and distributing supplies among consumers, one speaker recommended that taxes should be levied sufficient to yield a substantial Treasury surplus in the years immediately ahead.

This carefully considered recommendation reflects the view that the American economy still is young and dynamic with a great capacity for further growth if the heavy and unresponsive hand of direct Government control of the production and distributive processes can be held to a minimum. It was pointed out, for example, that the rising productive capacity of the economy is such that defense expenditures of 25 to 30 billion dollars or more a year might be made and still provide a level of living for civilians in 1955 as high as that enjoyed in 1949.

Speakers emphasized that what is done in the general area of financing Government expenditures will be the major single factor affecting future farm policy developments. If we rely primarily upon direct price and rationing controls, agriculture, of course, will be included along with other sectors. This implies use of a specific set of farm product prices—parity prices, June 24 prices, or prices which prevailed at some other historical time. None of these would do an effective job of guiding agricultural production so as best to satisfy the changing requirements of the years ahead. Flexibility was considered essential. Experience indicates we are unlikely to achieve this with direct controls.

But if taxes and other monetary and fiscal policies are to do the job of minimizing inflation, they would have to be used more intensively than at any time in the past. The need for a "cutback" in production of such items as housing, automobiles, and other consumer durables which compete with armaments for scarce materials was recognized. It was suggested, however, that no satisfactory rationing program could be developed and maintained to distribute the reduced supplies of such items among consumers. An excise tax on such items, which would raise their retail cost to a level that would permit the price system to direct their distribution, was recommended. It was argued that the cost to consumers under this practice would be little or no higher than under a program designed to directly ration and control prices of such items. In one instance the "excess payment" takes the form of a tax payment to the Treasury, in the other the form of a "gratuity" to retailers or others in the distributive system. Among the farm products, meat might be included in this classification.

While both formal and "informal" discussions indicated very general agreement that this would be the best way to handle the problem confronting the nation at this time, there was little confidence that such measures will be adopted. The more probable prospect is that Government expenditures will be financed only partly from taxes and that the Federal debt will increase and prices will rise.

At nearly all current meetings of farmers, professional workers, or businessmen serving farmers there is discussion of the growing trend toward "grassland farming."

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This was the dominant theme at the annual summer meeting of the American Society of Farm Managers and Rural Appraisers held at Asheville, North Carolina, last week. Much of the current expansion in livestock production in the South is based on this new technology which has given farmers improved grasses and legumes and a better knowledge of soil management. It is important to realize that much of the land now being devoted to livestock production in this area is land which has not been in crops in recent years, rather than land shifted from cotton or peanuts to grass.

Excellent yields of pasture, hay, and grass silage are achieved on these soils under proper management. On one well-developed farm which grows no "cultivated" crops a dairy cattle herd of 160 head is maintained on 315 acres with only limited purchases of feed grains. Grass-legume combinations are the only crop. It is used in three ways—pasture, hay, and silage. Fertilizer costs were reported to average about 10 dollars per acre per year, but the net financial returns made very pleasing reading indeed.

Problems which limit both the rate and extent of this development include such things as small farms, the high proportion of tenant operators, inadequate capital, limited markets for livestock products in some areas, and a lack of the necessary livestock and soil management skills on the part of many farmers. There is every evidence, however, that progress will continue and that this area will become a more productive part of our total agriculture.

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