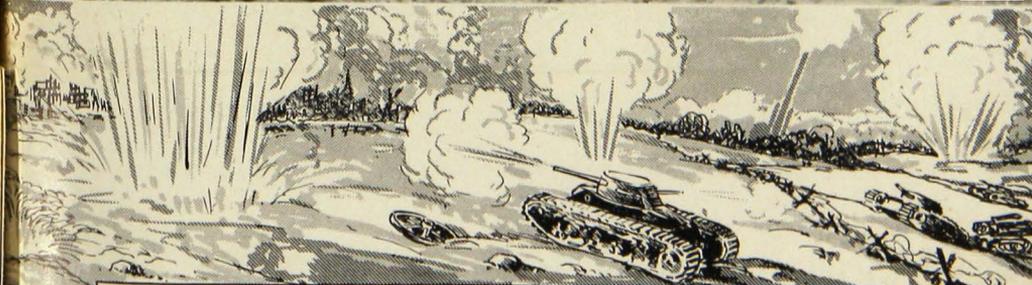


WAR *and the* FARMER

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War and the Farmer

O. B. JESNESS

WHEN WAR broke out in Europe in the late summer of 1939, the expectations of its effects on conditions in this country were colored by recollections of the situation during the first world war. Thoughts went back to high prices and scarcity—to sugar rationing, meatless days, and barley bread. Many consumers rushed to lay in supplies, and prices rose temporarily. However, the sobering realization that there was no immediate threat of shortage soon gained the upper hand and prices sagged.

The fact is that prices for products generally did not advance suddenly at the outbreak of World War I. Instead, many prices weakened. The war had been underway about two years before prices rose materially, and much of the rise did not occur until after the United States entered the conflict in 1917. Hence, the experiences of the earlier war period did not support the expectations of a price boom at the outbreak of the present conflict. A question may well be raised here as to how the situation in the two periods compare or differ.

Production, supply of farm goods greater now than in 1914.	Production and supplies of major agricultural products were considerably greater at the outbreak of this war than they were in 1914. The first world war broke out in a period in which there was considerable concern over living costs and future food supply. The present war found a world troubled with agricultural surpluses and low prices. During the years since the first world war, some of the European
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countries had made strenuous efforts to meet their own agricultural needs. Available shipping space also was greater in 1939 than in 1914, lessening the premium on nearby sources such as the United States by making accessible supplies from more distant regions.

The international credit situation is another point of difference. In 1914, this country was a debtor nation as a result of loans and capital investments made here by other countries. The large purchases made by European nations during the war offset the amounts we owed abroad, and the credits they arranged for purchases in the United States changed our status to that of a creditor nation. However, this country did not see its way clear to adopt trade policies, especially a lower tariff, which would permit payment of these debts in goods and services so they have remained largely unpaid. This situation was a factor in the enactment of the Johnson Act restricting extension of credit to foreign nations in debt to us.

Britain needs war supplies more than our farm products. When the present war started the Allies were not without means of making purchases here, but they preferred to conserve these resources mainly for essential war supplies such as airplanes and munitions not obtainable elsewhere and to buy many of their agricultural requirements from countries where exchange was more favorable and credit could be obtained. The defeat of France removed the buying power of that country from the American market, while Great Britain has continued to use its means mainly for nonagricultural needs.

During the early months of the war, actual conflict was limited. However, when it got underway in the spring of 1940, it spread with amazing speed. The invasion of Denmark, Norway, the Netherlands, Belgium, and France in rapid succession took these areas out of the market as far

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as trade with the United States is concerned. The entry of Italy bottled up another part of Europe.

The consequence has been that agricultural export outlets for the Americas have been greatly curtailed. The resulting situation is even more acute for some of the South American countries than for the United States because of their reliance on agriculture and their relatively greater dependence upon European markets. The agricultural exports of these countries to a considerable extent consist of the same kind of products as ours. They, therefore, tend to compete directly with our products for the war-restricted European market.



Effect of Future Developments

WHAT OF the future? The answer to this question depends upon a variety of considerations. Among them are questions relating to how long the war will last and who will be the victor. Possibilities that the conflict may spread and that the United States may become involved need to be recognized. Our own defense preparations and the future situation as far as the Western Hemisphere is concerned also have important bearings on agricultural prospects.

The war in Europe may end soon or it may become a long drawn out conflict. It may spread to new areas. It may leave one side or the other in a dominant position, or it may end in a stalemate. If the end should come soon, it is not apparent that there would be any great stimulus to agricultural exports from the United States on that account. Evidently, there is considerable need for increased food supplies for European populations during the next few months. An end to the war might provide a place for some of our accumulated surpluses. A limiting factor is that of purchasing power. The disruptions and costs of war will lessen rather than increase Europe's ability to buy so that regardless of its outcome, the European market in the post-war period will tend to be reduced rather than enlarged.

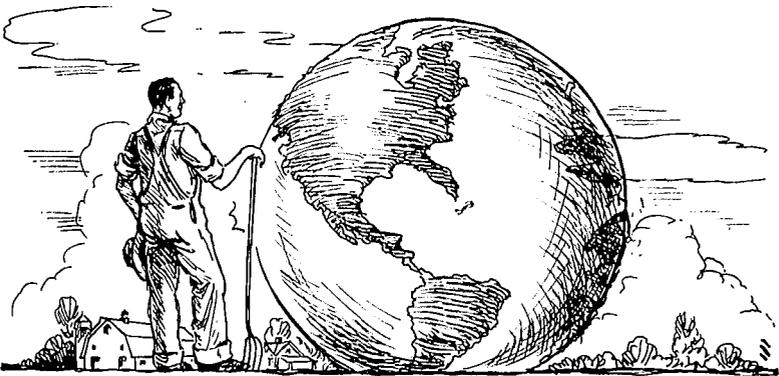
Uncertainty looms as to war's effect on our farm goods market. If the war continues over a period of time, it is reasonable to expect that countries at war will need to draw more heavily on outside sources for their maintenance. The effectiveness of blockades and destruction of shipping enters this picture. In the case of the latter, the question may be one of availability of armed ships to serve as convoys as much as or more than the availability of merchant ships. A situation might arise in which shipping limitations would increase the advantage of nearness of supply as happened during World War I. Should such a situation develop there might be increased demand for farm products from Canada and the United States for the period of the war.

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An important question for the American farmer is, "What sort of world has the future in store?" If Germany and Italy win the war, will they be able to maintain and extend to the rest of Europe the totalitarian form of government? If so, will the trade relations of Europe with the outside world be carried on as barter under strongly centralized control? Will Japan succeed in establishing control over the Far East and dominate trade in that area?

The intent of the dictators can only be guessed at by their past performances which are none too reassuring. However, victory for them in the present war does not necessarily mean that they will be left strong enough to enable them to carry out their plans in full. There are a number of unknowns, and nothing is to be gained by giving too positive answers to questions such as those raised above. However, they involve matters to which American farm people need to give careful thought.

If all of Europe should come under the sway of dictatorship, it is reasonable to assume that every effort would be made by that control to plan and coordinate European productive efforts in such a way as to increase its self reliance. However, European people would still require products from other parts of the world so that there would remain need for an exchange. The doubt centers on the methods likely to be employed in carrying on such trading.



Hemisphere Solidarity and Trade

CONCERN has been shown over the importance of protecting the western hemisphere against invasion in the event of a totalitarian victory in Europe. Much of the popular thinking has related to the prospects for military aggression. Less attention has been given to the probability that a dictator-controlled Europe might employ trade rather than armed attack as the means of political penetration. Many countries of the Americas are dependent to an important degree on European outlets. Totalitarian control over trade may seek to gain political domination through its offer of markets and supplies. Such control may offer attractive deals in order to attain its ends.

The United States has served notice on other nations that any attack on the American continent will be a violation of the Monroe Doctrine. This is designed primarily to resist the efforts of any outside nations to obtain a foothold in the Western Hemisphere through the use of force. It will not apply so effectively to the method which may be tried, namely that of gaining political control through the leverage of trade. Some countries in the Western Hemisphere may become so desirous of obtaining outlets for their products that they may accept modifications in their governmental organization or policies in order to gain trade opportunities.

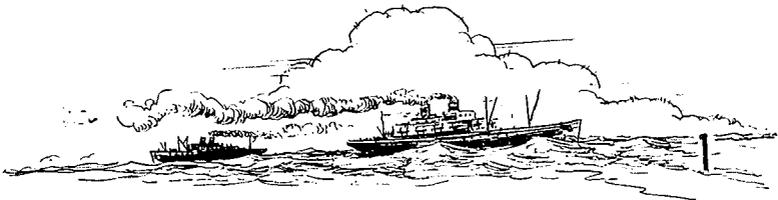
Can we replace Europe's market for So. American goods?

The suggestion that the United States might step in and replace Europe as an outlet for agricultural exports from other countries in the Western Hemisphere encounters the difficulty that we either are the principal buyer already or else that the products compete with lines in which we have surpluses. We are the principal customer for Brazil's coffee. We do not need Brazil's cotton or Argentina's wheat. We have large supplies of both products on hand. We are not in the market for corn. We are taking about all of the flaxseed, hides, and meats we can without displacing our

own products. The fact that the United States competes with products from other American nations in the world markets needs to be kept in mind in developing our own export programs. Subsidizing exports of corn, cotton, and wheat from the United States may add to the difficulties of these countries and consequently make it harder for them to resist the pressure from dictator nations.

Some insist that American industry produces so efficiently that it can reasonably expect to hold its own in competition in international markets in products for which it has advantages. However, we can hold such advantages only as long as our costs are held in line and trade is on a reasonably competitive basis. Totalitarian barter may largely disregard costs in some of its dealings and thereby create conditions which can not be met by normal trade operations. This is possible for a government which controls the economic activities of its subjects. It creates problems which can not be solved merely by ignoring them.

War and conquest may change the ownership or control of resources. However, their location remains, and the need for trade continues. The desirable goal to strive for is that of a world carrying on its interchanges with the fewest possible interferences, controls, and restrictions. It may be granted that the attainment of such a goal is not a promise of the near future. The prospects instead are that export markets for farm products may remain subject to considerable control. This, however, is no reason why the desirability of greater freedom of trade should be ignored and why efforts to reach it should not be continued.



Defense Plans and the Farmer

NOT ALL of the war developments affecting agriculture are in other countries. The program to provide adequate defenses for the United States bears promise of far reaching effects on our domestic situation. The building of warships and the manufacture of airplanes, tanks, and other supplies for defense call for vast expenditures and the use of labor and resources which, for the time being at least, will add to employment, payrolls, and the national income as measured in dollars. The results will have stimulating effects on the domestic market for farm products.

Problems of agriculture are not separate and distinct from economic problems generally. Low prices, unsatisfactory markets, and the piling up of agricultural surpluses are closely related to unemployment, unused plants, and lack of production in nonagricultural lines. The importance of agricultural prosperity to prosperity generally has been stressed repeatedly. The importance of business activity and full employment to agricultural welfare is probably even greater.

Greater production in industry, not farming needed for recovery.

Much has been said about giving the farmer "a fair share of the national income." This implies that the difficulties of agriculture are caused by too large a share of the national income going to someone else. Granting that the present distribution of income may fall far short of perfection, it still remains that a major depression problem is that of increasing the national income through increased production. To use a homely illustration, what is needed is not merely a different way of cutting the pie. A larger pie is necessary before satisfactory incomes will be available generally. The only way to get that larger pie is by production—not blind production without regard to the market's ability to absorb, but well-balanced production. Or to continue the pie illustration, the ingredients must be in proper proportions.

Agricultural production, unlike industrial production, continues in spite of depressed markets, and there is no need in sight for its expansion. The greater production to increase national income must come from other lines. Fuller employment and a larger income for consumers of farm products will enable them to buy more or pay a higher price for the amounts purchased. If sufficient expansion in non-agricultural employment takes place, outlets will be provided for some of the farm population not needed in agricultural production.

Defense plans stimulate domestic demand for farm products.

Defense preparations are stimulating activity in nonagricultural lines. Improvements in the domestic demand for some farm products already have resulted. As defense expenditures are expected to remain important for several years, this factor will influence outlets for farm products for some time.

Too much, however, should not be expected from this. Demand for farm products is not unlimited. The products for which demand is relatively elastic may expect to feel the greatest effects. Losses of foreign markets for cotton, wheat, lard, tobacco, some fruits, and other farm products will not be offset by gains in domestic consumption. Unless foreign markets recover, a serious agricultural surplus problem will remain until the agricultural industry can be shrunk to fit the smaller demand.

What are the prospects that war preparations may lead to drastic price increases? If the demands for defense were placed on industry already producing at capacity and with little or no unemployment, the effects of the program on price would be very marked. That is not the situation today. Unemployed workers, unused plant capacity, and available capital mean that a considerable increase in production may take place without skyrocketing prices. This fact needs to be kept in mind in trying to forecast effects.

In mentioning unused resources, however, it should be pointed out that their existence does not mean that shortages may not arise. Men and plants are not standardized

so that they are available for every type of production. The defense program calls for workers of certain skills. Plants for particular kinds of manufacture are needed. Shortages of skilled workers in some lines may develop while millions are still unemployed. Much of the unused plant capacity is not of the right kind or in the right places to serve defense needs. Plant expansion, therefore, is an important part of defense activities. Because of these situations, prices in some lines may rise more quickly than the price level in general.

While the defense program will tend to stimulate business activity, decrease unemployment, and improve domestic outlets for farm products it will not serve as a permanent substitute for production to satisfy more normal requirements. Expenditures for this purpose are not likely to continue indefinitely. Moreover, the problem of financing them can not be overlooked. For the time being they may be met largely by borrowing. However, public debt can not be increased indefinitely without danger. The amount of additional borrowing which can take place is reduced by the fact that large debts have been created in efforts to alleviate depression conditions.

Defense expenditures will necessitate steep increase in taxes.

Some increase in federal taxes to meet defense expenditures has already taken place. A steep increase in tax payments will be in order for years to come. The increased money incomes resulting from the defense activities will make available more taxpaying ability. The amounts taken by taxes, however, will reduce correspondingly that available for purchases by the taxpayers. Those who think that the large amounts required to finance the defense program can be obtained by taxes falling exclusively on those of high incomes are deluding themselves. The burden is of such magnitude that it will have to be shared, directly or indirectly, by everyone.

While the national income is most conveniently stated in terms of dollars, the real income of the people is the goods

and services which satisfy wants. Resources used for ships, tanks, planes, guns, and support of men in military service are not also available for satisfying other wants. Large numbers of men can not be called from peacetime pursuits for service in the army or navy without disruptive effects. The stimulus supplied by huge defense expenditures may lead to the mistaken notion that this is an easy and costless way of recovery. The availability of unused manpower and resources means that there need be no immediate reduction in living standards. War and preparation for war, however, are destructive rather than constructive. Needs are likely to become so great that they will absorb such a share of the national income that in time they will reduce living standards of the mass of the people.

In the long run defense work may aggravate farm problem. It is unlikely that defense preparations will continue indefinitely on the present scale. To the extent they are temporary they will tend to unbalance production. Some of the man power will not be needed permanently and unless an expansion of peacetime production should coincide with the tapering off in defense, unemployment will result. Capital will be found to have been invested in plants and equipment not needed to full capacity for permanent use. Defense depends upon a flow of public funds, and as tapering off in expenditures takes place, there will be a tendency to a return of depression conditions. In short, while expenditures for defense may temporarily lessen agricultural and other problems, the long run effect will be to aggravate rather than to remedy them. The stimulating effects of war activities should not be confused with those of real recovery coming from production for a fuller satisfaction of more normal peacetime wants. This is not an argument against taking care of defense needs. It is, instead, a suggestion that it be recognized that these needs call for work and sacrifice on the part of the people.

While a price boom is not in prospect at present, a lengthy war and extensive defense preparation in time might pro-

duce conditions favorable to such a result. In the event that this occurs there are certain lessons of earlier experiences well worth keeping in mind. The price boom of the former war led to an agricultural expansion which has continued to affect the surplus situation over the past two decades. If war prices for farm products should be repeated, the urge to expand land in farms and to increase the number of farmers should be resisted. Such an expansion of farm production will only make worse the depression which is sure to follow after war demands are cut off.

**Land value depends
on long-run earnings,
not on boom prices.**

One of the most serious price effects of the last war was the speculative land boom. Average farm land prices in Minnesota during the peak of the war boom were more than double those of the years immediately preceding the war. Farm land declined sharply in the early twenties and again in the early thirties so that land values average lower today than before the first world war. The buyer of a farm acquires the right to the future incomes from it, and that farm is only worth those incomes reduced to present value. That is, the value of land is determined not by boom prices but by its earnings over a long period of time. Every purchaser of a farm should bear this in mind.

The rise in land prices during the late war was particularly disastrous because of the large farm debt it left in its wake. The estimated total farm mortgage debt in the United States in 1910 was a little over 3 billion dollars. By 1920, it had more than doubled, being nearly 8½ billions. While prices broke in 1920, farm mortgage debt continued to rise after that, reaching a peak of over 10¾ billion dollars in 1923. It is still about 7 billion dollars, or more than double that of thirty years ago. While land prices have dropped to levels more nearly in line with prices of farm products, many farmers still are struggling under a heavy debt. The lesson this teaches is clear. Long-term debts should not be contracted on the basis of boom prices. They should be kept in line with long-term prospects for ability to pay.

If a rise in prices occurs, it will be a good time to pay off some of the existing debt rather than to take on more. Farmers who pay off debt when prices are high are doing it with dollars of low purchasing power. Those who borrow at such times get such dollars and will have to pay back in dollars of higher purchasing power later when prices fall.

War booms tend to increase the taxes on farm lands. High prices and rising land values during the war period increased decidedly the taxes paid by owners of farm real

estate. Taxes have come down much less than farm prices and land values so that the tax burden has remained relatively greater than it was before the first world war. Another war boom in prices will tend to increase taxes on general property. Local units of government which depend primarily on funds from the general property tax should avoid embarking on programs which anticipate the continuance of boom prices.

In short, while war or preparation for defense may stimulate the demand for farm products, particularly in the domestic market, they represent no permanent solution to farm problems.





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