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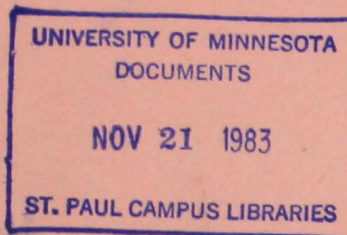
Looking Ahead

1949

NATIONAL AND WORLD PROBLEMS
THAT AFFECT
MINNESOTA FARM PEOPLE

Prepared by
Extension Economists

*Digest and Handbook for Agricultural Extension Workers
and Other Leaders in Agriculture*



UNIVERSITY OF MINNESOTA
Agricultural Extension Service
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I. The General Economic Situation

A. Active business conditions and a high price level are expected to continue in 1949.

1. Both agricultural and industrial production are high and demand from consumers is strong. From 1940 to 1947 agricultural production increased 30 per cent and industrial production increased 80 per cent.
2. Employment continues at record levels. More than 60 million are employed, including about $1\frac{1}{2}$ million in the armed forces. About 2 million are unemployed.
3. Substantial amounts of foreign aid and a growing rate of government expenditures for defense are expected.
4. Dollar spending power, in the hands of American consumers, is at an all time high. "Disposable" personal income (income after taxes are paid): (approximately)

1948	191 billion
1947	174 billion
1946	160 billion
1945	70 billion

Higher wages and salary increases and continued employment are the main reasons; lower income tax payments are also a factor.

5. Credit base is very large. Banks, insurance companies and other lending institutions hold billions of dollars worth of government bonds, which they could sell to the Federal Reserve to obtain money to lend to industry and to consumers.
6. Prices continue high (1910-14 = 100) (August, 1948)

Prices received by farmers, all products	293%
Prices paid by farmers, with interest and taxes	251%
Parity ratio	117

B. There are some "soft spots" - danger signals.

1. Very high prices and the long-continued high level of activity are in themselves cause for concern.
2. Big wartime backlogs of demand for many consumers' goods, both food and non-food items, are gone. This applies particularly to men's clothing, men's and women's shoes, many house furnishings. However, sales at retail as a whole continue large.
3. City home building is still at high level, but there may be fewer houses started in 1949. Possibly 350,000 new homes will be started in 1949, compared to 950,000 in 1948. Factory building may decline in 1949.

C. Population Growth

Total U. S. population now about 145 million. Population is expected to increase at an average rate of 1 million per year between now and 1975. During the past 6 or 7 years the rate of increase has been higher than that, averaging about 2 million annually.

Farm population, at 27½ million, is now less than rural non-farm. If the opportunity for non-farm employment continues high, farm population will trend downward by perhaps one-half of one per cent a year during the next few years.

Population Changes

Year	Total (million)	Urban (million)	Rural - non-farm (million)	Rural - farm (million)
1947	143	85	31	28
1940	132	74	27	30
1930	123	69	24	30
1920	106	54	20	31
1910	92	42	18	32

D. Employment United States

Year	Normal Labor force (million)	Number employed including armed forces (million)	Per cent employed (per cent)
1948	61	60	99
1947	60	59	98
1946	60	59	98
1945	59	64	108
1941	57	52	92
1938	55	44	81

E. Forces tending to maintain agricultural prices over the longer period.

1. The European Recovery Program and other recovery programs (Japan, China, elsewhere), which the United States is supporting.

E.R.P. and other foreign aid provide for a total outlay of \$6.1 billion in the 12 months beginning April, 1948.

2. Growing U. S. population

War stimulates population growth. In spite of war casualties and the distress caused by war, numbers increase during and following a war.

1947 - 25.9 births per 1,000 population
 1940 - 17.9 births per 1,000 population
 1933 - 16.6 births per 1,000 population (lowest point in U.S. history)

3. A comparatively high level of purchasing power even though it may be less than at present. Numbers alone will not maintain demand. The people must have purchasing power which requires productive employment - that is, producing something which somebody else wants and can pay for.

4. Reciprocal trade programs

The International Trade Organization represents the effort of over 60 nations to improve the flow of international trade. This follows the principles of Reciprocal Trade Agreements in which U. S. has cooperated since 1934.

5. U. S. appropriations for national defense.

Total expenditures for the fiscal year 1948-49 are expected to amount to almost \$15 billion.

6. Reduction in income taxes

About \$5 billion annually have been released from federal income tax payments and made available for consumer spending as a result of 1948 legislation.

7. Price support policy

- (a) Direct price support for certain agricultural products as provided by Agricultural Act of 1948 and previous legislation.
- (b) Indirect price supports - examples

Social security programs of various kinds help to stabilize income. Labor and business policies that assist in keeping industry going regularly help to provide steady demand for food products. Guarantee of bank deposits is a protection to all.

F. Forces tending to depress agricultural prices over the longer period

1. Food production in foreign countries is recovering so American food relief programs may decline.

- (a) Tillage is improving - more power and machinery is becoming available.
- (b) Seed supply is becoming normal.
- (c) More fertilizer is available.
- (d) Distribution of food supplies is improving.

2. The most urgent post-war demands for food and other materials are being supplied in the U. S. and elsewhere.

In desperation, people in distress areas dipped into reserves and credits to supply these urgent needs. This is now slowing up, partly because reserves have been used, partly because the urgency is not so great, even if reserves remain.

3. Credits amounting to over \$7 billion in each of 1946-47 and 1947-48 were used by foreign countries to finance their trade deficits. The E.R.P. \$5 billion fund available for 1948-49 to finance exports represents a net decrease of over \$2 billion.

4. There is more non-food competition for the consumer's dollar.

Household appliances, building materials, clothing, farm machinery, and many other things can now be bought. Moreover, the income of many consumers has not risen as much as the prices they pay. The result is that consumers are buying very carefully.

5. Purchasing power is tapering off - there are more credit purchases.

Consumer Credit Statistics U.S.
(Millions of Dollars)

<u>End of Year</u>	<u>Total</u>	<u>Installment Credit</u>	<u>Single Payment Loans</u>	<u>Charge Accounts</u>	<u>Service Credit</u>
1947	13,385	6,156	2,697	3,612	920
1946	10,166	3,976	2,262	3,054	874
1945	6,638	2,365	1,520	1,981	772
1937	7,491	3,971	1,504	1,459	557

II. The European Food Situation

A. Food production is improving but it is still below prewar. Population has also increased in Europe so a production as large as prewar would still call for large imports.

1. Grain yields are good though the acreage is low.
2. Production of potatoes, sugar beets, and fodder roots are good.

Grain and Potato Production Europe (excluding U.S.S.R.) 1948

	<u>1935-39 Average</u>	<u>1947</u>	<u>1948</u> (August 1 estimates, millions of bushels)
Grain	1,588	1,015	1,450
Potatoes	4,852	3,781	4,900

The good 1948 crops resulted from favorable weather which gave wheat and rye yields almost up to prewar. Acreage of these crops was 10 per cent below prewar; fertilizer is scarce; management is not as efficient. As a total, production of bread grains in 1948 will reach 93 per cent of prewar; production of coarse grains about 78 per cent of prewar; production of potatoes about 15 per cent above prewar.

3. Production of fats and oils is still low.

Fats and Oils Production, Western Europe
(Million metric tons)

	<u>1935-39 Average</u>	<u>1948</u>
Production	3	2.1
Imports	4	2.4 (hope to get
Totals	7	5

4. Livestock products are available in much smaller volume than prewar.
 - (a) Hog numbers are about 2/3 of prewar.
 - (b) Cattle numbers about 90 per cent of prewar.
 - (c) Dairy products are from 70 to 80 per cent of prewar.

B. European purchasing problems

1. Foreign countries have a shortage of U. S. dollars.

	<u>1946-47</u>	<u>1947-48</u>
U. S. Exports	\$12.7 billion	\$14 billion
U. S. Imports	<u>5.7 billion</u>	<u>6.3 billion</u>
Net Deficit	\$ 7.0 billion	\$ 7.7 billion

The deficits were financed in several ways.

- (a) Utilization of credit balances which foreign countries had in this country.
 - (b) Liquidation of capital assets of importing countries.
 - (c) Shipments of gold to the U. S.
 - (d) Various loans and grants made by U. S. (British loan, UNRRA, interim aid, etc.)
2. First U. S. Appropriation under European Recovery Program (Marshall Plan) was \$5 billion (May 1948) This fund is to a considerable extent a substitute for the \$7 billion deficit of the two previous years, rather than an additional fund.
3. The shortage of dollars limits the purchases from the United States. For example, if a European buyer can buy wheat from some country other than U. S., using other currency to buy with, he can save dollars by doing so. The existence of plentiful supplies of wheat, milk powder, or lard in the U. S. does not help the hungry European unless he can find the dollars to buy with.

C. Economic Recovery in Europe

Despite the great destruction and disorganization caused by the war, some western countries such as the United Kingdom, Belgium, and the Scandinavian countries have stepped up industrial production to above the prewar level. The major reductions compared to prewar are in Germany, Greece, and Italy. Total industrial production in western Europe at the end of 1947 was approximately 15 per cent below the prewar level. Under the European Recovery Program, economic reconstruction should continue and by 1952 western European industrial production, in total, should be substantially above prewar levels.

D. Agricultural Exports to Europe in 1950-54.

Despite the recovery indicated above, it is not likely that exports from western Europe will be large enough for some years to come to provide the means of payment for the large imports which Europe will need. The present European Recovery Program is expected to last through 1952. Food exports from the United States to western Europe can be expected to continue to 1952 on a limited basis; but to get substantial supplies from us after that, their exports to us will have to be very much expanded or U. S. foreign loans and investments will need to be provided.

III. The Agricultural Outlook

The increase in real farm income since 1940 has been notable. The total net income of farmers (after taxes) would buy 1.7 times as much family maintenance in 1947 as in 1940. Moreover, these "cheaper" dollars have the same debt paying power as the 1940 dollars. Another good year seems to be ahead for farmers, but with net income lower than in 1948.

Demand for farm products seems likely to be about as strong in 1949 as in 1948; employment is high and payrolls are regular.

Prices for farm products are expected to be lower than in 1948; the large crops of 1948 will have a depressing effect on crop prices in 1949 and the more liberal feed supplies will tend to lower prices of livestock and livestock products.

Costs of things farmers buy are expected to remain high and may go higher. The demands for steel, other materials for European relief, and for armament production will limit the amount available for farm machinery and other farm needs.

A. The Commodity Outlook for Farm Products

1. Hogs - Numbers are expected to increase in 1949 and again in 1950. An increase in farrowings is expected in both spring and fall of 1949. Liberal corn supplies will invite feeding to heavy weights, and price discounts may be encountered on heavy hogs. A lower general level of hog prices may be expected.

The corn hog ratio is expected to be favorable. Average ratio is 1 to 12.7, that is 100 pounds of hogs will buy 12.7 bushels of corn. When hogs are high relative to the price of corn, farmers are encouraged to raise more hogs, or feed existing hogs to heavier weights. Example: If hogs were \$20 per cwt. and corn was \$1.25 per bushel, the ratio would be 1 to 16, which would be very favorable.

2. Beef Cattle - Beef cow numbers are still declining, probably will continue to decline through 1949. Annual slaughter will have to fall below 30 million head to turn cattle numbers upward.

	Dates (January 1)	Total numbers of cattle in United States
Peak of cycle previous to present one	1934	74 million
Peak of present cycle (all time high)	1945	85½ million
Probable low point of present cycle	1950	75 million
Possible peak of next cycle	about 1955	82-83 million
Maximum numbers that U. S. could support		90-95 million

The decline of horses and mules make it possible to carry larger numbers of cattle.

3. Dairy Cattle - Dairy cow numbers are down to 1940 levels but total production of dairy products is above 1940. The decline in numbers of dairy cows is expected to continue into 1949. High returns for beef and other alternative possibilities probably will offset more favorable dairy product-feed price relationships. Production per cow will continue to be high, with ample feed supplies. Prices for dairy products are expected to be somewhat below the high postwar levels but near the 1948 prices.

Consumption per person all Dairy Products (Milk equivalent, fat solids basis)

1948	768 pounds
1947	792 pounds
1946	809 pounds
1935-39	801 pounds
1930-34	821 pounds
1925-29	804 pounds

4. Sheep - Sheep numbers are still low. In some states more ewe lambs are being held back for replacements.
5. Eggs and Poultry - Laying hens this winter are expected to be the fewest since 1940. Egg production per hen, however, will be high during this period because of liberal feed supplies. The expected favorable egg-feed ratio during early part of 1949 will likely result in considerable expansion of pullet numbers for 1949-50.
6. Turkeys - Turkey numbers are expected to increase substantially for 1949. The larger feed supplies and an expected good demand situation should result in a favorable turkey-feed ratio.
7. Grain - Grain prices are expected to remain at or near support levels. While there will still be need of wheat for export to Europe, an expected large carry-over from the 1948 crop will have a depressing effect on prices. Flax and soybean prices are expected to depend on support levels.

IV. Farm Costs

Most farm production costs, except feed, are higher than last year.

1. Protein feeds - Prices in September, 1948 were substantially lower than a year earlier for most high protein feeds. Supplies of cotton seed meal, linseed oil meal, soybean oil meal are larger due to large crops of those oil seeds. Tankage supply is less than 1947, about the same as 1945 and 1946.
2. Farm labor - Farms will have to continue to compete with industry for available men, and high industrial activity will take a good many. It is not expected that many workers from commercial farms will be taken into the armed forces but industry will continue to draw large numbers of the farm population. A larger than usual number of farm youths will attend school because of good farm incomes. Many farmers will be able to offset these losses in family workers by increased mechanization. The supply of experienced year-round farm employees will continue to be limited.

3. Machinery - Production in 1948 is expected to be the highest on record with special increases in tractors and tractor machines. There were over 3 million tractors on farms January 1, 1948, double the 1940 numbers, 350,000 more than a year earlier. Prices are expected to continue high.
4. Building materials and supplies - All prices will stay high. Lumber in retail yards, June 30, 1948, totaled 4.8 billion board feet; year earlier, 4.1 billion. Production of cement is running ahead of 1947 but huge demand will cause shortages. Nails and staples, barbed wire, woven wire, bale-ties, galvanized sheet metal, etc. were being produced during the first half of 1948 at such a rate that 1948 production will exceed 1947. Sheet steel, pipe, metal lath are in tight supply.
5. Fertilizers, insecticides, fungicides - Supplies are expected to be sufficient to meet the requirements of the coming year. Prices of fertilizers are higher now than a year ago and probably will average higher in 1949 than in 1948.
6. Grass seeds - Short supplies are probable in the case of alfalfa, timothy, red top, Kentucky blue grass. Supplies of red clover, alsike clover and white dutch clover are larger than 1947.

V. The Financial Status of Agriculture

A. The value of the agricultural plant has increased greatly from prewar years. Most of the increase is the result of price inflation. The physical condition of the nation's agricultural plant has improved little, if any.

1. The value was 122 billion dollars January 1, 1948.
2. The value was 111 billion dollars January 1, 1947.
3. The value was 89 billion dollars January 1, 1945.
4. The value was 54 billion dollars January 1, 1940.

B. The percentage of the total value that is made up by different items has changed greatly:

<u>Items</u>	<u>1948</u>	<u>1940</u>
Total value	122 billion dollars	54 billion dollars
	(per cent)	(per cent)
Physical items:		
Real estate	51.4	62.5
Non-real estate:		
Livestock	11.0	10.0
Machinery and motor vehicles	7.8	5.8
Crops, stored on and off farms	7.2	4.9
Household equipment	4.4	8.0
Financial items:		
Deposits and currency	12.7	7.2
U. S. savings bonds	3.9	.5
Investments in cooperatives	1.6	1.5
Total	100.0	100.0

These changes resulted in large part from:

1. The trend toward mechanized farming
 - (a) More machines on farms
 - (b) High priced machines
 2. A favorable food situation in 1948
 - (a) Large production and a large supply
 - (b) Strong domestic and foreign demand with resulting high prices for food
 3. A more favorable financial situation for farmers in 1948
 - (a) Less need for applying as much income to physical items and, therefore, more available for deposit for purchasing bonds or in currency.
0. The farm mortgage debt decreased during the entire period from 1923 to 1946 but the decline was more rapid from 1940 to 1946. During both years, 1946 and 1947, it increased.
1. Farm real estate mortgages on January 1 were:
 - 1948 - 4.88 billion dollars
 - 1947 - 4.78 billion dollars
 - 1946 - 4.73 billion dollars (low point)
 - 1940 - 6.66 billion dollars
 - 1923 - 10.80 billion dollars (peak)
 2. The change from a decrease to an increase in the real estate mortgage debt is the result of
 - (a) An increase in the size of individual mortgages with increasing prices of real estate
 - (b) A falling off in principal repayments
 3. A smaller proportion of the farm real estate mortgage debt was held by federal agencies in 1948 compared to 1940.

<u> Holders </u>	<u> January 1, 1948 </u>	<u> January 1, 1940 </u>
Insurance companies, banks and individuals	76	58
Federal agencies (Federal Land Bank, Farmers Home Administration, etc.)	20	41
Others	<u> 4 </u>	<u> 1 </u>
Total	100	100

4. The non-real estate debt (short term) has increased rapidly since the beginning of 1946. This may be the result of increased purchases of goods that were scarce in the war and post-war periods.

<u>Year</u> Jan. 1	<u>Amount</u>	<u>Index</u> (1946=100)
1948	4.1 billion dollars	146
1947	3.5 billion dollars	125
1946	2.8 billion dollars	100
1940	3.0 billion dollars	107

5. Proprietors owned a substantial share of the farm assets they controlled in 1948 and a larger share than in 1940.

<u>Year</u>	<u>Owned by proprietors</u> (per cent)	<u>Owned by creditors</u> (per cent)
1948	92	8
1947	92	8
1940	81	19

- D. The financial status of agriculture improved more than the financial status of the total national economy. The reason is that a larger share of the national income has gone to agriculture.

<u>Year</u>	<u>Index of net farm income</u>	<u>Index of national income</u>	<u>Per cent net farm income was of national income</u>
1940	100	100	8.2
1947	340	240	11.4

1. Larger net incomes to farmers have resulted in larger income tax payments.

(a) 1940 - 15 million dollars

(b) 1947 - 960 million dollars

- E. The increased income to agriculture was used in the following way:

1. Consumption goods (for direct consumption). Records kept by farm families of Illinois, Iowa, Minnesota and Kansas show the following relative spending in 1947 as compared to all U. S. consumers:

<u>Per Person</u>	<u>Account Keeping Families of 4 states</u> (1937 - 40 = 100)		<u>All U. S. Consumers</u>	
	<u>Dollars</u>	<u>Per cent</u>	<u>Dollars</u>	<u>Per cent</u>
Food	\$139	257	\$375	272
Clothing	93	277	156	250
Furniture and equipment	97	376	74	250
Medical care	53	278	45	205

For the nation as a whole there was a large increase in the amount spent for consumer's goods but this increase was not as large as the increase in total income. The total amount spent for consumption goods and the per cent it was of disposable income was as follows:

<u>Year</u>	<u>Amount spent for consumer goods</u>	<u>Per cent of total disposable income</u>
1940	72 billion	95
1947	164 billion	94

2. Capital goods (buildings, machinery, equipment, etc.). The amount spent for capital goods varied greatly during the years of 1940-47. How much was spent depended largely on the availability of materials.

- (a) High level during the defense period of 1940-41.
- (b) Low level during the war period of 1942-45.
- (c) High level during the post-war period of 1946-47.

The expenditures made for capital goods by industrial groups increased more than expenditures made by farmers. Farm expenditures for machinery and motor vehicles increased about 35 per cent from 1940 to 1947 but there were no significant increases in the physical volume of real estate, livestock, and stored crops.

3. Debt reduction. Farm and non-farm debts were materially reduced from 1940 to 1946 but increased in 1947. There was a much larger percentage reduction in the farm debt compared with the non-farm debt. State and local government debt decreased until 1947. The federal debt reached a peak in 1946 and has been slightly lower since. The percentage decreases or increases in debt from 1940 to 1946 were as follows:

Farm mortgage debt	--29
Corporation long-time debt	-11
State and local government debt	-17
Federal government debt	+613

There was a shift from private to a larger government debt. Heavy federal spending contributed to increased activity and a larger national income. Some of this income was used to reduce the private debt.

4. Savings. A favorable net farm income resulted in a large increase in savings (liquid assets) of farmers. The farmers' share of total U.S. liquid assets which was 6.3 per cent in 1940 increased to 9.1 per cent by the end of 1947. The large increase in the savings of farmers in part reflects the postponement in improvements and replacement of farm and home facilities. The changes in the holdings of currency, bank deposits and government securities on January 1 were as follows:

<u>Groups</u>	<u>1940</u> Billion Dollars	<u>1948</u> Billion Dollars	<u>Increase from 1940 to 1948</u>
Farmers	4.1	20.6	500%
Non-farmers	41.6	142.2	300%
Unincorporated business	6.3	26.2	400%
Corporations	13.0	38.3	300%

F. Special considerations in agriculture

1. Farmers have had a comparatively favorable economic position during 8 years of inflation (1940-1948). The important change has been the increase in financial assets and the reduction in debts.
2. The higher valuation of physical assets is of little benefit to the owner operator who expects to continue on his farm. It is only a paper valuation. However, the high valuations provide a real problem for the new or prospective farmer, especially if he cannot pay cash. They are an incentive to sell for those about to retire or to discontinue farming.
3. Present high prices of farm real estate are moderate in relation to farm earnings. For that reason real estate prices may remain at the high level until other prices have fallen materially.
4. Net farm income in 1948 is expected to be 7 per cent below 1947 due to increased costs. This is the first decline in net farm income since 1938. Net farm income is expected to decline further in 1949.
5. Farmers can cushion the effects of a lower net income by:
 - (a) Using caution in buying land, machinery, and livestock at greatly inflated prices to avoid debts or at least to hold it to a minimum.
 - (b) Reducing debt.
 - (c) Increasing the efficiency of production on the farm.
 - (d) Accumulating financial reserves as a cushion against poorer crops and lower prices.

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