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A. G. Black
Iowa State College

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The Agricultural Emergency in Iowa

I. The Situation Today

By A. G. BLACK

AGRICULTURAL EXPERIMENT STATION
IOWA STATE COLLEGE OF AGRICULTURE AND
MECHANIC ARTS

R. M. HUGHES, Acting Director

AGRICULTURAL ECONOMICS SECTION



AMES, IOWA

Foreword

The major problems that the present depression has forced upon agriculture can be grouped under three heads:

1. Low prices for agricultural products.
2. High fixed charges on mortgage and other indebtedness in relation to income.
3. High taxes in relation to income.

The gravity of these problems is perhaps not comprehended by those outside of agriculture itself. The average man hears of 10 cent corn and \$3.00 hogs, but he does not grasp the significance of these prices; he does not realize the meaning of the events of the past year for agriculture, nor does he realize what is going to happen to agriculture during the next 12 months if some program of action is not put into effect.

The first necessity is to clarify the situation with a clear statement of the facts. Even with all of the facts before us, even if we could lay them out like checker men on a board so that we could see them all and the relations of each to all of the others, we might not all be able to agree on measures that should be taken. But we should surely be able to weed out many of the poor ideas and concentrate on some of the good ones. Many solutions have been proposed. All of them should be examined, and their possibilities considered.

The Department of Agricultural Economics plans to discuss these measures in a series of publications issued during the next few weeks at intervals of about one week.

The present publication, number I in the series, outlines the facts in the case, believing that they will speak for themselves. The next publication in this series will deal with the causes of the present agricultural emergency. Later ones will deal with proposed remedies.

The Agricultural Emergency in Iowa

I. The Situation Today

By A. G. BLACK

The State of Iowa this fall is harvesting the largest crop of corn in her history. There is imminent danger that she will also harvest the biggest crop of farm mortgage foreclosures, lost equities, and ruined farmers that the state has ever known.

Nature has never treated the farmer more generously, yet our economic system could hardly treat him worse. Hogs now (November, 1932) are selling for \$3.00 per hundred; beef cattle, \$5.00; corn, 10 cents a bushel; oats, 7 cents; butterfat, 20 cents a pound. The things that farmers produce are all selling at one-half or one-third of their 1922-1929 average prices. On the other hand, although some of the goods farmers buy have come down in price, most of the things they have to pay out money for have come down relatively little. Interest and principal on old debts remain the same. The average farm mortgage for mortgaged farms still runs at \$65.00 an acre.¹ Taxes average \$1.50 an acre²—down a little. Freight rates are practically unchanged—slightly lower in some cases, slightly higher in others. The index of machinery prices stands at 154 (the 1910-1914 average = 100)³, and so on down the list.

The official figures of the United States Department of Agriculture show that the index of the prices of farm products has declined from 138 in 1929 to 56 in October, 1932.⁴ The index of the things farmers buy declined from 155 to 107. That is, the purchasing power of the farmer's products now is only 52 percent of the pre-war; the farmer's capacity to pay has been cut in half. When he takes a load of hogs or corn to town and sells it to meet his running expenses, the money he receives for the load will go only half as far as it used to go.

But these figures understate the situation. The index of the things farmers buy includes the goods used in living and in production, but does not include rents, insurance, taxes or payments on land or other debts. These all remain close to 150 percent of the pre-war, the same as they were a few years ago. With these things included, the average farmer's purchasing power, instead of being reduced to 52, actually is reduced to 40 or 45 percent of pre-war.

Low Prices and Low Incomes

The decline in the prices of farm products is shown in table I.⁵ The average farm prices of Iowa's principal agricultural products for the first 10 months of 1932 are compared with

the average prices for 1927, 1928 and 1929. During these three years, as the table shows, the indexes of the prices of Iowa farm products ranged between 140 and 147. Since then the index has fallen to less than 50; the index number for October, 1932, is 49, only three points above the previous low reached in 1896.

The effect of these low prices is shown in the financial reports of a group of 650 farmers who have been keeping records of their incomes and expenses for several years, in cooperation with the Agricultural Economics Department of Iowa State College. The average net income for this group in 1929 was \$2,774⁶ (part of this income represents income on the owner-capital invested in the farm; the rest is the owner's wages for his year's work). For 1930, the average income figure had fallen to \$763.⁷ The 1931 figure fell below zero; it was—\$818. The operator got less than nothing for his labor and money invested in the farm. The 1932 income figure will probably be lower than the 1931 figure.

TABLE I. AVERAGE IOWA PRICES OF PRINCIPAL AGRICULTURAL PRODUCTS AT THE FARM

Products	1927	1928	1929	1932 (First 10 months)
Hogs	\$ 9.49	\$ 8.77	\$ 9.50	\$ 3.37
Cattle	8.92	10.93	10.81	5.07
Sheep	6.57	7.06	6.72	2.11
Corn .....	.74	.82	.78	.25
Oats .....	.41	.45	.39	.17
Wheat	1.22	1.14	1.04	.39
Hay	13.69	12.07	11.63	8.09
Butter .....	.44	.47	.46	.20
Eggs .....	.23	.28	.30	.12
Poultry .....	.18	.195	.205	.105
Index number	140	145	147	57

These low incomes have had a disastrous effect on land values. The value of Iowa farm land has been declining steadily ever since 1920, but the decline was slowly being arrested a few years back; it looked then as if Iowa land values were going to stabilize at about \$140 an acre.⁸ Since that time, land values have declined further. From 1931 to 1932 they went through the most rapid decline in history. The average figure on March 1, 1932, was \$92 an acre. This is only 80 percent of the *pre-war* values. Many farms would now sell for less than the mortgages on them. In many cases the decline in their values has exceeded all the payments made since the farm was purchased.

The great reduction in farm incomes and farm land values and the general decline in the value of other bank assets has undermined the financial structure of country banks to an alarming extent. The number of bank suspensions during the post-war depression 10 years ago was high, but the number during the present depression is much higher. The number in 1930 was one-third higher than the previous record, established in 1926; the number in 1931 was more than twice as high as the 1926 figure.⁹ Iowa led the nation in bank suspen-

sions for the period from 1921 to 1929 with a total of 457.¹⁰ In 1931, Illinois took first place with a total of 238, Iowa running second with a total of 208. During the present year, the situation has distinctly improved. The peak in bank suspensions seems to have been passed. Only four Iowa banks closed their doors in September, and only three in October.¹¹ A great deal of this improvement can be attributed to the activities of the Reconstruction Finance Corporation, which has brought a new element of strength into the banking situation.

Nationwide Problem

Business in general is sympathetic with agriculture, but many business men take the viewpoint that after all, the farmer's troubles are the farmer's troubles, not theirs. The farm situation, they say, is the farmer's worry, not the business man's; he has plenty of his own.

It is the business man's worry, however, as well as the farmer's. When the farmer's income is cut in half, after he has paid his taxes and interest, he has very little left to spend for goods. The gross farm income for the United States has fallen from 12 billion dollars in 1929 to 6.9 billion in 1931; the estimate for 1932 is 5 billion.¹² After allowances are made for the lower value of the goods raised *and consumed* on the farm, farmers spent about 6.5 billion dollars less in 1932 than they did in 1929. The market for several billion dollars in goods has disappeared.

Coming closer home, we find that the gross farm income of the State of Iowa, which averaged 700 million dollars from 1924 to 1928, in 1931 fell to 400 million dollars.¹³ Iowa farmers thus spent about 250 million dollars less in 1931 than formerly. The 1932 income will be only about 270 million dollars;¹⁴ Iowa farmers will spend about 350 million less in 1932 than in 1929. These declines in the purchasing power of farmers are one reason why the business man has his worries, and it is a reason why anything that he does to help the farmer will indirectly help himself.

How long are the present low prices for farm products likely to last? Nobody can speak with certainty, but statisticians do not expect material improvement in livestock prices during the next 12 months. The present low price of corn is due partly to the large United States corn crop this year; but if the corn crop were no larger than average, the Iowa price per bushel would be only between 5 and 10 cents higher than it is at present.¹⁵ Recovery in the prices of farm products is waiting on business recovery, and even after that takes place, the prices of agricultural products are not expected to improve immediately. It takes some time for agriculture to recover from the effects of a full fledged business depression.

High Fixed Charges

Low incomes are only a part of the farmer's troubles. If the farmer had to meet only current running expenses, he could cut them to the bone and manage somehow. Unfortunately, the situation is not so simple; most farmers have fixed charges as well as current expenses to meet. It is these fixed charges that are causing most of the trouble.

Prices have been low before. Thirty-six years ago, in December, 1896, the average farm price of corn in Story County was 13 cents a bushel. For hogs, it was \$2.98 a hundred.¹⁶ These prices are nearly the same as they are at the present time. But the debt situation was vastly different then. The average mortgage debt per mortgaged acre in Story County in 1896 was \$15.99;¹⁷ last December it stood at \$86.50. The debt now is five times as large as it was in 1896. The dollar has increased in value during the last two years and prices have fallen generally, but this has no effect on debts outstanding. They remain the same size as before. The price of farm products may fall to one-half or one-third, but the principal and interest on mortgages and other debts remain unchanged. The stream of income flowing into the farmer's hands is reduced 60 percent, but the outflow of his heaviest cash expenses remains as large as ever.

Obviously this is an impossible situation. In many cases the result is that the farmer loses not only his farm and home but the lifetime savings he has already put into it. In six representative Iowa counties, a total of 257 farms were sold at foreclosure sale in the first 9 months of 1932.¹⁸ This represents a large increase over 1930 when only 90 farms were thus sold. In Story County, the number of farm mortgages foreclosed during the first nine months of 1932 was 3 times as high as the highest number of foreclosures in any previous comparable period during the last 80 years.

In ordinary times, the farmers whose mortgages are foreclosed are generally men who have failed because of personal reasons—because of lack of capital, inaptitude for farming, poor managerial ability, insufficient training or experience, poor health, and so forth. In most cases they are "marginal farmers." But the present tide of mortgage foreclosures is different; in its impersonal sweep, it is taking all classes of farmers, good, bad and indifferent, and for reasons beyond their control. Many of the farmers who are being foreclosed now are numbered among our most efficient farm operators. They are men of initiative and enterprise, whose very excellence has brought them to their downfall. They are the men whose good qualities have enabled them to climb up the agricultural ladder to the top rung of farm ownership; and now they are much worse off than they would have been if they had never attempted to own a farm of their own.

The situation affects nearly three-fifths of total farm population of Iowa, for 58 percent of Iowa's farms are mortgaged.¹⁹ It has a demoralizing effect on renters as well. Many renters now are signing leases calling for rental payments of \$6 or \$7 an acre,²⁰ knowing full well that there is no prospect of their being able to pay it at the end of the year. Why should they argue about the rent? They cannot pay it in any case, they say; and after all, the landlord can not do any more than take all that there is left after the renter has kept his family together and maintained his livestock through the year.

The standard of living of owners and renters alike is being reduced. State medical conventions report the alarming extent to which dental and other medical work is being neglected to the detriment of the present and future health of farm families. Country churches are becoming involved in financial difficulties, and social and humanizing activities of all kinds are being severely curtailed.

What Can Be Done?

The situation as it stands is desperate. At existing prices, the majority of farmers cannot pay capital and interest charges on their debts. Positive action is necessary, or thousands of farmers are going to be swept over the edge into foreclosure and financial ruin.

But what can be done to meet the situation? So many different solutions are being offered that they darken counsel. Some would have us put on higher tariffs and protect the home market; others would have us lower tariffs and revive international trade. Some recommend inflation to increase prices and give us an "honest dollar;" others claim that only by avoiding inflation can we preserve the integrity of our monetary and financial structure and save ourselves from utter chaos. And some hold that the economic forces at work are so blind and uncontrollable that we can do nothing; they say that we cannot defy immutable economic laws, and that the only thing to do is to let things run their course.

This last point of view is out of harmony with every tenet of human progress. This is not an age when men stand helpless before natural forces, however blind or immutable. We do not bow down before plague and pestilence and "let nature take its course;" instead we build sanitary water supply and drainage systems, clean up areas of infection and stamp out the disease. We do not stand idly by and let the floods of the lower Mississippi ruin the surrounding farming country; we build levees to hold the river back. We do not freeze when inclement weather strikes us, saying that those who cannot survive are unfit and should perish; we manufacture clothing and build comfortable homes to protect ourselves. We do not grow native varieties of corn on our farms, we breed up new

high producing varieties which vastly outyield the old. The march of science is the story of men overcoming natural forces—not defying them, but pitting other natural forces successfully against them to make them work for the benefit of mankind.

Similarly in the realm of economics. Economic forces are no more “immutable” than natural forces are; they can not be defied, but they can be met and controlled by proper application of other economic forces. The only difference is that economic phenomena are more difficult to understand and control than natural phenomena are; their causes are numerous, ramifying into psychology as well as into natural science; and they work in and through a tangle of complex inter-relationships.

The difficulty of economic problems hinders but it should not preclude working through to their solution. The immediate problem in the present upheaval is first to discern clearly the destructive economic forces that are at work, and then to work out effective measures to combat them. This requires that we try to discover the strong and weak points of remedies that have been proposed, work out new solutions whenever necessary, map out a program of action and then put it into effect.

Sources of Data

1. 1930 Census, Iowa, Second Series, p. 33, line 18.
2. 1930 Census, Iowa, Second Series, p. 33, line 34 x line 37 = \$1.54.
line 36
3. “Farm Prices,” mimeographed publication, Bureau of Ag. Ec., U. S. Dept. Agr., Oct., 1932.
4. The Agricultural Situation, Nov., 1932. p. 22.
5. Bureau of Ag. Ec. data, compiled by the Agricultural Economics Department, Iowa State College.
6. 1929 Farm Business Record Report, Iowa State College, p. 5.
7. 1931 Farm Business Record Report, Iowa State College, p. 2.
8. U. S. Dept. Agr. data, summarized by Mr. Peck.
9. Federal Reserve Bulletin, February, 1932, p. 132.
10. Federal Reserve Board, Annual Reports, 1924 to 1931.
11. Federal Reserve Bulletin, October, 1932, p. 672, and November, 1932, p. 722.
12. Preliminary copy. Report on the Agricultural Situation, Special Committee of the Association of Land Grant Colleges, p. 8, 1932.
13. Iowa State College, Agricultural Economics Department data.
14. The average of the monthly Iowa farm products price indexes for the first nine months of 1932 is 58.3. This is 67.8 percent of the 1931 index, which was 86. Finally, 67.8 percent of 400 million is 271 million.
15. The slope of the post-war line of relationship between Iowa farm corn values, December 1, and United States corn production, when both variables are expressed as percentages of their mean values, is -2.14. The 1932 crop is nearly 10 percent larger than the 1924-1928 average. The Iowa farm price should then be roughly 20 percent below average. But what is average! From 1922 to 1929 it was 68 cents; in 1931 it was 32 cents; this year it will be in the neighborhood of 10 cents. During the next few years it may average between 25 cents and 50 cents; 20 percent of 25 cents is 5 cents, and 20 per cent of 50 cents is 10 cents.
16. Blackburn's Master's thesis, Trend of Prices for Farm Products in Story County, Agricultural Economics Department, Iowa State College.
17. Murray, W. G. An Economic Analysis of Farm Mortgages in Story County, Iowa. Ph.D. Thesis, University of Minnesota, p. 155.
18. Murray, W. G. Unpublished data.
19. 1930 Census, Iowa. Second Series, p. 5, line 10.
20. Peck, Millard.