

# Current Farm Policy Studies

UNIVERSITY OF MISSOURI      COLLEGE OF AGRICULTURE  
AGRICULTURAL EXPERIMENT STATION

M. F. MILLER, *Director*

CIRCULAR 275

Columbia, Mo.

AUGUST, 1943

## The Farmer's Wartime Financial Policy

*First of a Series of Publications of the College of Agriculture  
Dealing with Studies of Current Farm Policies*

The farmer, under war conditions, accepts the task of maximum production as his patriotic duty; yet such production requires the use of larger funds in farm operation. In face of the great need for increased production the farmer is being urged to relax his customary caution and economy in operating costs. In fact the use of more than the usual amount of capital is made possible by the larger farm incomes of war time, just as it is made necessary by higher wages and other costs.

### Caution Must Be Exercised

Not all of the farmer's habitual caution should be forgotten, for present prices cannot be expected to continue indefinitely. There is danger that farmers will accumulate obligations and overhead commitments that will be difficult to support when prices of farm products return to a lower level.

It seems, therefore, that the probability of this lower level after the war should be considered in all present planning so that it will not prove too embarrassing when it arrives. Farmers who remember the financial disaster experienced by agriculture after the first World War scarcely need to be cautioned against a financial policy that will plunge them into a repetition of this experience. A proper use of the current increase in farm income appears to be the best preparation for the readjustments following the war.

### Debts Should Be Reduced

One of the most desirable policies a farmer can adopt under the existing farm prices is to use his savings for paying debts. He will thus avoid much embarrassment when prices decline.

Debts of moderate proportions, especially those likely to fall due within three to five years, should be paid if possible. If this cannot be done then they should be adjusted so that only interest and a portion of the principal need be paid during any single year. Final settlement could then be postponed beyond the critical period likely to follow the war.

Debts of large proportions calling for repayment in a lump sum, which it is impossible to pay during the period of high prices, should be rewritten so as to provide for the payment of interest and a small part of the principal each year through a long period.

In many cases the complete payment of a debt may not be the best policy, particularly where some savings may be used more wisely to improve the efficiency of farm operations.

### **Future Farming Will Require Larger Operating Funds**

Farming operations in the future in all probability will require larger operating funds than have been required in the past. United States census data for Missouri show a very definite long-time trend in that direction. The actual amount is of course greatly influenced by the general price level. It now requires much larger outlays of money to buy livestock, feed, and other materials than it did before the war. In addition, the expanding use of equipment and power, along with the higher wages of farm labor, increases the requirements of operating funds. While these costs will decline from present levels soon after the war closes, they are not likely to sink to prewar levels.

### **Assisting in the Control of Inflation**

The farmer, along with all other groups in the country, should assist in controlling inflation. This means that in so far as possible his purchases, outside of materials needed for increased production, should not be made for those articles which are so scarce as to give them inflated values. It also means that he should consider the payment of federal taxes as one means of inflation control and that his investments in war bonds should be as liberal as the situation will allow. In general, farmers can be expected to do their part in controlling inflation when the methods are well understood.

### **War Bonds as Reserves**

United States war bonds are highly useful as a form of reserve for both wartime and post-war contingencies. Acquired when prices are high and held in reserve, they will give greater purchasing power when agricultural prices fall. Such bonds help finance the war; they keep funds working and drawing interest; and their purchase aids in the control of inflation by keeping the dollars spent for them from being used to bid up prices on scarce articles which one can do without.

### **Reserves for Repairs and Replacements**

Wartime restrictions have made difficult, and often impossible, the normal repairs and replacements of farm equipment of practically all kinds. When these restrictions are removed a great amount of repair and replacement work will be necessary. This suggests that a reserve fund should be accumulated to be used when this restoration is possible. Pork, milk, beef, eggs, and other farm products sold at war prices and converted into war bonds will, after the war, buy more tools, implements, and improvements than would be possible if these needed materials were bought through the sale of farm products at lower prices.

The farmer who follows this plan of providing a reserve will be reversing the general plan followed by many during the last war. At that time, during the period of high prices, much land and equipment was purchased on credit and many farmers attempted to pay these debts later when farm products were low in price. As a result these farmers often had to sacrifice their livestock equipment, and even the farm itself, in order to pay their obligations. If reserves are placed in war bonds during the present war period these will draw interest until they are needed, and they may then be cashed and be used for land expenditures when prices have returned more nearly to their peacetime levels.

### **Better Animals a Form of Reserve**

Reserves may be carried in the form of good useful working herds of livestock. Animals of useful type, quality and condition, either commercial or registered, if purchased at this time, will of necessity come at the prevailing price level, and they may shrink in money value after the war. However, animals that have been bought on a conservative basis with a view to making them pay their cost and upkeep plus a profit through their future productivity, will keep a farm equipped to produce effectively, irrespective of the price level.

Livestock equipment of this kind acquired now with the increased livestock income of the present period, leaving little or no indebtedness against it, offers a particularly good reserve against the future. The purchase of livestock incurring obligations which would carry over in appreciable amounts into the post-war period would appear undesirable.

### **Soil Fertility an Excellent Reserve**

Lime and fertilizers applied to the soil will not only greatly increase war production but they will help to preserve the productivity for post-war times. Farmers who will practice all the essentials of soil conservation, including proper cropping and pasture systems, who make full use of farm manure, lime and fertilizers and who practice contour farming and terracing, where needed, will secure higher yields and also maintain the soil for the future.

Unfortunately not all farmers are able to do this, but those who can do so will gain greatly by following such practices.

### **The Purchase of Farm Land**

After the needs for debt adjustment, increased operating funds and reserves have been met, the purchase of land might be considered. There are at least three cases where such expenditures might be justified. One is that of the young farmer or tenant who is able to make an adequate down payment on a farm of proper size and character. Another is that of the small farm owner who needs an additional acreage to bring the farm up to an effective size. A third, which might occasionally be considered, is that of the well-to-do farmer who may wish to assist his children to become established on farms.

Certainly the memory of land speculation which took place during and following World War I is sufficiently fresh in the minds of most mature farmers that they should avoid such speculation this time. As prices of land rise, greater rather than less care should be used in considering land purchase. For many farmers it would be better to place reserves in war bonds, with which to purchase land when prices again fall.

In the cases of the three groups of men mentioned, or similar ones, where speculation is not considered but where the intention is merely that of providing greater security or greater efficiency, land purchase may be justified. However, where a mortgage is given, great care should be taken. The purchase price should be based on the income from the land under what may be considered normal or average conditions rather than under inflated conditions. Moreover, care should be taken that the soil is satisfactory and that the size of the farm purchased is an effective one for the farmer and for the conditions under which he expects to farm.

### **Anticipation of Lower Price Levels**

Whether it be the payment or adjustment of debts, the purchase of livestock and feed for greater production, the maintenance of soil fertility, the accumulation of adequate working capital, reserves for later needs, or the rounding out of more efficient units of farming land, every step in wartime farm financing should anticipate the possibility of lower levels of post-war prices.

Without careful regard for this type of planning and management, the farm business may again be crushed beneath the disproportionate load of over-expansion and debts contracted at wartime prices when these prices are no longer available. Having an efficient farm unit, adequate operating capital, a soil reasonably well conserved, and a supply of war bonds stored away as reserve for post-war needs will greatly facilitate readjustment to a lower price level when that time comes.