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FARM *and* FOOD POLICY

MURRAY—
Land Boom Controls

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ARM *and* FOOD POLICY

Pamphlet No. **9** in the Series

LAND BOOM CONTROLS

by

WILLIAM G. MURRAY

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WARTIME FARM AND FOOD POLICY SERIES

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To mobilize our nation's giant strength for war necessarily means a drastic readjustment in our ways of producing, distributing, and consuming everything we make. A few laggards, and people working at cross purposes, can slow down the whole nation if government authority is not used to bring them into line. But authority is not a substitute for public understanding and acceptance. As a matter of democratic principle and of efficiency, the citizens must know what has to be done in economic mobilization—and why and how. This series of pamphlets, prepared by members of the Department of Economics and Sociology at Iowa State College, deals with the what, why, and how of agricultural policy and food management.

Previous pamphlets have outlined the broad relations of food to the war effort and sketched techniques of dividing food supplies and getting maximum production. The use of farm prices and commodity loans to guide production, the efficient use of farm labor and soil resources, and the effect of food rationing on morale have been considered in some detail.

This pamphlet, "Land Boom Controls," points out two dangerous elements in the present land situation, the beginnings of a land boom, and an invasion of the land market by non-farmers. Three control measures are proposed, credit restrictions, taxation, and purchase permits.

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Ames, Iowa, May 12, 1943

LAND BOOM CONTROLS

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PART I. FINDINGS*

Land prices are rising just as they did in the last war. There is danger that they will rise too fast and too high. Furthermore, absentee owners in increasing numbers are buying farms. In view of these dangerous trends, restrictions on farm land prices and sales should be established to prevent a land boom and to regulate the purchase of farms by absentee owners. Unless controls are set up soon, it may be too late to avoid another tragic and unnecessary speculation in land.

LAND BOOM AHEAD!

Three important forces are raising land prices:

1. *Record-breaking income.* In 1942, according to farm records and official statistics, farmers received more net income than ever before. The West North Central region was at the top with net income in 1942 more than double the total in 1939 and 44 per cent above 1941. Big increases in bank deposits throughout rural areas show that farmers have a large surplus of ready cash to spend. Some farmers are counting heavily, perhaps too heavily, on high income in the postwar period. Their high income expectations are based on legislation which has established price floors and commodity loans scheduled to last until at least two years after the war.

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Acknowledgements and references to related material appear at the end.

2. *Low-cost loans.* Interest rates are at an all-time low, and loan terms, such as commissions, optional payments, and length of term, are all favorable to the borrower. There never was a time when the buyer of a farm could obtain credit on more attractive terms.
3. *Boom psychology.* Here and there farms are being sold at boom prices. Sales of the same farm twice or three times within a year at successively increased prices are becoming all too common. Land prices on the average have risen sharply, and the psychology of the land boom is with us again. No one can say for sure where the boom will start. The western Corn Belt, where income is high, is a likely victim as it was after World War I. When the boom will appear is also uncertain, but there are signs it has already begun.

RESTRAINING INFLUENCES INADEQUATE

Restraining influences exist, such as taxes, pressure to buy bonds, labor shortages, and postwar uncertainty, but it is unwise to count on them to prevent a continued rise in land prices. Nor is education, pointing out the dangers of land inflation, a sufficient safeguard against land speculation. The only effective means of preventing a runaway land market are formal controls such as credit restrictions, taxes, and land purchase permits.

One restraining influence, which should be bolstered by controls, is the desire of many farmers for a higher standard of living. In the past, excessive bidding for land saddled many owners with so much debt that their living standards were depressed. Stable land prices would make it easier for farmers to keep surplus funds for more attractive farmsteads, more of the comforts of life, and more funds for old age security.

ABSENTEE-OWNER BUYING NEEDS CONTROL

In addition to restricting land prices, controls are needed to prevent large numbers of absentee owners from entering the land market. Ownership of a farm is becoming increasingly popular among business and professional persons. These new landlords, attracted by high farm returns and other advantages, are located not only in towns within the farming regions but in distant cities as well. Unless some means is found to keep this movement within bounds, tenants will lose their opportunities to buy a farm because of the purchases by these absentee owners.

A CONTROL PROGRAM

Three types of control are recommended for the land market.

1. *Credit control.* No loans should exceed 50 per cent of the value of the security—a restriction applied primarily to real estate loans and contracts, but extended in some cases to production loans as well. This control should curb land inflation and reduce postwar indebtedness.
2. *Taxation.* A higher capital gains tax, a stiff resale tax, or a heavy land transfer tax is recommended in order to take the profit out of buying and selling land and thus discourage speculation. Tax exemption to tenant purchasers is desirable to promote owner operation and retard absentee-owner buying.
3. *Permit system.* Permits should be required of each farm purchaser. These permits could be used to enforce price ceilings on land and also to prevent an influx of absentee owners into the land market.

PART II. THE ANALYSIS

A land boom is threatening. At any moment some minor event may start a costly and unnecessary land price inflation.

Economic conditions provide a perfect setting for it; farm income is at an all-time high, price parity guarantees extend beyond the end of the war, and a surplus of credit is available at low interest rates. What is more, a land boom psychology is developing. Profits in recent land deals are being talked about more frequently by farmers. Editorials in newspapers and farm magazines are warning of land boom dangers. And some of the farmers who lost in the 1919–20 price rise are sensing an opportunity to make up their losses in the price rise which they think is ahead.

A second threat, fully as serious as a land boom and related to it, is the abnormal and undesirable invasion of the land market by absentee owners. Especially dangerous is the purchase by a single landlord of several farms in one locality. Every one of these single or multiple farm purchases by absentee owners will restrict the opportunity of tenants to become owners.

Ceiling prices have been established for many products bought and sold by farmers. Numerous regulations affecting the farmer have been applied to labor, machinery, and transportation. But no restrictions of any kind have been applied to farm land, either to its price or to the freedom to buy and sell it. The wisdom of this lack of control is open to serious question.

Controls are justified because of the staggering losses, both physical and financial, which follow a boom. These losses, the product of high values and numerous credit sales, are difficult to visualize. The chief trouble in the last boom was not the rise in land values from 1915 to 1920, nor the decline in land values year after year from 1920 to 1933. The calamity in this period was the increase in mortgage debt which took place when values were high. In 1920 more sales occurred than in any previous or subsequent year for which records are available. Mortgage debt on farms increased from $5 billion in 1914 to over $10 billion in 1920. Following the boom came the slow painful process of liquidation through foreclosure, bankruptcy, and assignment. By 1942 the mortgage debt had been reduced to $6,750 millions, but only after thousands of farms had been turned over to creditors. The total of all forced sales in the decade of the thirties equaled more than one-fourth of all the farms in the country. Tragic financial losses of one kind or another were involved in most cases.

Many of the farms suffered heavy physical losses from erosion and overcropping in the vain efforts of the owner to obtain sufficient income to protect a diminishing equity and save the farm from foreclosure. Surely such tragic waste on thousands of mortgage-ridden farms should be avoided if possible. The only certain possibility, however, is some form of regulation over land transactions.

In the discussion which follows, the first section is devoted to the urgent need for controls in the land market and the second to a control program.

A. WHY CONTROLS ARE NEEDED NOW

1. Land Boom Pressure

Land values have risen sharply in recent months. In fact, the percentage increase during the last year, according to the U.S.D.A., is larger than in any year since 1912 with the exception of the boom year 1919–20. The present situation is the continuation of an upward movement which started with the outbreak of the war in Europe in 1939. Significantly, values have been climbing at a progressively faster pace each year just as they did during World War I. (See Fig. 1.) The U.S. land value index which stood at 84 in March, 1939, increased to 91 in 1942 and to 99 in March, 1943.

Average value figures for the United States may easily

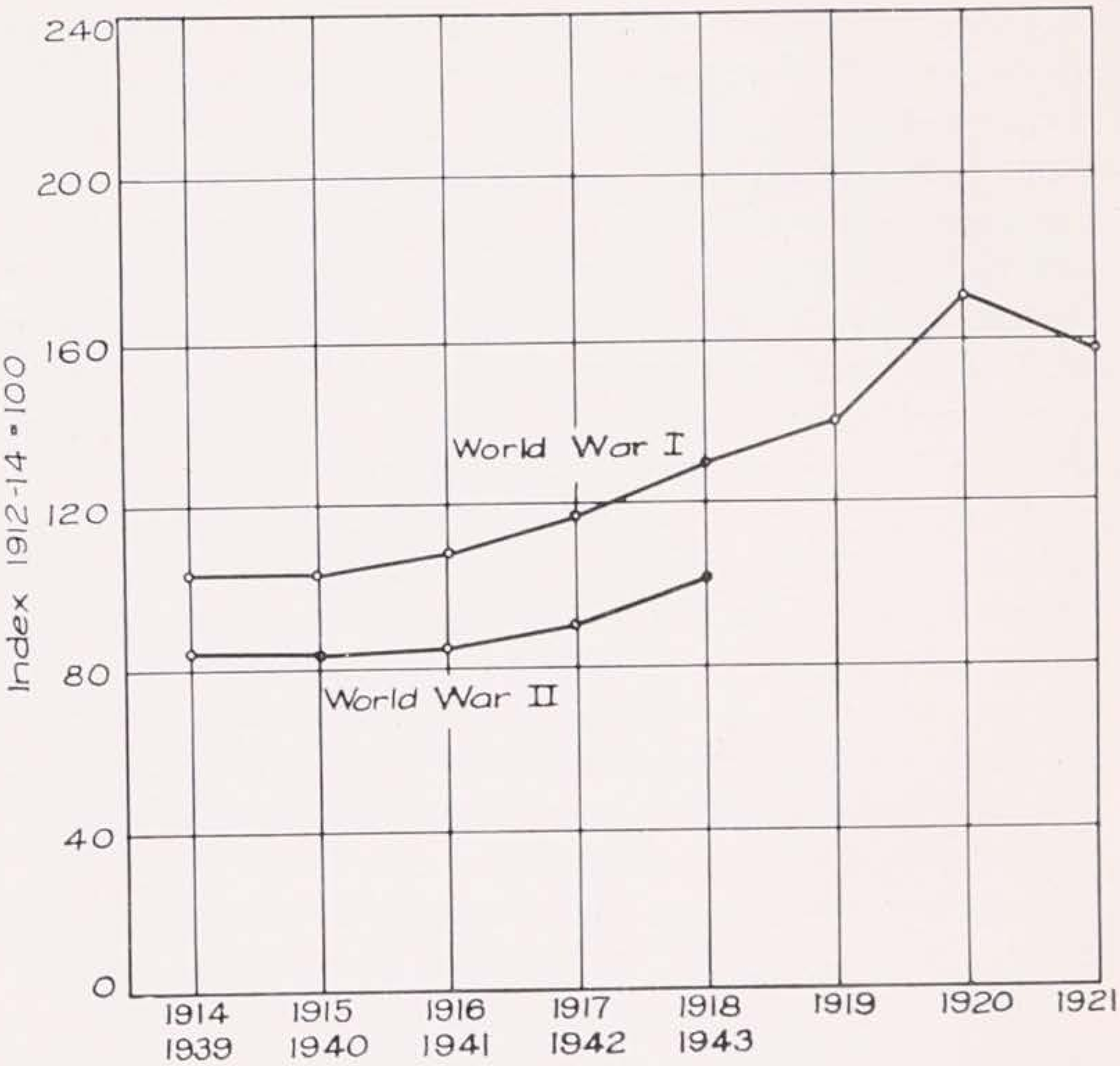

FIG. 1. Farm real estate values. Index numbers of estimated value per acre in the United States as of March 1 in years indicated. (Source U.S.D.A.) Values in World War II are following upward course similar to World War I. Lower level in present war is explained by recent severe depression and higher property taxes.

hide the existence of a land boom. Individual states and localities may experience a rapid land price rise while the average shows only a moderate rise. Kentucky, Tennessee, and Indiana, for example, show land value increases of 40 per cent or more since 1935–39, while the United States average is up only 20 per cent. Even larger increases will be found in localities within these and other states. The same hiding of facts by averages is revealed also by regional comparisons. The East Central regions in 1943 were from 25 to 33 per cent over the 1935–39 average, while New England registered only a 6 per cent increase. This same variation was characteristic of the 1917–20 boom period when prices in the United States increased only 45 per cent but rose 66 per cent in the South Atlantic region and 115 per cent in South Carolina.

The danger at present lies not in the rise in land values to date but in the possibility of a rapid rise beginning at any time. The pressure for land values to rise is so strong that it may cause a skyrocketing of values with little or no warning. This pressure is made up of three inflationary forces; record-breaking income, low interest rates, and a boom psychology. Restraining influences will be considered in the section that follows.

Record-Breaking Income

Farm prosperity is with us. Farmers were unusually prosperous in 1942, they will probably be even more prosperous in 1943, and they may enjoy high incomes in 1944 and after. Gross farm income, a good index of prosperity, almost doubled between 1939 and 1942. (The income record for World Wars I and II is shown in Table 1 and Figure 2.) Furthermore, net income, which indicates what the farmer has left

TABLE 1

Gross Farm Income and Net Income of Farm Operators, World War Periods I and II as Reported by U.S.D.A.
(In billions of dollars)

World War I			World War II		
Year	Gross Income	Net Income	Year	Gross Income	Net Income
1914	$ 7.6	$ 3.9	1939	$10.6	$4.5
1915	8.0	3.8	1940	11.0	4.7
1916	9.5	4.4	1941	14.0	6.7
1917	13.1	7.5	1942	18.7	10.2
1918	16.2	8.7			
1919	17.7	8.8			
1920	15.9	7.1			
1921	10.5	3.0			

at the end of a year's business, has more than doubled since 1939. In 1942 net income for all farmers in the United States was substantially above the highest level of any year during World War I. In fact, income in 1942 was at an all-time

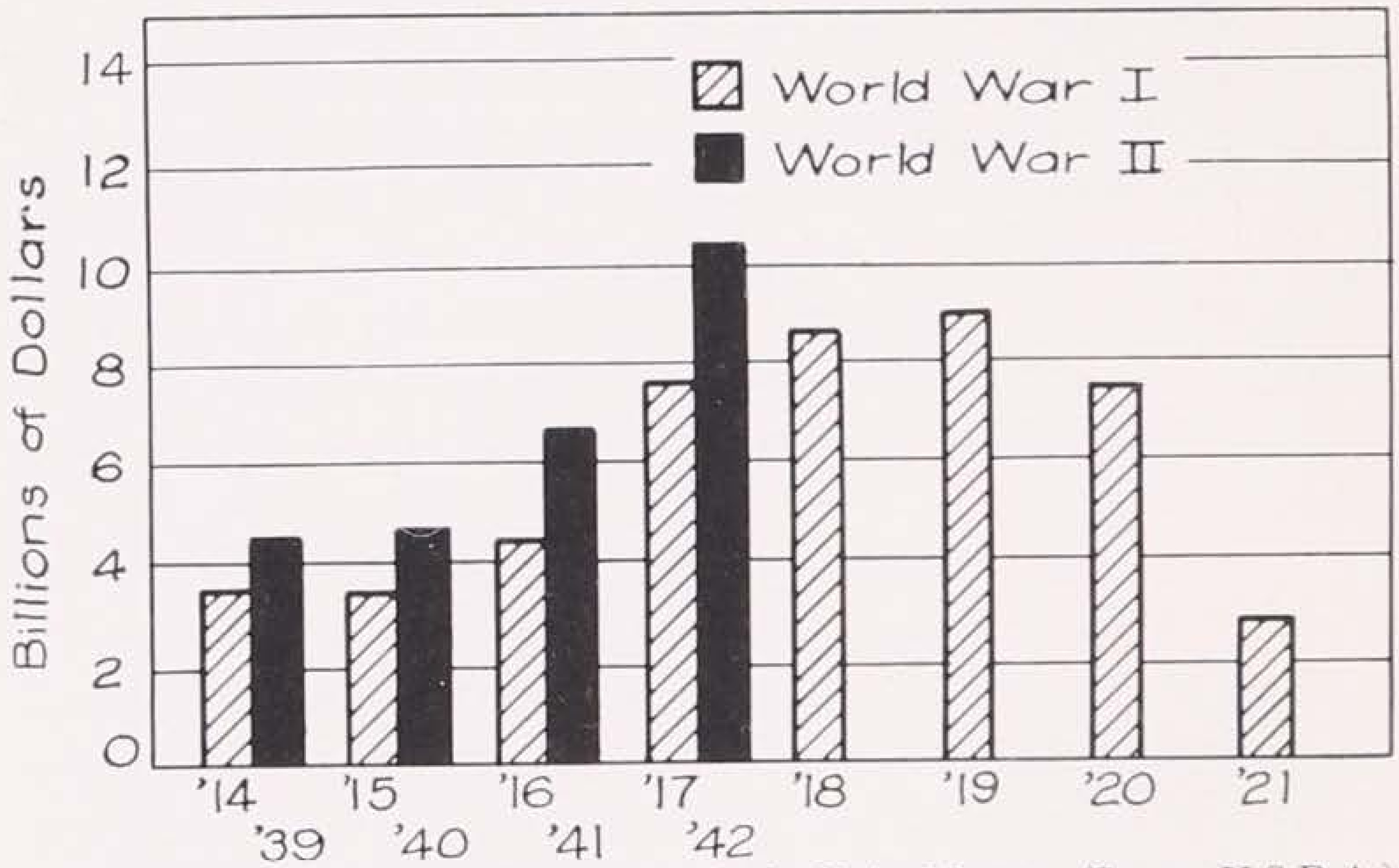

FIG. 2. Net income to farm operators in the United States. (Source U.S.D.A.) Net income in 1942 was greater than in any year during or immediately after the last war. An even larger net income is forecast for 1943.

high; never before have United States farmers had so much income after paying farm expenses. Since there are 6 per cent fewer farmers today than in World War I, each farmer will average a larger share of the total.

Reasons for the record-breaking net income are not hard to find; in 1942 farm prices rose faster and higher than the prices of things purchased by farmers, and farmers had a bumper crop. On the basis of income, farmers are all set for a big land inflation spree.

Again the average income figures for the country as a whole do not reveal the danger that exists—income in some regions has increased more than is indicated by the average. The most prosperous region in terms of increased cash income is the West North Central. A land boom might be expected to start first in this region. The next region in prosperity is the South Atlantic; the least prosperous of all is the North Atlantic.

The West North Central region, which leads all regions in the income rise, comprises the seven states of Minnesota, Iowa, Missouri, North and South Dakota, Nebraska, and Kansas. Cash income to farmers in this region more than doubled between 1939 and 1942, and in 1942 was 44 per cent higher than in 1941. On the other hand, income in the North Atlantic region, which includes New England, New York, New Jersey, and Pennsylvania, rose only 50 per cent in the last three years, and only 24 per cent from 1941 to 1942.

Expanding bank deposits in rural areas indicate a dangerous land inflation threat. After paying operating and living expenses and taxes, and investing in war bonds, farmers still have a substantial sum of money left. During 1942 deposits in banks in rural areas rose at a more rapid rate than deposits in city banks. This accumulation of inflationary funds in rural areas is described in the March issue of the *Federal Reserve Bulletin* as follows:

> "During 1942 bank deposits in this country expanded by a larger amount than in any previous year. . . . The growth in bank deposits has been widespread throughout the country, but the rate of increase has varied considerably among the different regions and groups of banks. . . . The largest percentage increases have occurred at banks in the southern and western districts—and more particularly at small-town banks in those areas. The growth has been relatively greater in agricultural areas than in those areas that are predominantly industrial or commercial."

The farmer with a mounting check-book balance may buy more war bonds, but he may also bid for the neighboring farm. And there is no telling when the urge to buy land may assert itself. Especially is this true with such a bright outlook for continued high income during the next few years.

The prospect of high income, for at least two years after the war, exists as an inflation stimulant. Congress in October, 1942, placed a minimum loan rate on six commodities, the rate to continue for approximately two years after the war ends. The Commodity Credit Corporation is directed to make loans to AAA cooperators at the rate of 90 per cent of

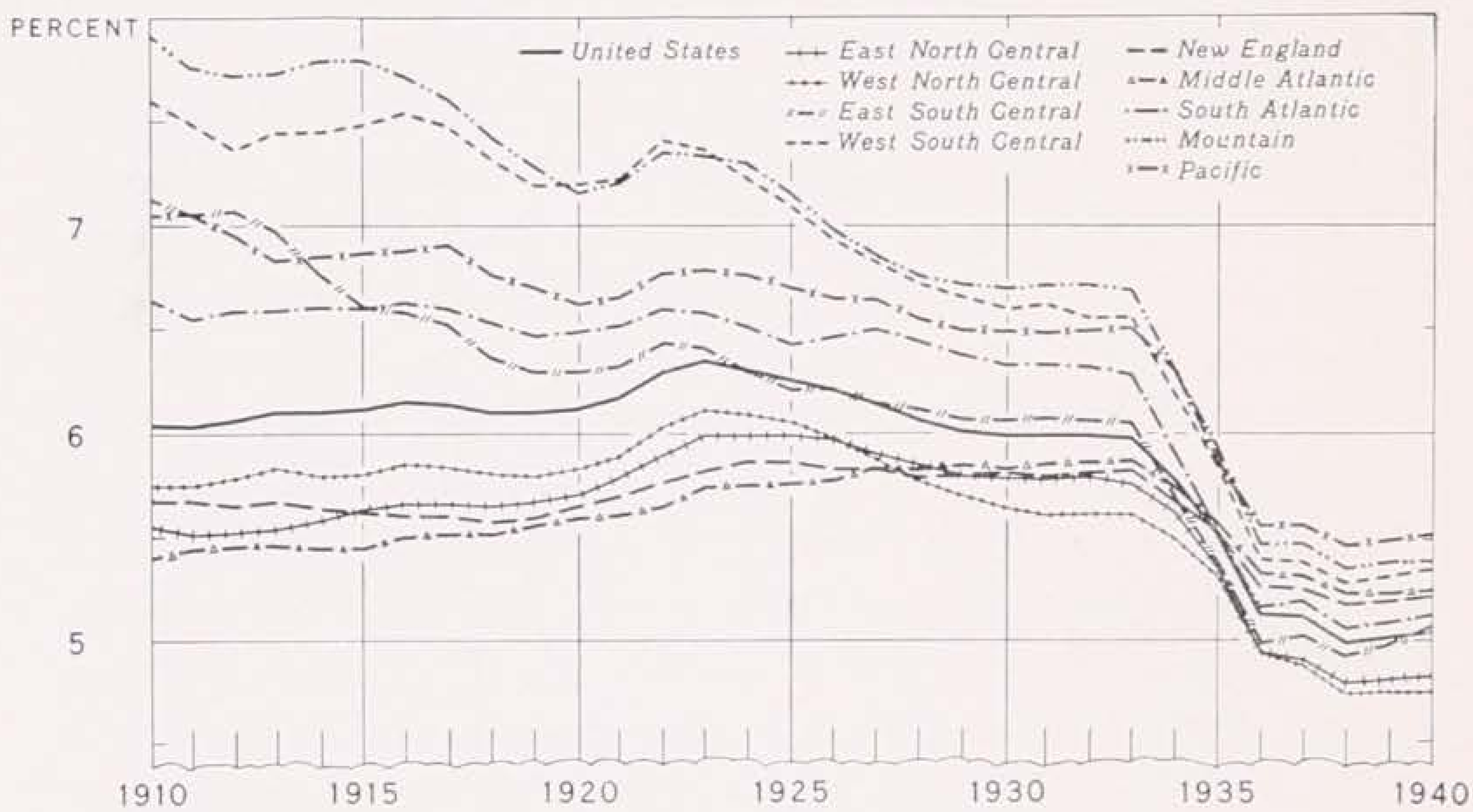

FIG. 3. Average interest rates on outstanding farm mortgages, by regions, 1910–40. (Courtesy Bureau of Agricultural Economics.) The significant decline in interest rates since 1933 has been reflected only slightly in higher land values. Continuation of low rates will be a net gain to borrowing farmers but also a potent inflationary threat.

parity on cotton, corn, wheat, rice, tobacco, and peanuts. In addition, the law provides for price floors under nonbasic or perishable products at not less than 90 per cent of parity. For these products, such as hogs, butter, poultry, and eggs, the price floor is to be used to encourage desired expansion. And the floors so established continue, as with the basic crops, during the war and for approximately two years after the end of the war.

Inflationary Interest Rates and Loan Practices

Low interest rates make up another inflationary factor. Farm purchasers find it easy to bid for land when they can finance a loan for a relatively long period at a low interest rate. When interest goes down, the purchase of a farm at a given price becomes more attractive.

A decline in interest rates from 6 to 4½ per cent, such as has occurred during recent years, reduces the interest load by one-fourth. Land yielding a net income of $3 an acre, when interest is at 6 per cent, would be capitalized at $50 an acre. If net income remains at $3 an acre, a reduction in the interest rate to 4½ per cent would tend to increase values from $50 to $66 an acre. Land values are beginning to show the effects of lower interest rates and higher income. But a decision by purchasers in general to count on continued high income and on permanently lower interest rates would be disastrous in the land market. Such a state of mind would provide all the support needed for a full-scale boom in land values. An estimated increase in net income from $3 to $4.50 an acre and a decline in interest from 6 to 4½ per cent would support an increase in value from $50 to $100 an acre, or a rise of 100 per cent in market price.

An added inducement to farm purchasers is the reduction and, in some instances, the elimination of the commission charge for loans. Not so many years ago the borrower was required to pay to the local lending agency from 1 to 3 per cent of the loan as commission for its negotiation. Even a conservative first mortgage loan for not more than half the value of the land called for a commission of at least 1 per cent. Now all that is changed. Insurance companies are making loans at 4 per cent, paying the local agent 1 per cent or more of the loan to obtain the application and not requiring the borrower to pay any commission.

The cost of financing a purchase in 1943 is less than one-half that in 1918, a reduction due largely to lower land values, but also to lower interest rates, and in a small measure to the practical elimination of commission charges. The quarter section of Corn Belt land which sold for $175 an acre in 1918 is selling for $100 an acre today. A comparison is given below of the financing arrangements and charges in the two periods. For purposes of comparison charges are also shown for $100-an-acre land at 1918 rates.

Other loan features, as well as interest and commissions, favor the borrower. Many loans now being made give the borrower an excellent optional payment privilege. A common provision is the right to pay any amount up to one-fifth of the original principal at any interest-paying date. The Federal land banks and some insurance companies have reserve payment accounts into which the borrower may pay extra amounts that draw interest at the same rate as the mortgage. These reserve funds can be used to keep the loan in good standing if hard times should come, or they can be used to pay the loan when the borrower has enough funds with the reserve to pay the loan in full. Longer term loans, amortization loans, and extensions without charges are still other features which favor the borrower. No longer is the farmer faced with the uncertainty which often attended the refinancing of a mortgage every five years. The amortized Federal land bank loans, which are paid by the installment method, run for more than thirty years, and other lenders are offering loans of a similar character running for ten years and more. The old five-year loan with stiff commissions has been relegated to the scrap heap, we hope for good. But all

TABLE 2

COST OF FINANCING THE PURCHASE OF A TYPICAL CORN BELT FARM IN 1918 AND 1943

	Interest Rates		Annual Charges per Acre		
	1918	1943	1918	1918	1943
Sale price of land	......	......	$175	$100	$100
First mortgage—50% of value	5½%	4%	4.81	2.75	2.00
Second mortgage—25% of value	6½%	5%	2.84	1.62	1.25
Commission—first mortgage	......	......	.35	.20	....
Total charges per acre per year			$8.00	$4.57	$3.25

these advantages make the purchase of a farm just that much more tempting, not only to the farmer but to the absentee owner as well.

Farm mortgage lenders, in some instances, are encouraging a boom by their liberal lending policies. Companies that would not lend over $60 an acre on a first-grade farm a few years back are willing now to go to $100 an acre. One Corn Belt loan company recently advertised farm loans up to 80 per cent of the land value, twenty years to pay, and liberal prepayment privileges. Even some of the more conservative lenders are raising their loan limits. Competition in lending, stimulated by the surplus of funds and the prevailing optimism, is entering an inflationary stage.

Boom Psychology

Small-scale booms, which at any time might spread into a regional or national boom, are already occurring. One observer reports more farms sold in his community in January, 1943, than in all of 1942. *Wallace's Farmer and Iowa Homestead* for February 20, 1943, carried this editorial comment:

> "A southern Iowa farm offered for sale at $60 an acre a year ago (the owner might have taken $50), sold recently for $100. Other instances like this, such as sales of poor land that couldn't be moved at all a year ago, make the old-timers uneasy about a land boom getting ready to hatch out."

Numerous examples can be cited of farms selling for 50 per cent above their prices of two years ago. It is true that as yet they are only scattered examples—the averages show only a modest rise in the last two years. But the danger is that these isolated small-scale booms may grow into large-scale booms before effective controls can be applied.

It is difficult to believe that men who were caught in the last land boom would take a chance on getting caught again. Many argue, however, that this time they can sell in time or get the mortgage reduced so they can hold on. Some believe there will be no depression after the next boom. Here is a concrete example. A tenant farmer and his wife recently came to consult the author about purchasing a farm. This farm had been sold in January, 1942, for $125 an acre. After making some slight improvements the investor had sold the farm on contract in August, 1942, for $150 an acre. In December, 1942, the tenant farmer and his wife decided that this was the farm they wanted and were planning to pay the second investor his price of $175 an acre. No amount of argument could change their minds. Prospects for continued high income and low interest rates were too much of a temptation. Even though they had lost a farm after the last land boom, and even though this farm was valued much higher than similar farms in the same area, they still wanted to buy it. In fact, they were afraid another tenant farmer would beat them to the purchase. An appeal to put their savings in war bonds and to wait until conditions settled down after the war made no impression. They bought the farm.

To wait until the end of the war to control land values is to wait too long. The pent-up demand for land, which is growing as income mounts, may break loose any time. It is true that the rush to buy land came after and not during the last war, but it is not safe to count on that condition being repeated. Any event before the war's end, such as a let-up in war pressure, may start the boom. The cessation of hostilities against Germany and Italy but not Japan would cause this relaxation. Such a situation would not mean the end of the war emergency, but it would probably give this country a sense of relief and a feeling of increased confidence that victory would be achieved in a short time. Even a growing realization that the end of the war is in sight may provide sufficient optimism to start a land boom.

2. Restraining Influences Inadequate

Unfortunately, the price-depressing forces are not sufficiently strong or permanent to prevent a rapid rise in prices or a land boom. The more important of these restraining forces are corporation land holdings that have to be sold, pressure to buy war bonds, labor and machinery shortages, higher income taxes, and memory of the last land boom and depression. Another retarding influence of a different nature is the desire of some farmers for a higher standard of living. A final influence is education on the dangers of a land boom.

Corporation land holdings, an important factor in the land market in recent years, are being sold at a rapid rate. The Federal land banks in 1942, for example, sold 10,331 farms, or 60 per cent of all they had at the beginning of the year. Commenting on this excellent sales record, the Governor of the FCA states:

> "The Banks have been active in trying to dispose of the properties upon which they were forced to foreclose in former years, but the real reason for increased sales is a good farm real estate market. By 'good' I mean that prices were slightly higher in most localities and very much higher in some restricted areas."

As the Federal land banks and other loan agencies reduce their farm holdings, it becomes more difficult for buyers to find willing sellers.

Pressure to buy war bonds, increasing income taxes, and shortages of labor and machinery are restraining influences, and they will continue to be effective forces as long as the war lasts. But it is not wise to put too much reliance in them because the price-raising forces may more than counteract their influence, especially when war pressure is relaxed. As for the memory of the previous land boom, this is only history to some of the younger generation, to others another land boom will be an opportunity to make up for the mistakes made in 1919–20 by buying and then selling this time before the drop comes; to still others the memory is fast fading, and to them conditions are entirely different now with good prospects that income will be maintained after the war.

The possibility of lower farm product prices after the war is recognized by some individuals and in this sense is acting as a restraint, but many are overlooking this possibility entirely. Many would-be farm purchasers are pinning their faith on price-supporting legislation for an indefinite period after the war. They are giving no thought to a postwar slump such as occurred after the last war, or to the inability of the Federal Government to hold prices at desired levels in a postwar readjustment. Future uncertainties are being viewed through rosy glasses or are being ignored by present land buyers.

Higher Living Standards Instead of More Land

Some farmers see in present incomes an opportunity to have a higher scale of living when the war is over. Unfortunately, there are too many who do not see this opportunity for higher living standards, but instead see only the possibility of buying more land. If controls over land values are established, farm owners will be more likely to use added income to improve their homes, beautify their farmsteads, and provide reserves for old age and emergencies. Some expenditures cannot be made during the war, but the added income can go into war bonds and after the war into the goods and services that will raise the living standards of the farm family.

A farm has too often been considered solely as an investment to provide money income when in reality it is a combination of home and business. The tendency has been to allow a minimum expense for upkeep of the house and yards or to improve the house only in particularly good years. The pressure has been to use income to buy land, and more land. Many farmers think of land investment as a savings bank, and their chief desire is to get as much land as possible. Until too late they fail to realize that in bidding against each other to get this land they lose part of their savings through higher land prices.

Some farmers may prefer to pay a high price for land and live in squalor, but many of them prefer to live in modern homes in attractive surroundings even though, as a result, they have less money to invest in land. As more farm people seek a higher standard of living, the demand for the farm with the poor house and unattractive surroundings will decline. Such a trend will cause the spread in value between the well-improved and the poorly-improved farms to widen.

The improvement of farm homes and the landscaping of farmsteads are socially desirable goals. Anyone who has driven extensively through the farming regions can testify to the great opportunity for farmstead improvement that exists. Modernizing of farm homes with plumbing, heating, and insulation after the war and improving the farmstead with more trees, shrubs, better lawns, and flowers would add much to the farm family's comfort and enjoyment. But if any large-scale program of this or a similar kind is to succeed, the temptation to buy land will have to be lessened by some form of regulation.

Educational Program Not Effective

Education, it is claimed by some authorities, is sufficient protection from land inflation and other dangers. The important task, it is held, is to point out the dangers, make all potential buyers conscious of the hazards and urge them to proceed cautiously in periods like the present when income is unusually high and interest rates unusually low. As part of the educational campaign, farm operators are urged to get out and stay out of debt. They are also urged to buy war bonds and to improve their farmsteads. Another phase of the campaign is a solemn warning of what may happen if land is bought on credit during periods of high income. The final lesson to strengthen the will power of the potential buyer is a grim recital of the tragic events which followed in the wake of some land purchase during the last land boom.

Education, however, is not enough. It should be used to the full, of course, but to rely on it to prevent a land boom would be asking too much. Until more success is attained in stabilizing mass psychology through education, there is little hope of success along these lines. Strong currents of attitude and behavior are difficult to change. Pessimistic or depression psychology will continue to be produced by low incomes and optimistic or prosperous psychology by high incomes. It is still too much to pin all our faith on education and information as a means of averting business cycles and land inflation. Human nature being what it is, other means of control must be used in addition to education.

3. Absentee-Owner Buying Calls for Control

Controls are needed to prevent excessive land buying by absentee owners. At present there are signs of a buying splurge by these absentee landlords. The purpose here is to present some facts about the extent of this movement, to examine reasons for the increase, the problems created, and the desirability of control.

Present Trend to Absentee Ownership

The invasion of the land market by absentee owners is not mere talk. Nor is it restricted to areas adjacent to cities. In the north central area of Iowa, where there are few cities, buying of farms by absentee investors has been increasing. Real estate brokers in this area commented on the extent of investor buying in a recent survey made by the Iowa Agricultural Experiment Station. The comments made by these brokers, a few of which are given below, reveal a situation existing in the Fall of 1942. The brokers wrote as follows:

> Our good listed farms are about all sold—getting difficult to list a good farm, have more buyers than good farms for sale. Eastern capitalists are buying some of our larger farms. One of them bought a half-section farm near here several days ago for $50,000.

> The buyer of today is an investment buyer, who is either buying as a hedge against inflation, or as a safe place for his money.

Investors lean more to large farms, farm operators the reverse. Most of the farm sales are to investors and largely non-residents of Iowa. These are largely cash buyers.

Investor buying is on the increase according to reports from various sources. An insurance company with large farm land holdings in the Middle West made the following statement relative to its farm sales in 1942:

Most of our sales were . . . . to farm tenants although investors accounted for a larger number than in any previous year.

The investor movement in the Middle West has been much publicized. In addition other areas have been similarly affected. A national real estate summary from the U.S.D.A. covering the period July 1 to November 1, 1942, included the following comment:

Operating farmers continued to make up a substantial majority of all buyers, but non-farmer buyers increased in relative importance.

In New England, active farmers have declined from 46 per cent of the purchasers in the year ending March 1, 1940, to 30 per cent in the year ending March 1, 1942. In the Pacific region, at the other side of the country, the percentages were 64 per cent for the 1940 period and 55 per cent for 1942. In fact, in every region of the country the percentage of purchasers who are active farmers is down over this two-year period, and the United States average declined from 68 to 63. This is not a large drop, it is true, but enough to indicate a dangerous trend.

Reasons for Absentee-Owner Buying

Absentee investors are seeking farms because of conditions affecting industrial investments. Heavy corporation taxes have made the buying of industrial stocks less attractive. Because the United States Treasury obtains such a large share of industrial income before corporations declare dividends, some investors in industry are looking around for investments for their surplus funds where they can avoid the heavy tax handicap. Farm land is an ideal alternative because there is no tax on its income, apart from the personal income tax of its owner and the property tax on the land.

Good returns from land investment is another reason for increased buying by absentee owners. In some areas landlords are receiving the highest rate of return on land investment obtained in the last 40 years. Examples of landlords receiving 10 per cent or more on land purchased recently can be cited. This high rate of return for agriculture favors land buying because of the present low interest return on utility, municipal, and government bonds. With this favorable land return there is grave danger that absentee owners may rush into the land market and bid prices up beyond the reach of the tenant operator who is hoping to buy.

The farm has two other more-or-less superficial appeals to the absentee owner. A farm provides a bit of prestige, a trace of aristocracy which is sometimes associated with land ownership. It is often considered a sign of distinction to own a farm or country place where one spends money freely on purebred livestock, race horses, or an elaborate set of buildings. More recently it has become somewhat of a fad among business men in the large cities to own a farm or two. Title to a farm is the first requirement for membership in "Farmers' Clubs" which are flourishing in the big cities in the Middle West. The other attraction for land is the feeling of security which attaches to farm ownership. It is supposed to be the final refuge in event of severe inflation, or widespread depression. When stocks and bonds no longer yield any return, and when the job in the city is lost, the farm is the one place where a self-sufficient existence can be obtained with little dependence on fellow man.

Absentee Ownership Problems

Competition between absentee owners and tenants for farms is weighted heavily in favor of the former. Since the absentee owner commonly has a source of income apart from the land, he is not likely to be dependent on current income from the land for his living. He can buy with little fear of low returns in depression years because he is looking primarily for a safe place to invest surplus funds. Furthermore, the absentee owner is usually able to offer a larger cash payment, a factor which may be of critical importance in the purchase of a farm which a tenant operator also may want to purchase. Consequently, tenant operators often find it difficult to outbid absentee owners.

The problems arising from an absentee owner invasion are numerous. Near one small mid-western town, for instance, a wealthy investor recently bought a large acreage of land, some of it formerly owner operated. The new owner is using a lease and a farming system not altogether in keeping with good farm management practice. The community is deeply concerned, and rightly, because this new undesirable policy affects a number of farms. Furthermore, the investor, it is feared, may enlarge his holdings. Tenants who had looked forward to owning the farms which they operated have a choice of renting from the absentee owner or of going outside the community to find a farm to buy.

Farm communities have much to gain by preventing an excessive transfer of land into the hands of absentee landlords. The desired goal in each community is that balance between owning and renting which allows tenants to move freely into ownership when they are ready and anxious to take the step. But there will always be tenants who do not want to own, others who will never have the funds, and still others who are not ready to buy. A satisfactory tenant percentage varies with the community, in areas where young farmers short of capital are numerous, a percentage as high as 50 may represent a desirable balance. Landlords, it is evident, perform a highly useful service. But if these landlords by expanding their holdings prevent tenants from owning, they will not only perform a disservice, but in addition may cause unnecessary friction to develop in the community.

The Desirability of Control

Some control on ownership is not a new thing. Attempts, some of them successful, have been made to curb the holding of land by absentee owners including corporations. Homestead exemption laws, in effect in several states, are a clear-cut subsidy to operating owners. Insurance companies and banks are usually limited by law in the number of years they can hold a farm they have acquired through foreclosure or deed in satisfaction of a mortgage. Moreover, attempts have been made to tax the ownership of more than one farm by the same individual and also to make property tax rates increase with the number of acres possessed by a single individual.

It is conceivable that production might be more efficient if large corporations owned the land, rented it out to tenants, and provided the tenants with capital and management supervision. Because of the high cost of supervision over wide distances plus the lack of owner-operator incentive, the gain from such a system would not be great even under the most favorable conditions. More important, any small production gains from a corporation system would be insignificant in comparison with the social losses of having farmers reduced from an owner-operator to a supervised tenant status. One of the firmly rooted policies of American agriculture is a thoroughgoing belief in the family farm operated by the owner and his family. L. C. Gray, writing in the 1940 *Yearbook of Agriculture*, says:

> There can be little doubt that an essential aim of American land policy in the past has been the establishment of family-size farms owned by those who operate them. Yet the means adopted have fallen far short of realizing this objective.

Tenancy that does exist is considered as a necessary step in the ladder that leads to ownership, or as a condition that arises because some do not aspire to own their on farm. The Tenant-Purchase Act of 1937, also known as the Bankhead-Jones Act, is a recent formulation of Congressional policy on this question of land ownership by farmers. Congress in this legislation, even more directly than in previous tenant-purchase legislation, expressed its desire to assist the farmer to own his farm including his home and the land he operates. The danger in the immediate future is that in some areas absentee owners will acquire as permanent holdings so many of the available farms that tenant farmers will find their road to ownership effectively blocked.

B. A CONTROL PROGRAM

Farmers, loan agencies, and real estate brokers in areas of rising land values are asking whether and when ceiling prices or other types of regulation are to be established for farm land. Many feel sure that the Government will do something to keep land prices from rising as they did during and after World War I. And these men have good grounds for their belief. Only recently the booming of farm machinery prices at farm auctions was followed by price ceilings on tractors and certain other farm machines; and similarly, the rise in corn prices during January, 1943, was followed by a ceiling on corn. Consequently, in the light of present conditions, a control program for the land market is a necessary and logical development.

Three types of land market control are suggested to prevent a boom and an absentee owner invasion. The first is a limitation on credit. The second is special tax programs to soak up the profit from land speculation and to favor owner operators as against absentee owners. And the third is a system of purchase permits, with or without land price ceilings, to regulate transactions in farm land.

1. Credit Control

Credit control, as generally discussed, means strict regulations to govern the granting of farm mortgage loans. As used here it means even more, it applies not only to farm mortgage loans but to all loans made to farmers including short term or production advances. By including all loans, there is more likelihood of preventing excessive borrowing and booming land values during a period like the present.

An order by the President of the United States restricting loans on farm land is suggested as the best means of credit control. That the President now has this power is pointed out by Regan and Clarenbach in the November, 1942, issue of the *Journal of Farm Economics*. Such authority was granted by Congress in the Trading With the Enemy Act of 1917. Precedents have already been set in present restrictions on installment purchases and other types of retail credit. Farm credit restrictions should limit new loans to 50 per cent of the sale price or of a "normal" value established by a Federal appraiser. The restrictions should also prevent existing indebtedness from being increased unless the existing amount is below the 50 per cent maximum. In effect, the credit regulation would limit new loans to a 50 per cent maximum and prevent existing debt from being increased beyond this limit. With credit controls of this type in effect, any farm purchaser would have to provide at least one-half the purchase price or purchase a farm which had a heavy existing debt which could be assumed by the new owner.

In order to succeed, credit restrictions must be effective against private loans and particularly loans by the seller as part of the sale price. There has been a tendency to regard the credit situation as being under control so long as insurance companies, Federal land banks, commercial banks, and other institutional lenders do not liberalize their loans. The efforts of these lenders to prevent a credit expansion will be helpful, but these lenders do not control the market. During the last land boom, that of 1919–20, insurance companies and Federal land banks were chiefly bystanders because they would not make liberal loans. But this conservative policy did not prevent credit from being granted in abnormally large amounts by individuals and sellers of land. In short, it is necessary to apply credit restrictions to all lenders and especially to sellers of land.

All types of credit as well as all lenders should be brought under credit control. Accordingly, restrictions on short-term credit will be required. Otherwise, farm purchasers may borrow heavily on livestock, equipment, and even on unsecured notes to get around the credit limitation on farm mortgage loans. The simplest answer would be to require all new loans except special war production loans to be secured and to be limited to 50 per cent of the value of the security. Commercial banks, which make a large share of the short-term loans, would undoubtedly be willing to cooperate because of the unfortunate experience many of them had after World War I with unsecured and poorly secured loans. Furthermore, enforcement could be handled easily with the banks through the regular examinations by bank examiners. Enforcement on loans by individuals would not be as easy, but evasions would not be large because lenders generally record or file their mortgages for public inspection. What has been said for short-term credit applies with equal force to real estate contracts, sales contracts, and option devices of all kinds.

2. Taxation

Taxes, a second method of control, may be devised to discourage land inflation by absorbing land sale profits. At the present time capital gains from land sales are taxable as net income according to a special set of regulations in the income tax law. But the 1942 Act allows a deduction of 50 per cent on capital gains where the property is held more than six months. In consequence, the maximum rates for most individuals are around 10 per cent on total gains from land sold after it has been held for more than six months. This rate closely approximates the capital gains tax in the Revenue Act of 1918 which applied to land sales at the end of the last war. In the 1918 Act, exemptions were larger, and the surtax schedule was lower; but there were no deductions on capital gains. The capital gains taxes paid in 1919 and in 1943 by the farmer with a good income will not differ much although the tax payable in 1943 on income other than capital gains will be almost four times as high as in 1919. The present tax on capital gains is not likely to have any more effect in controlling land price inflation now than it did in the postwar boom of 1919–20.

A special tax on resales, a farm bought and sold again within a specified period, is advocated by Regan and Clarenbach. By taxing heavily the profits from reselling a farm, these authors believe that speculative activity can be largely eliminated. There is no doubt that speculative buying would practically vanish if the rates on resale gains were high enough. But such a tax would not deter farmers and nonfarmers who are buying not for resale but for permanent investment or operation. Nor would it necessarily prevent a stampeding of the market by these buyers or prevent the selling of a large number of farms not transferred in recent years.

Profits from all land sales, not just resales, might be taxed. To do this, however, a base value as of a certain date would have to be established whenever a farm was sold. The date the tax law went into effect could serve as the date for the value base. The profit would be the difference between the sale price and the base value. Federal appraisers of the Farm Credit Administration could be used to establish base values. Any improvements made between the base date and the date of sale would have to be taken into consideration, but this would be necessary with the resale tax also.

A special capital gains tax has been suggested by J. A. Baker, as a method of restraining speculation and preventing a land boom. His plan, explained in the February, 1940, issue of the *Journal of Land and Public Utility Economics*, is to have the present Federal tax on deeds of conveyance expanded into a heavy tax on land transfers. The present tax, requiring stamps on each deed at the rate of 55 cents for each $500, or fraction of this amount, is purely a revenue measure, but under the Baker plan it would be stepped up progressively as a means of control. The tax rates would vary inversely with the number of years since the previous transfer and directly with the increase in price over the previous sale price. For example, if the present sale price is not more than 20 per cent above the previous sale price, the suggested tax rate on the capital gain would vary from nothing if the farm had been held for 20 years or more, to a tax of 40 per cent on the gain if the farm had been held less than one year. The highest tax rate suggested is 90 per cent of the gain on farms sold more than once within a year at a profit of 100 per cent or more. These rates, of course, are merely suggestions by Baker, but they indicate the principle of the plan.

A sales or transfer tax, another possibility, would have the desired depressing effect on the land market. Although one of the simplest forms of tax control, it is likely to be one of the most effective. The imposition of a 20 per cent tax, for example, would place a heavy burden on buyers intending to purchase. Buyers would discover in many instances that they did not have sufficient funds to pay the tax in addition to making the down payment required by the seller. Speculators would be discouraged because no profit on buying and selling could be made until the price had risen by the amount of the tax. Moreover, the possibility of an increase in the tax rate would act as a damper on speculative activity. Enforcement could be made effective by using the present documentary transfer tax system. In order to obtain valid title to real estate, the buyer would have to have a deed with tax stamps affixed for the proper amount.

Tenants who buy farms should be given tax exemptions. Such a plan would square with the national policy of encouraging more owner-operators and would at the same time discourage the purchase of farms by speculators and absentee investors. The capital gains and transfer taxes could both be applied with exemptions; the capital gains' exemptions would be granted to sellers who sold to tenants and the transfer tax exemptions would be given direct to tenant purchasers. Transfer tax exemptions would work better, however, because they are more direct and are more uniform in their application to all tenants in one group and to all absentee owners in the other group.

3. Permits to Buy Farms

A system of permits for the purchase of farm real estate is the third plan suggested. If price ceilings are set for farm land, price control permits can be used in obtaining an official appraisal and in determining which buyer among several bidders is to obtain the farm being sold. A more important purpose of the permit system is to maintain a free movement of tenants into ownership. Credit and tax controls may help to prevent a rapid rise in land prices, but they will not insure a stable owner-operator community life. To accomplish this last objective a system of land purchase permits is needed.

Price Control Permits

Price ceilings for land, although difficult to establish, may be necessary. In the event they are necessary, the administration of the ceilings can be handled efficiently through a permit system. The fact that no two farms are exactly alike makes the application of price ceilings to land particularly difficult. Grades of land can be established and price ceilings set for each grade, but within each grade countless variations in quality will exist. Consequently, countless variations in price will be justified. In case price ceilings for land are announced they will undoubtedly be as of a certain date. Whenever a farm is sold it will be necessary to have the farm appraised, preferably by a Federal appraiser, to determine the value as of the ceiling date. This procedure would be the same as that suggested for the tax on land sale profits, the profit to be determined by the difference between the sale price and the base date appraisal.

By requiring a permit for each farm purchase, the permit system would facilitate price control. No permit would be granted until the farm had been appraised to fix the price ceiling. Furthermore, the determination of which buyer out of several would be allotted the permit could be made by the permit board in conformity with a set of national standards.

The county war boards or some agency authorized by these groups should operate the permit system during the war. The county debt adjustment committees which did yeoman service during the depression and recovery periods might be enlisted to help on this job if the war boards needed assistance. The chief objective is to obtain the services of a local group that, for its area, will administer in democratic fashion the land market controls issued for the country as a whole.

Land Purchase Permits

The wartime use of land purchase permits will complete the control program by checking abnormal land buying by absentee owners. While credit and tax controls in the war period can be used to keep farmers and speculators from starting a land price boom, yet these controls will not be effective in keeping absentee investors out of the market because many of them have a surplus of cash which makes them independent of credit. Consequently, permits may be used during the war emergency to regulate the purchase of farms by nonfarmers.

Administration of land purchase permits during the war and after the war are two separate problems. During the war the county war boards could issue the permits in the same manner as they do the price control permits suggested above. Little difficulty is likely to be encountered in the war period in obtaining legal sanction because of the broad war emergency powers that are available. But the administration and legal aspects of postwar ownership control are matters of an entirely different order. Since farm tenancy is likely to be a problem in the immediate postwar period, the following discussion is devoted to the kind of a permit system that might be established after the war.

A permit system could be operated after the war on a state and county basis. Each state could pass an act authorizing county boards to issue real estate purchase permits. The Act would prescribe a set of regulations under which permits would be granted by the local authorities. The county recorder, auditor, or some other county official would be authorized by the county governing body to issue permits to all who meet the regulations. Any individual who is denied a permit would have the right of appeal to the county board and to the state board as well.

To obtain a permit the purchaser would have to state whether he intended to operate the farm himself or to lease it to a tenant. If he did not intend to operate the land, he would have to specify the individual or management agency who would manage the property as his agent. He would have to indicate his ability to finance the purchase and to maintain the property. Any absentee investor who applied for a permit to buy more than one farm in a community or who already owned one or more farms would be subject to additional regulations before being granted a permit. The details of a permit system would vary, but the general principle of regulating ownership in the interest of the operating farmer would hold in all cases.

Various means of issuing purchase permits to control the market might be used. One method would be to allow only a certain quota of absentee owners to purchase in any one year—something on the order of immigration quotas used in this country. After the quota had been used up in any one year, additional requests to purchase by absentee owners would be carried over to the next year. Under this arrangement the quota could be increased or decreased at stated intervals as the proportion of tenants to owners changed or as the wishes of farmers in the county changed. A certain percentage of tenancy might well be chosen as a maximum by the farmers in a county and a permit system established to keep this maximum from being exceeded. If only a few tenants wanted to buy, farmers might decide to raise the maximum percentage of tenancy and increase the quota of absentee owners eligible to purchase land.

The requirement of a farm purchase permit is a reasonable proposal. Anyone starting a business in a city would expect to obtain a license or permit. Zoning regulations in a city are specific as to where different businesses may be conducted. The same kind of conditions face the city resident who plans to build a residence. Certain areas are limited to certain types of buildings and to minimum amounts that must be spent. It is not possible to build a shack, an apartment house or a store on any lot in the city. The development of a desirable city plan requires limitations on the rights of individuals to build what they want and to carry on a business where they choose in the city.

The time has come when zoning and ownership regulations are desirable in the farming areas. Permission to erect a tavern or roadside market along the highway is essential in the country as well as in the city. Regulations to prevent unwise, hit-and-miss settlement are also recognized as desirable. The pioneer work of George S. Wehrwein in this rural zoning field needs to be expanded. Regulations are in order to limit absentee ownership and to maintain opportunities for tenants to buy a farm home and business.

A permit system for purchasers of farms would be a direct method of furthering ownership by farmers. In the past the Federal Government has attempted to create a large group of farm-operator owners through the Homestead Act and later through the Federal Farm Loan Act. It is only recently that Congress tackled the problem directly through the Tenant-Purchase Act. State governments have also followed an indirect method for the most part in their policy of granting homestead exemptions on taxes. All through the years, it is evident, there has been a strong undercurrent of popular support for measures designed to assist the farmer in becoming an owner. Not all of these measures have been successful, however, because of the extreme freedom of disposing of land. L. C. Gray suggests in the 1940 Yearbook of Agriculture that the time may be at hand when this freedom should be limited in favor of the general welfare. He writes:

> There is a growing opinion that land is vested with a paramount public interest, that private land-ownership is granted by society rather than being an inherent individual right, and that when it comes into direct conflict with the general welfare either it must be restrained or the land must be converted, with due compensation, into public property.

A permit system is merely a new approach to an old problem. Other nations, especially those in Europe, after wrestling with the same problem for years, have been moving toward this direct approach. Switzerland, which applied far-reaching controls to the farm real estate market in 1940, is a good example. The control provisions in this instance included restrictions on price and ownership. A description of the regulations in Switzerland is contained in an article entitled, "The Agricultural Land Market and Its Control," by Dr. G. Costanzo, and published in the May, 1941, *Monthly Bulletin of Agricultural Economics and Sociology* of the International Institute of Agriculture. The new regulations in Switzerland require that the proper authority must pass on a land sale before it is valid. Approval of the authority is not to be given unless, among other things, the price is at or below a certain maximum. Approval may be refused if the new owner is an absentee owner or if the new owner plans to divide the farm or to consolidate it with other land. The decree does not prevent nonfarmers from purchasing, but it does make their purchases subject to the decision of the authority in charge of the land market controls.

Regulations will eventually be set up for the land market in this country. It is important for the welfare of the farmer that they be designed with care to accomplish specific objectives. Two objectives of primary importance are preventing a land boom and keeping farm ownership open to tenants.

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Related reading: For those who are interested in additional references to land market controls, the following are suggested: An article entitled, "Emergency Control in the Farm Real Estate Market" by M. M. Regan and Fred A. Clarenbach in the November, 1942, issue of the *Journal of Farm Economics*. In the February, 1943, issue of the *Journal of Farm Economics*, two articles, one entitled "Land Market Developments and the War," by Regan and Clarenbach, and the other entitled "Land Market Regulations," by the author of this pamphlet. A comprehensive source of statistical material on land values is Circular 662, "The Farm Real Estate Situation, 1939–40, 1940–41, and 1941–42," by Regan and Johnson, issued by the U.S.D.A., November, 1942.

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