COMPARISON OF PRICES RECEIVED BY FARMERS IN THE UNITED STATES WORLD WAR I AND II

By
J. E. Aakhus
Assistant Agricultural Economist

The statement that history repeats itself does not hold entirely true for business conditions, and for the general level of prices. There are numerous factors which affect business, prices, and the general level of business activity, and rarely do we have repeated combinations of these same factors in a like manner to produce like results. However, under the stimulation of wars our economy has experienced the upward movement of prices with prosperity extending for an unpredictable length of time after the termination of the war. By comparing the two latest wars in which the United States has participated we can notice some similarities.

Figure 1 shows the comparisons of prices received by farmers for two periods, World War I and II. Based on index numbers using the years 1910-1914 as a base, we see that their rise was quite similar. There was a tendency in 1943. 1944, and 1945, for prices to level off, but after the removal of OPA controls, prices of farm products sky-rocketed.

When these prices are converted to purchasing power as shown in Figure 2, we see a similar pattern but this more accurately measures the farmer's income and general prosperity. In both wars the farmers enjoyed a favorable position, which is always true when prices are rising. Prices of basic commodities, such as steels, ores, coal, and agricultural products, are more sensitive to supply and demand and thus rise or fall most rapidly. Prices of processed and manufactured goods lag behind the prices of basic commodities; this lag is due chiefly to manufacturing and processing labor costs or wages, which are less flexible. In general, the farmer is in a favorable position during periods of rising prices and in an unfavorable position during periods of falling prices.

When we consider prices farmers received as shown in Figure 1, we see that the rise was quite similar during the two war periods, but to date this comparison shows no real indications that prices will fall off. During the period 1943 to 1945, we see a leveling of farm prices as well as purchasing power due to price control regulations. 1946 was a very favorable year for farmers in the United States from the standpoint of prices received in comparison to prices paid, that is purchasing power. The preliminary 1947 figures would indicate that the purchasing power may take a slight downward trend, especially if the price of commodities farmers buy continues to increase.

While there are no definite indications that farm prices will decline, there seems to be some evidence that the farmer's purchasing power may be on the decline. Without price supports, the prices of some of our farm products would fall considerably, such commodities as potatoes and wool are good examples. While these are not indicative of falling prices, their supported prices keeps the average of prices received by farmers at a higher level. Even if farm prices do fall to some degree, it is very possible that prices of commodities farmers purchase such as machinery, petroleum and building goods will not decline, and at least both will not decline to the same degree. This reduces the purchasing power of the farmer.

As stated before, in a period of falling prices the farmers are usually in an unfavorable position pertaining to net income. No economic theory designed to forecast price trends or business cycles has been universally accepted, likewise this is not written primarily with the object of forecasting, but to show how rising and falling prices affect the farmer.

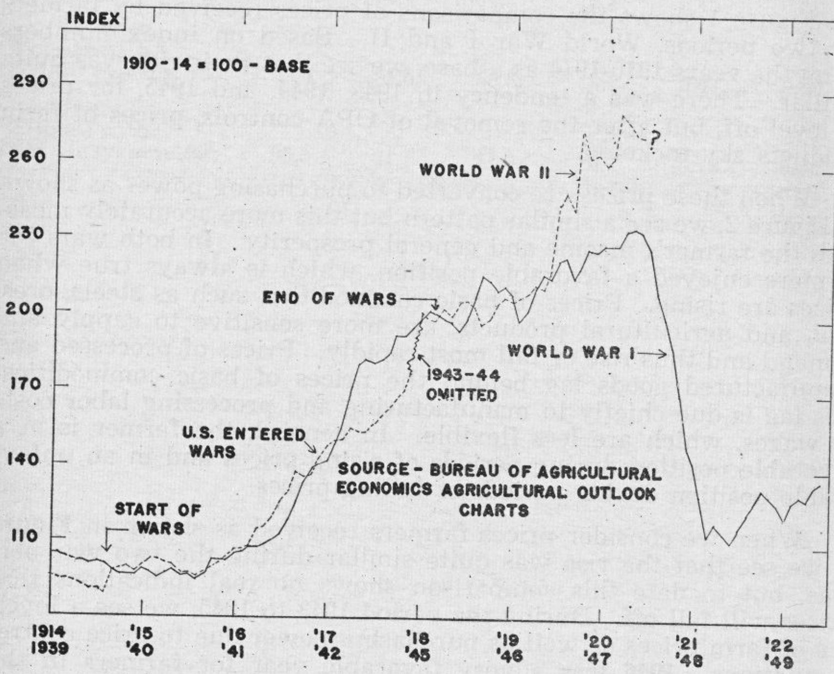

Figure 1.—Index of Prices Received by Farmers in the United States During World Wars I and II.

The 1939-47 period is adjusted to the length of World War I by omitting 1943 and 1944. The index of prices followed a similar pattern during the rise; there was a rapid increase in farm prices after the death of O. P. A. in 1946. The rapid drop of farm prices in 1920 is clearly shown, but this alone does not necessarily indicate we are now approaching a similar decline.

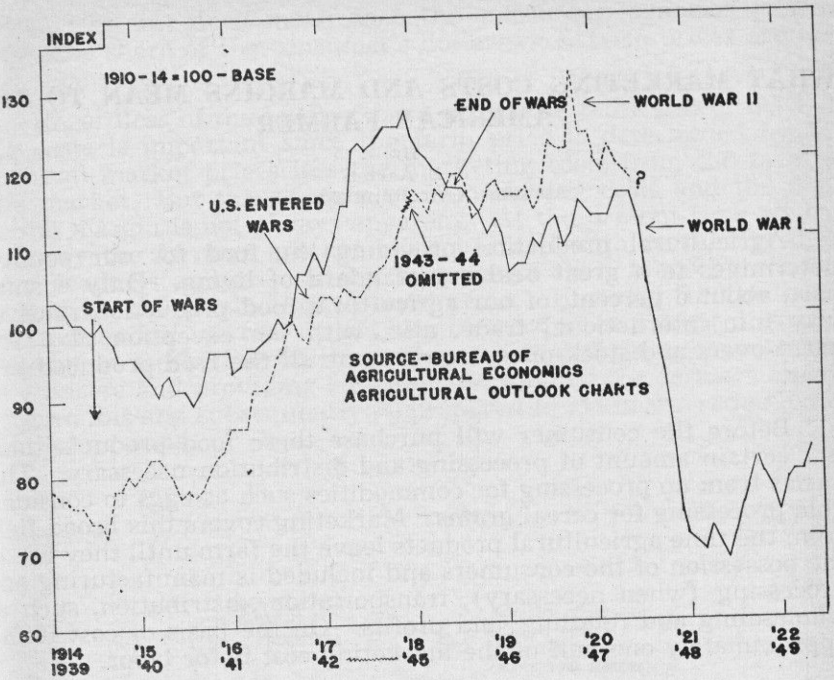

Figure 2.—Purchasing Power[1] of United States Farm Prices During World Wars I and II. The 1939-47 period is adjusted to the length of World War I.

Purchasing power gives a picture of the real income of farmers regardless of the level of prices. In World War I farmers enjoyed the greatest purchasing power during the war; in World War II their purchasing power was better after the war.

[1] Purchasing power is derived by dividing the index of prices farmers receive by the price index of things farmers buy. In this manner purchasing power expresses the price of farm products in terms of what they will buy.