

Prosperity And Land Boom 1901-1920

Rising corn prices, beginning in the early 1900's, sent the price of farm land and buildings on an upward path. The \$43 level of 1900 was the highest experienced to that date. Almost each year in the 1900-1914 period brought a new all-time high record. The farmer who bought a quarter section for \$7,000 in 1900 saw the value of his farm rise almost steadily until it reached a value of \$20,000 in 1914. This was a rise of \$81 an acre, from \$43 to \$124, in a 14-year period. Values had risen an average of almost \$6 an acre a year, with the farm of 1914 worth almost three times its value in 1900.

This was prosperity. It is important to remember that the farmer whose farm had almost tripled in value since 1900 was also making good money from his farm in those same years, much more than he ever had made before. Corn in 1900 was selling around 30 cents a bushel while 14 years later it was selling at 60 cents or double the price of 1900. It is no wonder that some farmers and also some town and city people were beginning to look at farm ownership as an easy way to get rich quick.

Values continued to rise during the 1914-1918

World War I years. The farmer with the \$20,000 farm in 1914 saw its value rise to \$30,700 by March 1, 1919, a rise of over \$2,000 a year. Corn prices during this same period climbed to \$1.30 a bushel which was more than double the 1914 level. For agriculture this was prosperity piled on top of prosperity. It was hard to believe but the current prices at which farms were selling and the bulging deposit account in the bank were real.

The farm land boom came in 1919. Events of the years 1900-1918 had set the stage for this speculative splurge. Prices of both farm products and of farms had risen so many years without any serious decline that practically everyone believed there was no way for farm values to go but up. And up they went. There was a frenzied effort by farmers, businessmen, doctors, lawyers, bankers, and anyone who could get his hands on enough money to make the down payment on a farm purchase. If you had a farm you either sold it and bought a larger one, or you mortgaged the farm you had to buy another one. There were some, of course, who did not buy and even some who sold out and bought government bonds but they were few indeed.

How can you be sure it was a land boom? One of the best definitions of a land boom was given by Dr. L. J. Norton of the University of Illinois in an article written for the September 1943 issue of the *Country Gentleman*:

. . . A land boom is a period of relatively high and rapidly advancing land prices when, in many cases, purchases are not made with the expectation of holding the land as a home or as an investment but with the idea of reselling it at a higher price. It is a time when down payments become smaller and mortgages larger in proportion.

Land market activity in Iowa in 1919 met every land boom test without question.

When farm values continued to go up during the boom, some farm owners sold and took their profit in the form of a second mortgage owed them by the new owner. But as values continued to go up the itch to make more money the easy way resulted in many of these sellers going back into the market to buy a larger farm using the second mortgage they held and bank credit, which was easy to get, to finance the transaction.

The end of the boom came in the spring of 1920. In one year, from March 1919 to March 1920, farm values were up from \$192 to \$255 an acre, with many recorded sales of \$400 to \$500 an acre. In this short period of only one year values had risen \$63 an acre which was almost as large an increase as in the five preceding years. The farmer with the \$30,700 quarter section in March 1919 had a \$41,000 farm in March 1920 and if he were able to resist the temptation to mortgage it to buy another farm, he was in an excellent financial condition in 1920.

Some idea of the land boom mania can be seen

by checking the deed books at the county courthouses for 1919 and 1920. Since many of the farm sales during the year resulted in a final settlement the following March 1, the customary beginning of the farm year, the land boom is written large in the deed entries for March 1, 1920. Here, for all to read, is the tragic record of the speculation in farms which caused such acute financial distress.

The record of farm deeds and mortgages in Story County, which is located near the center of the state, provides the raw data — acres, sale prices, and mortgages — for 516 farm sales in this one year. This reflects the height of the boom. In 1919 there were 247 farm sales and in 1921 only 70 — nothing like the 1919-1920 boom had ever happened before nor has it happened in the 47 years following 1920.

One way to make the land boom real is to trace the steps in an individual sale. The farmer in this case, call him Farmer A, had a 311 acre farm in 1919 on which he owed a mortgage debt of only \$11,000. Up to this time he had resisted all temptations to buy during the boom. He had seen the farm next to his sell four times between 1909 and 1917 — in 1909 at \$100 an acre and in 1917 at \$190 an acre. Finally at the top of the boom Farmer A got the fever and bought this neighboring farm of 240 acres at \$396 an acre for a total of \$95,000 according to the courthouse records of March 1, 1920.

To make the purchase, Farmer A borrowed \$34,000 in cash by increasing the mortgage on his home farm from \$11,000 to \$45,000. This \$34,000 plus \$16,000 of additional cash from deposits and bank loans on livestock and equipment made a total of \$50,000 which was paid on the \$95,000 purchase, leaving only \$45,000 to be financed by mortgages. Compared to most of the land boom sales this one was conservative with more than 50 per cent of the amount paid in cash.

Farmer A's mortgage debt in 1920 after buying the new farm was not heavy in relation to the value of the farm. He had a mortgage of \$45,000 on each farm for a total of \$90,000 of debt on 551 acres or an average of \$163 an acre. With land valued at around \$400 an acre this meant a debt which was considerably less than one-half of the land value.

To understand why Farmer A and countless others bought during the boom it is necessary to note the current thinking as reflected in the statements made at the time. A leading banker in Iowa gave a talk to the Farm Mortgage Bankers Association in September 1919. His address, which was entitled, "The Future Valuations of Farm Lands in the United States," was printed and given wide distribution. He said:

I believe from personal experience farming Iowa land, from observation, from contact with farmers all over the country, from recent investigation with this address on

my mind, and from a lifelong study of farming and banking as correlated subjects, that the present land prices are warranted and that we shall see no appreciable decline for many years to come.

This was the kind of fuel which fed the land boom fire.

A cross-section of local thinking during the land boom was provided by a questionnaire put out by the *Traer Star-Clipper*, a weekly newspaper published in northern Tama County. Here are some of the answers received as a result of this survey in the summer of 1919:

From a young farmer: "Do we think land will advance as much in the next six months as it did in the last? Nobody knows. But my opinion is that Tama County land will never be as cheap as it was six months ago, and I look for the best to reach \$700 if not more."

From a real estate broker: "We are not going to see farm products any cheaper for the next two years at least. Tama County land has advanced at least around \$50 per acre in the last six months, but it never will be any cheaper and within the next ten years no farm in Tama County can be bought for less than \$500 to \$800 per acre."

From a banker: "It (Tama County land) will never be worth any less and the tendency will be for higher prices from now on, as land will be the safest investment in the world."

From a manufacturer of farm equipment: "There never was a more glorious opportunity in the history of the world for the Corn Belt farmer than there is today, and I think that any man is wise who has \$8,000 or \$10,000, if he can get terms or borrow the money from his friends, to buy at present prices. In my opinion he cannot lose."

These statements are typical of most of those that were received and printed in July and August of 1919.

However, there were two replies received which took a more pessimistic position. Here are excerpts from such comments:

From a banker: "The farmer, up to this time, has had the best of it, and now the real estate speculator is making the most of it; the latter, with the present price of products, has a very good argument. . . . For my part, I cannot believe it will be for more than the period of another favorable crop year, or two at the most, and thereafter the prices will be downward. . . . I believe it behooves us all to go cautiously, and instead of contracting heavy future obligations we should be utilizing these high prices to free ourselves from debt."

From a businessman: "Having witnessed the value of this northern Tama County land advance from \$10 per acre to the present fabulous prices, this seems to be the first instance where we have experienced what appears to me to be an unhealthy and artificial boom in land values."

As a young high school student working on a north Tama County farm during the summer of 1919, the author remembers well the general reaction to these two minority statements when they appeared in print. It could be summed up as "These individuals must be suffering from ulcers."

Another statement from the minority came from a young farm economist at Iowa State College at Ames, E. G. Nourse who went on to a distin-

guished career at the Brookings Institution and chairmanship of the first Council of Economic Advisors to the president. Dr. Nourse, in an article in the June 20, 1919, issue of *Wallace's Farmer*, said:

Some people say to me: "Why, Iowa land is going to \$500 an acre." Some say \$1,000! The first figure is quite certain; the second possible. But that is no excuse for paying such prices now if the earning power . . . on which to base such a valuation is not here, and here to stay. . . . Every boom has a stampede of buyers just at its climax, before recession begins. And the last buyer is the one who gets stung. The land boom should have stopped the day the armistice was signed. But the papers are full of it today; half the people you meet are talking of it; in some sections merchants, bankers, professional men, almost everybody, are neglecting their own proper business to go running around speculating in farm land. It's nice for the real estate agents, but as for the farmers, a look at the future is not reassuring. . . .

This was published in June of 1919 before the land boom reached its climax in the fall and winter of 1919-1920.