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Farm accounts

THE NATIONAL VALUE OF FARM ACCOUNTING DATA

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MUCH work has been done in the United States of America, on the Continent of Europe, and elsewhere in the collection of accounts from farmers. The motives in this work have been various. Frequently, in the United States and in Great Britain, the objective has been the accumulation of evidence upon which to base conclusions upon the problems of farm management. On the Continent of Europe, and particularly in Switzerland and Denmark, the objective has been the publication of statistics bearing upon the situation of the agricultural industry. In Germany, the motive behind the collection and compilation of farm accounts by the Agricultural Councils has, I believe, been largely fiscal, though the compilation of selected records by the Landwirtschaftsrat, in the form of an account of the economic position of the agricultural industry of the Reich, has turned the local data into information of national importance. I do not wish on this occasion to examine the work done, or to attempt any assessment of the effectiveness of the information obtained for the purposes in view. Conditions in each country have much to do with this. I wish, rather, to endeavour briefly to consider the utility of such data as farmers can furnish through their accounting records to assist in measuring the status and prospects of farming in the national economy.

The problem is relatively simple where farming conditions are homogeneous and production is specialised over wide areas. It is more difficult where the surface of the country is very uneven and soils are diversified.

This question is of some national interest to us in Scotland because, on account of limited resources and of a desire to serve the community as fully as possible with the funds available, we are seeking to evolve a plan of research and investigation that will serve two ends, namely, the accumulation of data that may afford a basis for advisory work on farm organisation and management, and that, at the same time, may throw light upon the broad issues which confront those who are concerned with the place and standing of agriculturists in the national or international field of which

they form a part, and with the problems of amelioration of the conditions of those engaged in agriculture.

Of the national value of farm management work there can hardly be any question. Obviously greater productive efficiency makes for higher standards of living and for greater leisure. I am aware that there are many difficult problems involved in reconciling fully the individual gain due to increased efficiency in production with the national well-being of the community as a whole. These problems arise from economic friction, and can only be solved by promoting greater fluidity in the movements of personnel and of resources. It is not my purpose to discuss these things here, though I may have to refer to them in looking at the data farm records afford. I wish to examine farm accounting records to see how far, and under what conditions, they afford to the economist who is looking at agriculture, not merely from within, but as one phase of national activity, material for inference, and for the processes of inductive thought.

I would lay down, as a first axiom, that the primary information needed for considering the efficiency of measures of economic amelioration, is precise *quantitative* data as to the present economic status of the industry. Ameliorative measures usually involve expense; they may involve legislation altering the contract status entered into between farmers and landlords, or between farmers and labourers, or between farmers *inter se*. Proposals are made for relief of burdens, for the restriction of competition, for subsidies, for credit facilities, and for loans from public sources. All these things and others must be judged in the light of facts of the existing organisation. We can never in an old country start *de novo*. What is the incidence of depression, how many farmers are involved and to what extent, where is there a shortage of credit, where actually do existing levels of taxation pinch hardest, and so on?

Behind all these questions lies the major economic question—are the national resources in personnel and in property, devoted to agricultural uses, obtaining a return commensurate with their character and volume, having regard to the rewards to be obtained in other industries? I do not suggest that if agriculture should prove to yield comparatively low returns to labour, enterprise, or capital, and if therefore the national dividend could be improved by a proportional reduction in the volume of agricultural operations, it

would necessarily be good to restrict agriculture, or to watch its decay with equanimity. I do not suggest that agricultural resources can readily be transferred to other uses. But I do suggest that decisions on agricultural policy must take into account the effects likely to be produced upon the total national material well-being, even if these effects are disregarded in favour of considerations more weighty in the estimate of the community as a whole.

I raise these points merely to answer in advance the questions that might arise as to why we need trouble about national economic statistics at all, and to state the case for assessing at its proper value, the information farm accounts can afford.

Other sources of information of course exist—data relating to the course of prices, to the level of wages, crop areas and yields, the volume of imports and exports, and so forth. But those who have attempted to use these data for answering specific questions relating to the status of agriculturists know full well that only generalisations, often of a somewhat indefinite kind, can be deduced from them. Moreover they only allow of comparative, not of absolute statements of the position of agriculture at any time.

How far, then, do farm accounting records, by supplementing the more general information available, help us to obtain a fuller view of the actual status of agriculturists engaged in different phases of the industry, and to assess the possibilities and means of amelioration of their position?

It seems to me there are two conditions precedent to the effective use of accounting data for furnishing information of national economic value. The first is that the material must be drawn from farms which are a representative and an adequate sample of the whole. It is this preliminary requirement which underlies the careful statistical analysis of farming types which is being made by my colleague Mr. Senior, at the Department of Agriculture for Scotland. Given a correct and quantitative picture of the distribution of farms, and the collection of adequate accounting and other data from representative samples of sufficient size, the foundations of an accurate picture of the economic status of agriculturists will have been laid. I do not propose to go into the difficulties of this work or into the methods of classification involved. A brief note upon these appeared recently in your *Journal of Farm Economics*. There must, of course, be in existence sufficient census or survey material to enable the farms to be classified and sampled.

The second condition is that the information yielded must give a true picture of average conditions in each type group and of the extent of variations from the average. I do not think this conflicts in any way with Dr. Brandt's abhorrence of the average financial results of farm groups. For the granting of individual credit the personal element in the farm economy is dominant. For observing trends and the influence of external conditions, the personal factor must be eliminated, and the average obtained. Even for estimating the aggregate credit needs of a large body of farmers, for the purpose of making adequate financial provision, it becomes necessary to merge the individual in an average of cases.

Having stated what seem to me to be statistically essential preliminary conditions, I would like now briefly to look at the kind of data yielded by farm records and to see how far they fulfill some of the needs of the economist for representative data. And here I enter, with some trepidation, upon ground which may be a little controversial. Professor Boss is to follow with a paper on Farm Cost Accounting in the United States of America. I have already seen enough of the United States to realise that differences in the circumstances of agricultural production in this country and in my own, may account for many differences of emphasis and of method. But I feel bound to say, with all deference too to the views of some of my colleagues who may still think otherwise, that, for the purpose of throwing light upon the economic status and potentialities of the industry, cost accounts have, in my own country, so far proved to be of a very limited value. There is, of course, the primary difficulty of preparing a sufficiently large number of accounts to afford a real sample. If the difficulty of sampling can be overcome and attention be given to marginal, rather than to total costs, there may be much light thrown by cost records on the potentialities of different areas for extending or limiting their production of various commodities. Records of comparative cost and returns have also an important part to play in farm management studies, if comparisons are confined to alternatives that are practicable under the conditions prevailing. It has been, perhaps, the unfortunate emphasis on the final money cost of unit quantities of individual products as the end in view, that has brought cost accounting into the realm of acute controversy, not only in this country, but on the Continent of Europe and in Great Britain as well. One primary difficulty is, that so far as farming is a one-

man or family business and is the major occupation of peasant communities, the separation of concepts of product cost and standard of living is impossible. Another difficulty is, that with growing intensiveness of cultivation in many areas, the inter-relatedness of products like grain and meat tends to become more inevitable, and the separate product becomes more universally the joint product, and of this it is only possible to measure the marginal, and not the total, cost. The areas where specialised crops like rubber, sugar or other single products are grown on a large scale may perhaps be the best fields for cost of production studies. I do not think Great Britain is in that picture for any of its major products.

If we now turn to financial accounts we enter a more fruitful field. Financial accounts, if they are not "doctored" to influence the assessment of taxation, clearly lead us to a closer approximation of the economic status of agriculturists. I include in that term, workers, farmers, and landowners, because the day when one can think mainly in terms of profits of enterprise alone is passing rapidly away in favour of a greater preoccupation with the primary importance of the human factor in production.

But even in the interpretation of the financial results of farms in relation to economic rewards in other spheres, there are certain very real dangers and difficulties. We are in the habit, in economic thought, of considering the returns to the use of work and of property as two distinct things. A good deal of economic theory turns around the levels of interest and of earnings. This is, of course, valid in manufacturing and in industry, and we are disposed, in agricultural accounting, to attempt to separate capital and labour, including that of the farmer, into two compartments. Thus we assess interest earned, after charging so much for the farmer's work and the work of his family, and labour income, after allowing for interest on capital employed.

I am not at all sure that this is really a valid procedure in agriculture, or, for that matter, in craft-industry and in trade generally, where the provision of labour and the ownership of capital are to a large extent combined in the same person. The farmer farms because he can, by using both savings and his own labour together, do better than he could by using both separately. Of course, much agricultural capital is borrowed, but it would be entirely wrong to assume that, in my own country, this is any considerable proportion of the money invested in agriculture. I think

we may have to regard farming profits as something comparable with the profits of shop-keepers, traders, or craftsmen, rather than with the interest earned on free capital put out on investment, or the rewards of managers of industrial enterprises. It may very well happen that the rewards accruing to farmers will, on the average, be lower than what their capital, if free, might earn in investment elsewhere, plus what their labour might earn if performed for wages either in agriculture or in other industry, and yet be adequate to satisfy them. It would be of course impossible for any considerable transfer of farmers' capital or labour to other uses to be made without altering the current rates of profits and wages.

With this warning let us examine our financial records. They tell us the amount of investment, the amount of paid and of family labour, and the amount of "profit," using that term in the wide and usually accepted sense in Great Britain, *i.e.*, the total reward for both work and capital accruing to the farm, for each farming type defined by selected sample groups. They tell us what labour is paid and in what forms, and how much labour is being used in the various forms the industry takes. They tell us further what returns accrue to the owners of land as distinct from those who farm as tenants.

This information surely is vital to the consideration of a national policy towards agriculture, yet very little of it exists in a form that presents a true picture of the agricultural situation. Financial accounts, too, indicate the proportions in which the various products bulk in the economy of different farming types. Thus the effects of high or low prices upon farm incomes can be estimated fairly closely with the aid of general statistics of yields.

Given an adequate sample, the types of farming or the regions which have reached, or are approaching, marginal conditions can be observed. The size factor can be studied in relation to varying types of organisation with a view to carefully planned programmes of land settlement. Of course, the data to be derived from accounts, even if collected from carefully selected sample groups, are not adequate in themselves for the consideration of many agricultural questions. But they may provide a substantial basis of facts upon which to decide where the major problems of agriculturists really lie. I have not yet found any other means whereby, with an equal expenditure of time and effort, the national status of agriculture can be adequately portrayed.

With regard to the very large problems underlying the adjustment of the occupational distribution of wealth, it would seem that the main value of carefully prepared statistical data relating to farming rewards and their trends may be in creating an informed opinion, to aid individuals in their choice of occupation, and of the place where they will practice it. So long as enterprise is a matter of individual choice, one of the main stumbling blocks to rapid adjustment of occupations to earnings is want of a correct knowledge of conditions.

However desirable rural life be in itself, both from the individual and from the national standpoint, it is of little use to try to extend it, otherwise than by the conscious choice of those engaged in it, unless it offers standards of economic welfare equivalent to those obtainable in other fields.

Now it is of no use for agriculturists to demand higher standards of living unless their numbers, and their organisation permit of the attainment of these standards in the world of competition. We must surely help to make it easier for agriculturists of all grades to frame the course of their lives in the light of the facts.