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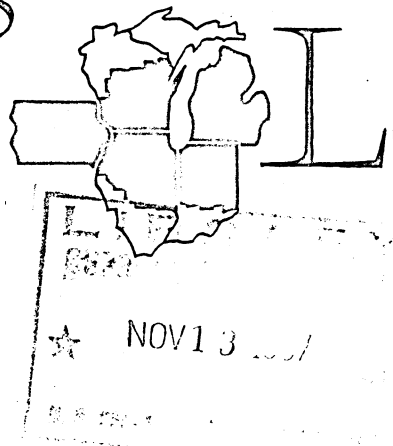
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Federal Reserve Bank of Chicago - -

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Agricultural Letter



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FARMERS' NET WORTH is higher than at this time last year in most Midwest areas. This is the opinion of country bankers, reported in a recent survey.

Larger inventories of crops and increased bank deposits were cited most frequently as the primary reasons for the gain in net worth. And, a number of bankers reported that farmers in their areas have reduced their short-term debts.

Farm real estate values have advanced, and country bankers reported on October 1 that the over-all trend was still upward. But this was not cited as the reason for farmers' improved net worth position. (Bankers focused attention primarily on "short-term" assets and liabilities.) Considering the rise in land values, the gain in net worth would appear to be very widespread.

Not every banker reported improvement in his area; one out of eight said the net worth of farmers is lower than in October 1956. The reasons for the declines, in areas where this was reported, are varied and about equally divided between smaller crop inventory, smaller holdings of financial assets and larger amounts of short-term debt and charge accounts. The current financial position, of course, reflects the flow of income and expenditures in past years (and changes in value of owned assets). Income was increased substantially last year.

Net farm income of Midwest commercial family-operated farms in 1956 and the two preceding years, as reported recently by the USDA, were as follows:

	<u>Net income per farm</u>		
	<u>1956</u>	<u>1955</u>	<u>1954</u>

Corn Belt farms:

Hog-dairy	\$5,092	\$4,372	\$6,379
Hog-beef raising	3,333	3,016	2,945
Hog-beef fattening	6,898	4,433	8,833
Cash grain	9,141	6,516	8,393

Dairy farms:

Eastern Wisconsin	3,365	2,816	3,219
Western Wisconsin	3,005	2,434	2,382

These net income figures include estimated values of farm produce consumed in the farm households, and no charge is deducted for the use of owner's capital invested in the farm business. In other words, the income figures represent the return to the labor and capital of the farm family. Furthermore, the figures are not averages for all farms. Part-time, subsistence and country residence farms are not included. The data are believed to be representative of "typical" farms of the various types and areas.

The differences in average level of income for the various types of farms reflect the differences in size, investment and output per farm as well as the annual effects of weather and shifts in relative prices of individual crops and livestock products.

	<u>Cropland harvested</u> (acres)	<u>Farm capital</u> (total)	<u>Gross sales</u> (inc. Govt. payments)
Corn Belt farms:			
Hog-dairy	102	\$43,260	\$ 9,868
Hog-beef raising	105	36,310	6,185
Hog-beef fattening	143	60,460	18,540
Cash grain	193	92,110	13,803
Dairy farms:			
Eastern Wisconsin	69	33,770	7,081
Western Wisconsin	65	22,610	5,893

The different types of farms reflect the adjustments made by farmers to their land, climate and economic conditions, and these in turn have a strong bearing on the size of farm, total investment and income.

It is interesting to note, for example, that in most years the highest incomes are reported for the types of farms which show the highest investment. Income appears to be related more closely to investment than to the amount of labor. The cash grain farms, of course, utilized the smallest amount of labor even though they represented the largest amount of cropland and capital per farm. Return per hour of labor in 1956 ranged from a high of \$1.71 for the cash grain farms to a low of \$0.43 for the eastern Wisconsin dairy farms.

"The level of capital per person engaged in farming largely determines the level of income per person engaged." This is a conclusion reached in a study of Capital in Agriculture; Its Formation and Financing since 1870, a book published recently by the National Bureau of Economic Research.