



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
Paul E. Miller, Director Agricultural Extension

No. 188

UNIVERSITY FARM, ST. PAUL

August, 1938

Rural Rehabilitation Farm Records

By S. B. CLELAND and J. B. McNULTY

The fact that earnings on the small, low-income farms depend on the same factors of efficiency which determine success on the larger, high-income farms is strikingly apparent from a study covering two years of record-keeping by several hundred Minnesota farmer-borrowers of the Rural Rehabilitation Division of the Farm Security Administration.

In addition to showing cash receipts and expenses, the records kept by the farmer-borrowers included figures on pounds, tons or bushels of each commodity produced, numbers of livestock kept, and other measures. This makes it possible to pick out seven factors that were important in determining why some farmers made greater earnings than others. These seven factors are:

1. Pounds of butterfat produced per cow.
2. Returns per animal unit, of livestock other than cows.
3. Crop yields per acre.
4. Percentage of tillable land in high return crops.
5. Size of business.
6. Amount accomplished per worker.
7. Expense for power and machinery.

The importance of these factors is pointed out in Table I, in which the relation of the farmer's standing in these seven factors to his labor earnings is shown. As indicated in the table, if one wishes to increase his labor earnings, he must improve in as many as possible of these seven factors.

Table I. Relation of Farmer's Standing in Seven Factors to Operator's Labor Earnings—1937

No. of factors in which farmer excels	Northern Minnesota		Southern Minnesota	
	No. of Farms	Average Operator's Labor Earnings	No. of Farms	Average Operator's Labor Earnings
6 or 7.....	12	\$1,112	25	\$1,232
5.....	31	894	41	1,018
4.....	55	639	42	734
3.....	76	508	66	661
2.....	71	464	63	545
1.....	35	297	32	413
0.....	3	111	7	125

Similar records, kept during the past 10 years by a group of dairy farmers in southern Minnesota, each year have demonstrated that these seven factors are the significant ones in influencing earnings. Though the yield per acre or per animal, or other physical measure of production, is higher in each case than the corresponding item in

the rehabilitation records, it is significant that the same factors have been found to be important on both low-income and high-income farms.

Rural Rehabilitation Farm-Borrowers

Since 1934 the United States government, through its Rural Rehabilitation program, has maintained a special loan service for farmers unable to obtain credit elsewhere. Each borrower is required to furnish evidence that the farming in which he proposes to engage is sound and to accept supervision over his farming operations during the period the loan is in force. On July 1, 1938, there were 7,211 such borrowers in Minnesota.

The study of the Rural Rehabilitation farm records¹ has been carried on during the past 2 years through a co-operative arrangement between the Farm Security Administration and the Bureau of Agricultural Economics of the United States Department of Agriculture, and the Department of Agriculture of the University of Minnesota.

Starting in 1936, about 4,000 of the farmer-borrowers have been supplied with farm record books each year, the county farm and home supervisors looking after this farm record program.

At the close of the year, the borrowers were invited to submit their record books for summarization, and each year about 2,000 books were sent in. The Division of Agricultural Economics summarized 859 of the records for 1936, and 559 for 1937, the remaining books being incomplete.

In some cases the operator had just started farming with this borrowed capital; in other cases, he had just purchased livestock, machinery, or other property, and had not had time to get it shaped around into good farming use. Also, since they were borrowing for operating purposes, in many cases the farm business was very small and the operator was contending with many of the problems common to too small a business.

Farm Earnings Have Increased

A comparison of the labor earnings statements of the farmers from northern and southern Minnesota, for 1936 and 1937, is given in Table II.

¹The records described in this statement are published in the following mimeographed reports of the Division of Agricultural Economics, Department of Agriculture, University of Minnesota: No. 94, No. 96, No. 102, No. 103, by W. P. Ranney and G. A. Pond.

**Table II. Comparison of Operator's Labor Earnings,*
1936 and 1937, Northern and Southern Minnesota**

	Northern Minnesota		Southern Minnesota	
	1936	1937	1936	1937
Number of farms.....	457	283	402	276
Cash farm receipts				
Livestock and livestock products	\$ 486	\$ 636	\$ 821	\$ 910
Crops	74	189	125	183
Miscellaneous	179	163	136	155
Borrowed	227	290	400	317
Total cash farm receipts.....	\$ 966	\$1,278	\$1,482	\$1,565
Increase in net farm capital	109	176	198	221
Farm perquisites	253	270	296	328
Total farm receipts.....	\$1,328	\$1,724	\$1,976	\$2,114
Cash farm expenses				
Operating	\$ 365	\$ 478	\$ 536	\$ 626
New equipment and purchases of livestock.....	228	243	369	272
Payments on debts.....	153	222	279	285
Total cash farm expenses	\$ 746	\$ 943	\$1,184	\$1,183
Board for hired labor.....	4	6	4	4
Total farm expenses.....	\$ 750	\$ 949	\$1,188	\$1,187
Receipts less expenses.....	\$ 578	\$ 775	\$ 788	\$ 927
5% interest on net farm capital	41	43	40	43
Family labor earnings.....	\$ 537	\$ 732	\$ 748	\$ 884
Unpaid family labor.....	210	172	203	176
Operator's labor earnings	\$ 327	\$ 560	\$ 545	\$ 708

* 122 of the farms in the northern Minnesota group and 154 of those in the southern group kept records in both 1936 and 1937.

Net Worth Has Increased

The question has sometimes been raised as to whether the farmer-borrowers in this program would ever be able to pay off their loans and achieve a satisfactory financial position. The increase in net worth of the borrowers is one of the best answers to the question. In Table III is presented a statement showing the changes in average net worth of the farmer-borrowers.

**Table III. Changes in Average Net Worth of Borrowers,
1936 and 1937, Northern and Southern Minnesota**

	Northern Minnesota		Southern Minnesota	
	1936	1937	1936	1937
Total assets (end of year)	\$2,441	\$2,730	\$2,826	\$2,988
Total liabilities (end of year).....	1,209	1,292	1,602	1,581
Net worth (end of year)	1,232	1,438	1,224	1,407
Change in net worth during year.....	+127	+254	+198	+230
Per cent total liabilities of total assets.....	52	48	63	54

Each year about two-thirds of the farmers whose books were summarized showed an increase in net worth. When classified by groups as to how this increase was achieved, some interesting facts appear. In both years the largest group of farms was the one showing an increase in assets and a decrease in liabilities. The next most common group was that in which the liabilities increased, but the increase in assets was still greater. Both are ways in which good

farmers are commonly accustomed to get ahead financially—either by cutting down their debts while their supply of livestock, feed, machinery, and other property is increasing, or if added debts are assumed during the year, to do so only if the farm property is increased accordingly.

Family Living Increases

An objective of the Farm Security Administration is the maintenance or improvement of the standard of living of the borrower and his family along with improvements in his farming methods and in financial position. It would be a sorry situation if in order to build up a good farm it should be necessary to restrict the funds or the farm products necessary for family living. The facts as to the household and personal cash operating expenses, and the food and fuel furnished by the farm, together with other facts, for 1936 and 1937, are shown in Table IV.

Table IV. Items Related to Family Living

	Northern Minnesota		Southern Minnesota	
	1936	1937	1936	1937
Number persons in family	4.8	4.6	4.5	4.9
Number adult equivalent persons in family.....	3.5	3.4	3.3	3.6
Food furnished by the farm	\$185	\$189	\$184	\$192
Fuel furnished by the farm	31	27	23	23
Household and personal cash operating expense	354	376	418	434
Other household and personal cash expense (savings)	31	45	35	49
Household and personal cash receipts	113	81	87	73

The Livestock Share Lease

By G. A. POND

The livestock share system of farm leasing has been growing rapidly in popularity in Minnesota in recent years. According to a state-wide study made in 1936, 14.5 per cent of all farm leases in the state were of this type. In southeastern Minnesota, nearly one-third of all leases were livestock leases. Undoubtedly, the fact that experienced farmers owning sufficient livestock and equipment to be desirable tenants under this lease have been dispossessed through foreclosure has been a factor in its increasing use. A large proportion of leasing questions received by farm management workers in this institution deal with this type of lease.

What is a Livestock Lease?

The usual livestock share lease in Minnesota is what is commonly known as the "50-50 livestock lease." Under this type of lease, the landlord furnishes the land, buildings and other permanent improvement, pays the real estate tax and the insurance on buildings, makes major repairs and upkeep, and furnishes material for minor repairs. In addition, he furnishes one-half of the productive livestock. The tenant furnishes the other half of the productive livestock, the work stock, power and machinery, and all of the labor for the operation of the farm. Each pays the taxes and insurance on his personal property contribution. Operating expenses other than labor are borne equally by the two parties and the income is also divided equally.

These are the more or less standard provisions of this type of lease, but numerous variations and additions are made to meet conditions on individual farms. Where the tenant furnishes a tractor, it is common practice for the landlord to furnish one-half of the tractor fuel, since with horse power he furnishes one-half of the feed. Sometimes the landlord shares in the ownership and income from poultry where it is an important source of income, but more commonly the tenant is permitted to maintain a limited number of hens, feed them from the undivided feed and retain the product for his personal use or sale. The tenant is usually permitted the use of a reasonable amount of farm products for personal use and also sufficient land for a home garden.

Is this Type of Lease Fair to Landlord and Tenant?

The equitability of this type of lease depends somewhat upon the kind of livestock kept and the methods used in handling them. In general, it is satisfactory and equitable where the principal classes of livestock are beef or milk-and-beef cattle, hogs and sheep. In case of a farm on which dairy cattle are the principal source of income, the large amount of labor required may throw a heavy burden of expense on the tenant. In these cases, equitability may be established by an increase in some other contribution by the landlord such as furnishing the entire dairy herd or bearing a portion of the labor expense.

What is the Advantage of the Livestock Lease?

The principal advantage of this livestock lease is that it encourages good farming to greater degree than does any other type. Landlord and tenant have a common interest in maximum income. Since the landlord shares directly in the livestock income, he is more willing to furnish buildings and fences. The tenant is relieved of the necessity of raising soil-depleting cash crops in order to pay his rent or to provide the landlord with something he can sell. A survey of leased farms indicates not only more livestock of all classes per 100 acres of land on farms with livestock leases, but also a larger proportion of the tillable land in soil-building crops, more legume seedings, more of the crop land manured, and a better control of weeds and maintenance of productivity. If the landlord is an experienced farmer, his contribution to management may be an important factor in promoting better farming and increased income. Furthermore, livestock share tenants stay on the same farm longer than do any other type.

What are the Limitations of the Livestock Lease?

This lease has proven most satisfactory where the landlord or his agent can give fairly frequent supervision to the farm operations in order to protect his interests and avoid misunderstandings. He must be reasonably familiar with agricultural technic and practice. Frequent inspections and settlements should be made. Retired farmers usually find it well adapted to their situation if they do not live too far from the farm. Women, absentee owners, and those holding land for quick sale are not likely to find it satisfactory. It is important to the landlord that the tenant be honest, capable, industrious and in possession of sufficient capital to be able to make his contribution in the

way of investment and operating expense. More capital is also required on the part of the landlord as well as the ability to cooperate effectively with the tenant. Personal relationships are more important than with other types of leases since this system closely approximates a partnership.

The Bankhead-Jones Farm Tenancy Act appropriates a sum not to exceed \$10,000,000 for 1938, \$25,000,000 for 1939, and \$50,000,000 for each year thereafter. These appropriations provide funds for the purchase of farms to be sold to capable tenants at low interest rates on a long-time amortization basis.

Minnesota's share of the 1938 appropriation is expected to provide funds for the purchase of about 20 to 25 farms in 1938. Assuming that the maximum appropriation is made annually, the number of tenants that could be started out as owners during the next 10 years would be approximately 1,200 to 1,300. This is slightly less than 2 per cent of the 68,412 tenants in Minnesota in 1935.

A tenant renting a 120-acre farm in Winona county for a share of the corn and small grain plus cash for hay and pasture was unable to pay the rent in 1931. The landlord then agreed to accept 65 pounds of butterfat per month and 2,500 pounds of pork on April 1 and another 2,500 pounds on October 1. Both the tenant and landlord are well satisfied with the lease and the tenant is still operating the farm under this arrangement. On any particular farm, such an arrangement should be adopted only after study of the probable outcome based on past productivity.

In rental agreements it is customary for the landlord to pay all the taxes. If the lease contains a provision that the tenant is to pay the last half of the taxes IN LIEU of rent, it will greatly stimulate his interest in school district, township, and county governmental activities.

Winter Butter Price Prospects

By W. C. WAITE

Thus far this season, butter production has been large and storage stocks are reaching new highs. The seasonal peak in milk production is past, but the number of milk cows on farms is as large or slightly larger than a year ago. Feed supplies on farms are relatively large and pastures good. An average seasonal decline in production is in prospect but total production promises to exceed that in corresponding months of previous years.

In the months November to March, inclusive, in the winter of 1937-1938, consumer expenditures for butter at U. S. retail prices appear to have been 264.0 million dollars for an apparent consumption of 650.2 million pounds at an average retail price of 40.6 cents. Production in these months was 565.3 million pounds and there were 98.6 million pounds in storage on November 1. There appears no reason at the present time to suppose that production this winter will be less than last winter. If storage holdings should total 150 million pounds on November 1, then there would be about 715 million pounds for consumption during this five-month period. To move this quantity of

butter into consumption at the average retail price of a year ago would necessitate an increase in consumer expenditures for butter of nearly ten per cent. This would result in a price of about 34.6 cents for 92 score at wholesale at New York. If consumer expenditures were equal to those of a year ago, the average retail price would be 36.9 cents and

the 92 score wholesale price at New York about 31 cents. Consumer expenditures for butter thus far this year appear to have been below those of a year ago but with improved business conditions would be expected to increase during the winter relative to a year ago. An increase of ten per cent, however, would be a decidedly optimistic estimate.

Minnesota Farm Prices for July, 1938

Prepared by W. C. WAITE and W. B. GARVER

The index number of Minnesota farm prices for the month of July, 1938, was 73. When the average of farm prices for July, 1924, 1925, and 1926 is represented by 100, the indexes for July of each year from 1924 to date are as follows:

July 1924—85	July 1929—110	July 1934—56
July 1925—107	July 1930—82	July 1935—73
July 1926—107	July 1931—57	July 1936—86
July 1927—98	July 1932—45	July 1937—97
July 1928—110	July 1933—58	July 1938—73*

* Preliminary

Indexes and Ratios of Minnesota Agriculture*

	July 1938	June 1938	July 1937	Average July 1924-26
U. S. farm price index.....	68.3	66.2	89.9	100
Minnesota farm price index.....	72.9	72.8	96.8	100
U. S. purchasing power of farm products.....	85.0	81.7	103.5	100
Minnesota purchasing power of farm products.....	90.7	89.8	111.4	100
Minnesota farmer's share of consumer's food dollar.....		43.6	53.1	53.5
U. S. hog-corn ratio.....	15.9	15.3	9.1	12.0
Minnesota hog-corn ratio.....	18.7	18.8	9.7	13.2
Minnesota egg-grain ratio.....	18.1	16.8	8.9	14.0
Minnesota butterfat-farm-grain ratio.....	36.3	36.0	22.6	32.0

* Explanations of the computation of these data may be had upon request.

The Minnesota Farm Price Index Number of 73 for July 15 was the same as the index on June 15. The decline in agricultural prices which began in the early part of last year thus appears to have been checked.

The price index of 73 for the past month is the net result of increases and decreases in the prices of farm products in July, 1938, over the average of July, 1924, 1925, and 1926, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, July 15, 1938, with Comparisons*

	July 15, 1938	June 15, 1938	July 15, 1937	Average July 1924-26	Per cent July 15, 1938, is of June 15, 1938	Per cent July 15, 1938, is of July 15, 1937	Per cent July 15, 1938, is of July 15, 1924-26
Wheat .....	.74	.81	1.31	1.39	91	56	53
Corn .....	.45	.43	1.13	.80	105	40	56
Oats .....	.20	.20	.40	.39	100	50	51
Barley .....	.39	.42	.63	.64	93	62	61
Rye .....	.41	.43	.79	.72	95	52	57
Flax	1.62	1.62	1.85	2.21	100	88	73
Potatoes .....	.55	.45	1.05	.97	122	52	57
Hogs	8.40	8.10	11.00	9.99	104	76	84
Cattle	6.90	6.60	8.10	6.17	105	85	112
Calves	7.80	7.70	8.30	9.10	101	94	86
Lambs-sheep	7.28	6.99	8.78	11.33	104	83	64
Chickens .....	.126	.134	.126	.181	94	100	70
Eggs .....	.169	.163	.172	.240	104	98	70
Butterfat .....	.26	.26	.33	.41	100	79	63
Hay	5.20	5.12	6.08	11.70	102	86	44
Milk	1.55	1.50	1.70	2.01	103	91	77

* Except for milk, these are the average prices for Minnesota as reported by the United States Department of Agriculture.

UNIVERSITY OF MINNESOTA

Department of Agriculture—Agricultural Extension
University Farm, St. Paul, Minn.

PAUL E. MILLER, Director

FREE—Co-operative Agricultural Extension
Works, Acts of May 8 and June 30, 1914.

PENALTY FOR PRIVATE USE TO AVOID PAYMENT OF POSTAGE, \$300

POSTMASTER: Please return FREE if unclaimed.
See Postal Laws and Regulations.