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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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Internal Trade Barriers

O. B. Jesness

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The United States usually is thought of as a vast area in which trade is carried on without interferences. Because of the relative freedom from trade restriction, various regions have been permitted to develop their production in accordance with their conditions and resources. The framers of the constitution foresaw the desirability of this when they limited the right of states to restrict trade. However, in spite of the advantages of freedom of trade and the constitutional provisions against state barriers, a surprising number and variety of internal trade barriers have developed.

An adequate appraisal of the justification for, or economic consequences of, many of these internal barriers is no simple task. They usually do not appear openly as measures to protect one set of producers from the competition of producers in other states or regions. They commonly are tied up with health laws and regulations, inspection requirements, grades and standards, or taxation. The point where the major result becomes that of serving as protection to certain producers rather than the expressed purpose is not easily determined. However, there appears to be adequate support for the conclusion arrived at in a recent federal report that the resulting economic losses "have been substantial."[1]

Space will not permit any extended cataloging of kinds of internal trade barriers,[2] but the discussion which follows will give some illustrative types. Many of the restrictions center around dairy products. Many state laws as well as city ordinances deal with the sanitary and quality requirements of milk and other dairy products offered for sale. There is real basis for setting up sanitary requirements because without proper safeguards milk may become a carrier of disease. The case for such requirements is strengthened because of the importance of milk as a food, particularly for infants and young children, who are especially susceptible to various diseases which may be spread by milk. No one questions, consequently, the justification for reasonable safeguards. Questions do arise, however, over whether safeguarding the consumer's health does not at times become a disguise for protecting dairy farmers in given areas from competition from producers elsewhere. If, for instance, a producer can not sell in a given city unless he has a permit or license granted only after inspection of his dairy by the health department, he is excluded from that market unless he is within the area where that inspection is available.

An illustration of interest to Minnesota dairymen is supplied by fluid cream. In 1929 Minnesota plants shipped 13,072 forty-quart units of cream to New York and 53,810 units to Philadelphia. By 1938, these shipments had been practically eliminated by the increased health requirements of these two cities. Shipments to Boston, where similar restrictions have not been invoked, were 7,740 units in 1938 compared with 7,291 units in 1930.

Margarine has been the object of many state and federal restrictive measures. Here again there has been a mixture of motives. Dairymen and consumers rebelled against oleomargarine masquerading as butter. This was one reason why the federal law passed in 1902 provided an internal revenue tax of 10 cents a pound on colored oleomargarine (amended in 1931 to include all yellow margarine), while placing the tax on the uncolored at one-fourth cent. Some states sought to prohibit the sale of oleomargarine, but such legislation was held unconstitutional. Several states attempted to circumvent this by passing laws which permitted the sale of butter substitutes but required that they be colored pink. The Supreme Court, however, held that this amounted to prohibition.

Excise taxes on oleomargarine and high license fees for its manufacture or sale are among other restrictive methods used. It has been maintained that these taxes are intended to equalize the tax burden between butter and its substitutes. This argument sounds rather unconvincing when used to support a tax as high as 15 cents a pound. If the tax equalization scheme were to be employed generally, we would soon find ourselves inex-

[1] "Barriers to Internal Trade," a special report to the Secretary of Agriculture by the Bureau of Agricultural Economics, 1939.

[2] A report of the Marketing Laws Survey, Works Progress Administration, entitled "Comparative Charts of State Statutes Illustrating Barriers to Trade Between States," presents summaries of a large number of state barriers.

tricably involved in all sorts of restrictions. These would hamper the sale of farm products particularly because of their dependence on out-of-state markets.

Over a period of years the fats and oils used in margarine have changed decidedly. Originally, oleo oil was an important ingredient, subsequently the swing was to major reliance on cocoanut oil and more recently there has been a shift back to domestically produced oils, such as cottonseed oil and soybean oil. Some of the states levying excise taxes have discriminated in favor of substitutes made from domestic fats and oils. The difference of interest of groups has been shown in efforts to get an increase in the federal tax. Some dairy interests have expressed a desire for a tax on all margarine. Producers of domestic oils are not opposed to seeing a tax on the product made from imported oils, but naturally they do not want their product taxed. Consequently, they have sought a tax on the foreign product.

The increase in the use of domestic oils in butter substitutes has led to protests from some interests in the South against the efforts of dairy states to keep out margarine. There has been talk of retaliation. As well illustrated in international trade, retaliation is a characteristic of trade barrier development.

There are numerous state and federal acts and regulations relating to grades, standards, labelling, and containers. While their major objectives are to protect against fraud and to facilitate sale, the lack of uniformity in requirements adds to difficulties of interstate movement of farm products at times. Some states prohibit imports of inferior grades of certain products. When this provision does not extend to sale by producers within the state, it serves as a protective device. Requirements of labelling of state origin may be followed by campaigns urging the use of home grown products.

Quarantines are invoked at times to check the spread of certain disease and insect pests. As long as these restrictions are applied solely for this purpose, they are on a sound basis. However, it is apparent that such measures at times have been used to restrict the volume of importations.

Motor vehicle regulations, licenses, and gasoline taxes lead to a host of restrictions affecting particularly motor trucks. A state levying heavy license and gasoline taxes may feel that trucks from other states are obtaining benefits from the use of its highways without adequate payment. Truckers within the state may demand that action be taken against those from outside the state. This situation has led to a wide variety of restrictions, and the lack of uniformity adds to restrictions on interstate traffic. An illustration of extreme variation is supplied by the limits on gross weight which range from 18,000 pounds in Kentucky and Tennessee to 120,000 pounds in Rhode Island.

Kansas adopted a port-of-entry system in 1934 for the regulation of trucks from other states entering that state. This movement has spread to some of the neighboring states, again illustrating the retaliation which state restrictions tend to create. The frequency with which so-called "border wars" break out between states over questions of truck regulations is indicative of a problem in this field. While these attempts at regulation go on and friction develops, interferences to the movement of farm and other products result. Clearly there is need for development of greater uniformity of regulation and taxation so that as much of the unnecessary interferences as possible may be removed.

Merchant truckers have entered the marketing picture for some farm products, particularly fruits and vegetables. Various regulations aimed at these dealers have been adopted. There is valid argument for requiring them to contribute their reasonable share to governmental expenses. However, the evident intent at times is to go beyond this and restrict their operations as a measure of protection to other dealers.

Alcoholic beverages constitute a class of commodities relating to which a number of barriers have been erected. No serious question is raised with respect to allowing each state to control the consumption and sale of these products within its borders. However, it is quite a different matter when the object of these regulations becomes that of protection of certain domestic interests from outside competition. Here again retaliation has been in evidence in a considerable number of cases.

What will the future bring? It is true that there has been a decided awakening of interest in this subject recently and some efforts to reduce barriers have been made. However, it will take more than a few temporary protests. It is to be expected that groups from time to time will advocate additional restrictions which they believe will benefit them. Unless the public rather generally understands the undesirability of trade barriers, the efforts of some of these groups probably will succeed. An enlightened public opinion based on an understanding of what these programs involve appears to be the best hope for their reduction and assurance against their spread.

The Farm Laborer in Minnesota

Lowry Nelson

Although hired workers supplied only 25 per cent of the labor on Minnesota farms in 1929, the most recent date for which we have dependable figures, they constituted in the aggregate 77,389 people. For their services, farmers paid 27½ million dollars, an average of $149 per farm. This labor bill was 22 per cent of farm expenditures for production purposes.[1] It is possible that since 1929 the number of laborers employed on farms in the state has declined owing to increased mechanization of farms and the tendency of farmers during depression years to reduce expenditures for hired help to a minimum. On the other hand, the total number of farm laborers, if we include employed and unemployed, might possibly have increased owing to the decline in migration from rural areas during this period. The fact that the farm population of the state has increased from 888,000 in 1930 to

[1] G. A. Sallee, "An Economic Study of Agricultural Labor in Minnesota," Ph.D. Thesis, University of Minnesota, 1938, Ms.

an estimated 910,000[2] in January 1939, during a period when demand for agricultural products has been at a low ebb and mechanization has steadily increased, would justify the expectation that the number of potential laborers in the farm population is still large although many may be unemployed or employed on public works.

Types of Hired Labor

Since the family farm predominates in Minnesota, the "hired man" is the most common type of farm laborer. He is usually a young person from the local community who expects to work for wages at farming only until he can find more remunerative employment in towns or cities, or get sufficient financial backing to become a farm operator, either as tenant or owner. In the sugar beet producing areas and in the specialized wheat growing sections, there are many migratory-casual laborers. Mexicans from the South move in for the beet thinning and harvesting periods, while the grain harvest attracts workers from other mid-western states.

Age of Workers

Farm wage workers in Minnesota are predominantly young men from 20 to 35 years of age. The age distribution corresponds roughly with that for the nation as a whole although there is a greater concentration of youth in Minnesota than in the country at large. For example, in Minnesota 82.8 per cent of the workers are under 45 years of age compared with 75.9 per cent for the United States. The youthful character of farm laborers is understood and expected when we realize that work for wages is usually the first rung on the agricultural ladder by which a young man rises to a farm operator.

The average age of farm laborers can be expected to be higher today than it was in 1930 for two reasons: (1) the general aging of the American population and (2) the increasing difficulty of rising on the agricultural ladder. Many former tenants and owners have joined the ranks of farm labor. In a survey of 200 laborers in Lac qui Parle County[3] in 1937, 12 per cent of those interviewed had formerly been tenants or owners or both.

Wages

In Minnesota there is a large range in wages. For the hired man on a monthly basis the wage with board in 1937 varied from an average of $18.75 in winter to $34.25 in summer.[4] Without board, the range was from $32.50 in winter to $38 in summer. But there are relatively few hired laborers who have year round employment on the same farm. Farms on cost account routes in six Minnesota counties reported that "less than one third of the laborers were employed for as much as one month on the same farm."[5] The average monthly wage, therefore, is no indication of total annual earnings.

[2] Estimates made by Division of Rural Sociology, Minn. Agr. Expt. Station.

[3] Tom Vasey and J. C. Folsom, "Survey of Agricultural Labor in Lac qui Parle County, Minnesota," U.S.D.A., Washington, D.C., 1937 (Mimeo.)

[4] Agricultural Statistics in 1938, U.S.D.A.

[5] Sallee, op. cit., p. 96.

The status of the farm laborer becomes a serious social concern where excessive migration is necessary in order to find employment, where children are denied educational privileges as a result of enforced migration, and where opportunity for young people to climb the agricultural ladder to tenancy and ownership is no longer open. Under such conditions we produce a permanent agricultural proletariat with all the problems which flow from it.

The Southwest Minnesota Farm Management Service

S. B. Cleland

Guided by the experience of the established Farm Management Service in southeastern Minnesota, the Southwest Minnesota Farm Management Service started operations January 1 with 200 members.

As in the Southeast Service, each cooperating farmer keeps a record of his farm operations as a basis for studying and improving his farm business. A full-time fieldman who goes from farm to farm assists the farmers in keeping records of income and expenses, inventories, feeds, crops produced, and other facts, and later in applying these facts from the records to practical farming adjustments. The summarizing and analysis of the records is done by the Division of Agricultural Economics of the University of Minnesota, while assistance in the field work in connection with the service is given by the Agricultural Extension Division.

Rates in the Southwest Service are based on the size of the farm, ranging from $15 for farms of 80 acres or less to $25 for farms of 280 acres or more. The funds are paid to the Farm Management Association, and held by the treasurer of the association. The association has signed a memorandum of understanding with the University of Minnesota whereby relations are established and a joint budget is agreed upon and providing that the association and the University each take certain responsibilities and pay part of the costs of the service.

The service covers 11 counties in the southwest part of Minnesota; Faribault, Martin, Jackson, Nobles, Watonwan, Cottonwood, Murray, Brown, Redwood, Lyon, and Lincoln. Number of members varies from a minimum of 15 in a few counties to 25 in other counties. The officers consist of a county committee of three members in each county. One of these county directors serves with similar directors from other counties on a board of directors for the entire association. This association board of directors met at Windom, November 28, adopted a constitution, agreed on a memorandum of understanding with the University, elected officers, and chose a fieldman (in agreement with the University). Officers elected were W. E. Jones, Marshall, President; Porter Olstad, Hanska, Vice President; E. F. Oberg, Hadley, Secretary-Treasurer. The fieldman selected was Ross Huntsinger, formerly county agricultural agent of Jackson county.

Minnesota Farm Prices for Jan., 1940

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

The index number of Minnesota farm prices for the month of January, 1940 was 69. When the averages of farm prices of the three Januarys, 1924-25-26, is represented by 100, the indexes for January of each year from 1924 to date are as follows:

1924— 86	1929—101	1934— 45	1939— 69*
1925—102	1930—100	1935— 81	1940— 69*
1926—113	1931— 73	1936— 84	
1927—112	1932— 48	1937—100	
1928—100	1933— 36	1938— 80	

* Preliminary.

The price index of 69 for the past month is the net result of increases and decreases in the prices of farm products in January, 1940, over the average of January, 1924-25-26, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, January 15, 1940, with Comparisons*

	Jan. 15, 1940	Dec. 15, 1939	Jan. 15, 1939		Jan. 15, 1940	Dec. 15, 1939	Jan. 15, 1939
Wheat	$0.86	$0.83	$0.60	Cattle	$7.10	$6.90	$6.50
Corn	.43	.40	.37	Calves	8.70	8.10	8.10
Oats	.31	.30	.22	Lambs-sheep	7.52	7.42	7.36
Barley	.44	.41	.36	Chickens	.09	.09	.11
Rye	.55	.47	.33	Eggs	.14	.15	.14
Flax	1.97	1.81	1.73	Butterfat	.32	.31	.27
Potatoes	.50	.49	.50	Hay	4.79	4.42	4.80
Hogs	5.00	4.80	6.90	Milk	1.65	1.65	1.50

* These are the average prices for Minnesota as reported by the United States Department of Agriculture.

The 5 point rise in the index was the result of gains well distributed throughout the list of commodities. All quotations rose over December except chickens and eggs. For eggs the slight decline was less than the usual seasonal change in price for January. If allowance is made for usual seasonal changes in prices, the greatest advances were made in the crops group, which included a 3-cent rise for wheat, corn, and barley, an 8-cent rise for rye, and an increase of 16 cents for flax. Gains for livestock were extremely mild, except for the relative strength shown for calves, which rose 60 cents. Butterfat showed considerable strength with a rise of 1 cent rather than the usual seasonal drop of about 2 cents.

Indexes and Ratios of Minnesota Agriculture*

	1940 Jan.	1939 Dec.	1939 Jan.	Average 1924-26 Jan.
U. S. farm price index	69.7	70.6	66.2	100
Minnesota farm price index	68.8	63.5	68.5	100
U. S. purchasing power of farm products	86.3	88.0	83.3	100
Minn. purchasing power of farm products	85.2	79.2	86.2	100
Minn. farmer's share of consumer's food dollar	.....	41.8	42.7	53.7
U. S. hog-corn ratio	9.7	10.0	15.4	11.0
Minnesota hog-corn ratio	11.6	12.0	18.6	13.2
Minnesota egg-grain ratio	13.1	14.4	17.9	21.3
Minnesota butterfat-grain ratio	35.3	36.0	38.8	40.6

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

The Wheat Situation

The present world supply of wheat is the largest on record. Canada in the 1939 crop year produced a total of 490 million bushels, the second largest in its history. The Australian crop ran close to 180 million bushels according to latest available reports. However, the Argentine crop is estimated at only 147 million bushels as compared with a normal average of around 250 million bushels. The 1939 United States crop totaled 755 million bushels compared with 932 million for the previous year. Stocks on farms and in interior mills, elevators, and warehouses on January 1, 1940 were 501 million bushels as compared with 546 million bushels the previous year. Year end stocks on farms amounted to 239 million bushels of which somewhat over 30 million bushels were sealed under the federal loan program. The total wheat under federal loan at the year's end was 166 million bushels. The 239 million bushels on farms January 1 may be compared with 280 millions for a year ago and the ten-year average of 1929-38 of 216 million bushels.

While these figures indicate ample supplies of wheat, there is something to be said on the other side of the picture. Possible war support on the demand side probably offers little hope for United States producers, for if the allied powers can maintain sufficient ship bottoms, indications are that purchases from Argentina and the British Dominions (Canada and Australia) as well as from Roumania, Bulgaria, and India, will receive priority. But severe damage has occurred to the United States winter-wheat crop. On a smaller acreage than last year, about one third of which has already been abandoned, the estimated yield as of January 1 was 399 million bushels, 180 millions less than the 10 year 1930-39 average and 164 millions less than the 1938-39 crop. Further winter storms in January have probably resulted in lowering this figure. As a result Washington and Oregon are reported to be making a considerable shift to spring wheat acreage and the total situation would appear to justify moderate increases in the acreage plantings for the more favorably situated spring wheat areas.

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