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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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Inflation and the Farmer

O. B. JESNESS

Is inflation inevitable? Is there no danger of inflation occurring? Clearly, an affirmative answer to both of these questions can not be correct. However, an affirmative answer is readily given to one or the other by different individuals, showing the wide divergence of opinion on the subject. Between the extremes is a large body of opinion which would accept a negative answer to both questions. That is, inflation is not a certain outcome of the present situation. Neither can any one guarantee that it may not develop. In view of this, it is more profitable to survey the factors on each side than to attempt to give a dogmatic answer.

"Inflation" is a loosely-used term, but most people probably have in mind a situation of rather decided rise in prices. What are the prospects for such a rise? In seeking an answer to this question it is well to give attention to conditions which lead to such a rise. If the buying power of consumers increases faster than production of goods to satisfy their wants, the bidding for available goods will drive prices up. This is the point which leads many to say that there is no danger of inflation as long as there is considerable unemployment, idle or partially-used plants, ample capital, and adequate supplies of materials. With productive resources only partially utilized, increased demands are expected to lead to expansion in production rather than to increases in prices. As long as this is the effect, total production will increase and national income and living will improve.

The defense program and the production of war materials for Great Britain are reducing unemployment and increasing consumers' purchasing power. This increases demands for various goods. War periods are linked in the minds of people with high prices. But the large amount of unemployment, unused plant facilities, and available capital in the present as a result of the extreme depression we have been in, creates a situation very different from that of the latter half of the first world-war period when prices rose rapidly. Until fuller use of productive capacity is approached, the prospects for general and extensive price rises are limited.

The contrast between the present and the previous

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world war as far as farm products go may serve to illustrate some of the differences. The war in 1914 came in a period when the talk was in terms of the high cost of living rather than in price depressing supplies. Since then agricultural production has expanded, and there has been concern over the surplus problem.

The international credit situation is different. In 1914 the United States was a creditor nation. The allied nations had no difficulty in making purchases here. When the time came, we extended credit freely. While our status was changed thereby to that of a creditor nation, we were not ready to accept that role in full, and our unwillingness to receive settlement in goods and services resulted in default on war debts. This experience has made us reluctant to play the part of lender in this war. Because of that and our desire to keep out of war, we adopted legislation restricting the extension of credit and the use of American ships to carry goods into war zones. Great Britain thus far has been able to meet most of her agricultural needs elsewhere and is employing the available exchange for acquiring war materials.

Another difference is that the areas accessible to our products are not the same as in the last war. The invasion by Germany of various European countries, the capitulation of France, and the alliance of Italy with Germany have shut off practically all outlets for American products on the European continent. During the previous war, large areas of Europe remained available as markets for American farm products.

To date, exports of farm products have been drastically curtailed instead of being expanded by war conditions. War, thus far, has been price depressing on most agricultural exports. The price stimulating effects have occurred in domestic markets as a result of increased employment and improved consumer incomes.

The present concern of farmers with regard to prospects for a rise in prices hence relates largely to the domestic situation. It also relates particularly to nonagricultural prices because prices for farm products appear likely to follow rather than lead if an upswing comes.

The points raised above, in the main, support the con-

clusion that a decided price rise is not likely to occur. However, there are various additional considerations which need to be weighed. Mention was made above of the unused resources available for production. The existence of these resources has not prevented the occurrence of bottlenecks in some parts of the defense program. While millions may be unemployed, men are not standardized and employment shortages may arise in some lines of production. The unused plants and facilities are not all in the right places or of the right kinds so there is a rush for new plants and equipment while some of the old remain idle. Some prices already have shown the effects of war demands, and conditions may arise under which this will become more general.

Concern frequently is expressed over the inflationary effects of rising wage rates. It should be recognized that the effects of wage increases are not always the same. Some add to costs and thereby lead to higher prices. However, if they come out of profits or result from gains in labor efficiency they do not have this effect.

The controls which may be invoked to hold prices in check and their probable effectiveness are important considerations. Coordination of government buying of defense supplies may serve to distribute purchases among plants and in time in such a way as to reduce price effects. The government is relying to some extent on publicity and other influences to keep certain prices from getting out of hand. Priorities are established where shortages threaten in essential lines. However, priorities by themselves merely rank uses in the order of importance and designate which are to be served first. By themselves they do not actually remove the unsatisfied demands and where established some additional control over price is necessary.

Monetary controls are important. There is no shortage of funds at present. On the contrary, there is some danger that if an inflationary movement should start from other causes the ample supply may provide the means for activities which will magnify price effects. Controls which government applies to credit hence are important.

If the increased means of purchase by consumers resulting from defense and war activities bring demands into the market at a greater rate than can be met from production, the effect will be inflationary. The policies adopted with respect to taxation and government borrowing become important items of control under such circumstances. Taxation and the sale of government securities directly to the people may be employed to divert part of their purchasing power from the market for consumer goods and thereby lessen inflationary tendencies. Taxes levied on income reduce the amount available for use by the payer himself. Sales taxes might be used to discourage consumption of given commodities if soaring prices should threaten.

There are wide differences of view with respect to federal taxing policies in a situation such as the present. Some advocate a very decided increase in taxation immediately in order to reduce governmental deficits and the danger of inflation. Others maintain that such taxation will discourage production and keep us from developing full utilization of resources. They suggest that it is better to permit production to expand to that point first and that the resulting increase in national income will mean that

tax rates already in effect will yield greatly increased returns. Then when production is at capacity, tax rates can be raised to curb inflation and to increase returns still more. Without denying the validity of this reasoning, doubts may remain as to the likelihood that the program can be timed and applied as nicely as this implies and consequently whether it will yield the full possibilities claimed for it.

Price rises in some lines might be tempered by lowering duties and importing more freely. This method is of limited application in war times with interferences to trade and shipping so general. The building up of stock piles of essential raw materials in anticipation of future needs may temper future price rises in the commodities involved.

Government could avoid inflation if it could step in and fix prices arbitrarily. However, such drastic control involves considerably more than merely the issuance of decrees establishing prices. Price is important as a director of production and a regulator of consumption. A program of price fixing hence would require very extensive control of production and effective rationing among consumers. These are powers so inconsistent with the liberties cherished in a democracy that they are not likely to be assigned to the government unless conditions become extremely serious.

The conclusion which the above suggests is that while a decided price rise is not inevitable and is not in the immediate offing, it is not an impossibility. If a price boom should occur, the experiences of the last war period ought to be kept in mind. High prices should be viewed as temporary. They should not be bid into land values. They should be used to reduce long-term farm debt rather than to take on more debt. They should not be regarded as an invitation to expand agriculture beyond the needs of prospective markets.

Are Tenants Poor Farmers?

GEORGE A. POND

It is frequently assumed that a low quality of farming results from tenant operation. Such an assumption implies either that tenants are less capable managers than owner-operators or that there are certain handicaps inherent in our tenancy system that prevent a tenant from practicing good farm management. The best evidence available as to the accuracy of these assumptions in this state is to be found in data from carefully supervised farm records on tenant-operated and owner-operated farms such as are presented in table 1.

The farms in the S. E. Minnesota Farm Management Service were largely farms of high productivity and were operated by farmers of more than average ability as managers. The FSA borrowers were in general on farms of relatively low productivity and were more limited in their ability as managers. In spite of this difference between these two groups there is a striking similarity in the comparisons between owners and tenants within each group. In both groups the earnings of the tenants were larger than those of owner-operators although the differences were not large. Undoubtedly the larger size of the tenant farms

Table 1. Comparison of Owner-Operated and Tenant-Operated Farms

	S. E. Minn. Farm Management Service		Farm Management Service for FSA Borrowers	
	Owners	Tenants	Owners	Tenants
Number records	873	414	545	1490
Years covered	1928-37	1928-37	1936-38	1936-38
Average size of farm, acres	185	192	134	165
Operator's Labor Earnings	\$993	\$1083	\$352	\$616
Crop Yield Index	101	97	102	99
Crop Selection Index	37	36	39	29
Animal Units per 100 acres	21	20	11	9
Butterfat per cow, lbs.....	239	240	175	176
Index of feeding efficiency	100	100	100	100
Index of labor efficiency	99	101	80	107

accounted for most of the higher earnings in the case of the FSA borrowers. At least these data suggest that the earnings of tenants compare favorably with those of owner-operators when computed on the same basis.

Six management factors that have an important effect on farmers' earnings are shown for the owner-operated and tenant farms. Owner-operators rank higher than tenants in the first three. These factors are all influenced by the tenancy situation. Tenants experience difficulty in securing high crop yields because of the limitations of tenure and crop choice. The lower index of crop selection probably reflects the landlord's insistence on easily salable cash crops. Less livestock may result either from the lack of facilities for handling them on rented farms or the smaller feed supplies available for the tenant's use after the landlord has received his share of the crop. The three factors seem to support the assumption that there are certain handicaps to good management inherent in our tenancy system.

The second three factors are more nearly in the control of the tenant and in these he ranks equal or superior to the owner-operator. In spite of the handicap in the case of the three first factors, he is able to overcome them and build up his earnings to a level that compares favorably with that of the owners. This suggests rather strongly that tenants are not necessarily poor farmers but rather may compare very favorably with owner-operators in their ability as farm managers.

Licensed Livestock Buyers in Minnesota¹

GERALD ENGELMAN and A. A. DOWELL

Since June 30, 1936, all buyers or agents of buyers of slaughter livestock in Minnesota, except those who operate exclusively on the South St. Paul public market, have been required by statute to be licensed by and bonded to the state Railroad and Warehouse Commission. Bonds are required in the amount of \$2,000. Those buying only on the South St. Paul public market are not included under the jurisdiction of this statute as they are subject to Federal regulation under the Packers and Stockyards Act of 1921, with subsequent amendments.

A total of 1,081 buyers were licensed on January 1, 1941. Of these, 1,034 were residents of Minnesota, and

¹ Assistance in the preparation of this material was furnished by the personnel of the Works Project Administration, Official Project No. 65-1-71-140, Sub-project 481.

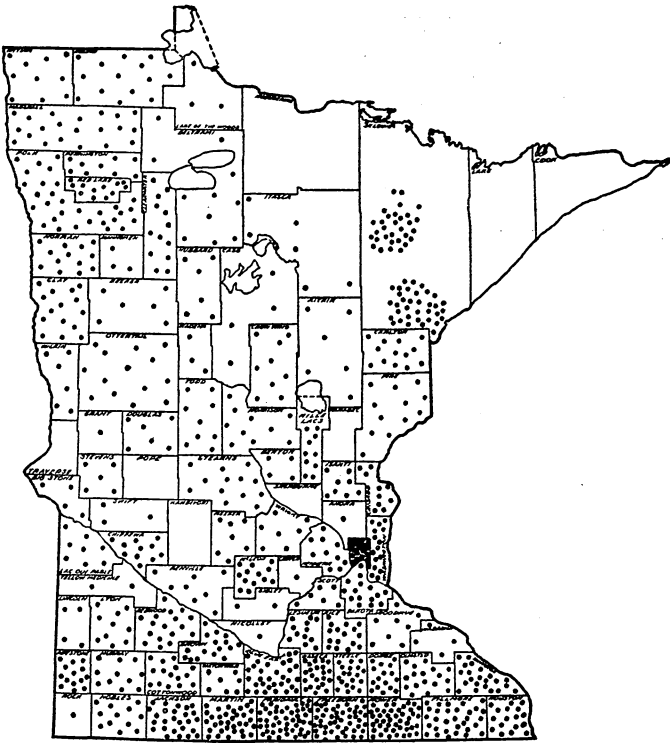


Fig. 1. Distribution of Licensed Livestock Buyers in Minnesota, January 1, 1941

47 were residents of bordering states. The distribution of licensed Minnesota buyers is shown in figure 1.

The distribution of licensed livestock buyers is influenced both by the distribution of livestock on farms and by methods employed in marketing slaughter livestock. Of these, the latter appears to be of greater importance. For example, there is relatively little difference in the density of the livestock population in south central and south-western Minnesota, but livestock buyers are much more numerous in the south central area. A higher proportion of the livestock marketed from southwestern Minnesota is consigned for sale at public stockyards markets than from south central Minnesota counties. In a recent survey made in one of the south central counties, it was found that over 90 per cent of the hogs and sheep, and over 50 per cent of the cattle sold for slaughter, reached slaughtering plants without passing through public markets. Thus it appears that buyers are more numerous in direct marketing areas than in areas where a higher proportion of the animals are consigned for sale at public markets. This probably accounts for the fact that relatively few buyers are located in west central Minnesota, the greater part of the market livestock from this area being consigned for sale at South St. Paul.

The concentration of buyers in the northwestern part of the state, where the livestock population is not as dense as in west central Minnesota, probably is due to the volume of livestock marketed direct at packing plants in West Fargo and Grand Forks, North Dakota. The concentration of buyers in northeastern Minnesota, where livestock is relatively scarce, and also the concentration in Ramsey county in east central Minnesota, may be due in part to marketing direct to nearby slaughter houses.

Minnesota Farm Prices for February, 1941

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

The index number of Minnesota farm prices for the month of February, 1941, was 76. When the average of farm prices of the three Februarys 1924-25-26, is represented by 100, the indexes for February of each year from 1924 to date are as follows:

1924—88	1929—106	1934—54	1939—70*
1925—100	1930—102	1935—86	1940—69*
1926—115	1931—69	1936—87	1941—76*
1927—113	1932—46	1937—101	
1928—101	1933—36	1938—77	

* Preliminary

The price index of 76 for the past month is the net result of increases and decreases in the prices of farm products in February, 1941, over the average of February, 1924-25-26, weighted for their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, February 15, 1941, with Comparisons*

	Feb. 15, 1941	Jan. 15, 1941	Feb. 15, 1940		Feb. 15, 1941	Jan. 15, 1941	Feb. 15, 1940
Wheat	\$0.69	\$0.75	\$0.86	Cattle	\$ 8.00	\$8.00	\$6.60
Corn .....	.43	.46	.43	Calves	10.20	9.40	8.60
Oats .....	.27	.28	.33	Lambs-sheep	8.65	8.47	7.52
Barley .....	.38	.39	.43	Chickens .....	.11	.11	.09
Rye .....	.37	.40	.53	Eggs .....	.14	.16	.17
Flax	1.53	1.56	1.90	Butterfat .....	.33	.34	.32
Potatoes .....	.42	.43	.50	Hay	5.61	5.34	4.58
Hogs	7.10	7.30	4.80	Milk	1.55	1.65	1.60

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

All the crop items except hay showed declines from January levels, the declines ranging from 2 to 8 per cent. These drops are counter to usual January to February seasonal rises for these items. Abnormally high stocks for the season appear as partial explanation for the drops.

Livestock prices on the whole were weaker, with a counter-seasonal decline in hogs and less than the usual seasonal rise in cattle and lamb prices. Calves showed the only strong tendency, having advanced 80 cents, somewhat more than the usual seasonal rise. The decline in hog prices appears to have been largely a reaction to the phenomenal rise shown for January.

Indexes and Ratios of Minnesota Agriculture*

	Feb. 15 1941	Jan. 15 1941	Feb. 15 1940	Average Feb. 15 1924-26
U. S. farm price index	72.5	73.2	71.1	100
Minnesota farm price index	76.1	78.1	68.6	100
U. S. purchasing power of farm products	92.0	89.9	91.4	100
Minn. purchasing power of farm products	96.5	95.8	87.7	100
Minn. farmers share of consumers food dollar	—	46.9	41.9	53.3
U. S. hog-corn ratio	12.8	13.0	9.1	11.4
Minnesota hog-corn ratio	16.5	15.9	11.2	13.7
Minnesota beef-corn ratio	18.6	17.4	15.3	8.4
Minnesota egg-grain ratio	14.8	15.4	15.4	18.3
Minnesota butterfat-farm-grain ratio	40.7	40.2	34.3	36.4

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

Storage Stocks

Commercial Grain Stocks (March 3) 1941

	1941	1940
Wheat	152,599,000 bu.	110,761,000 bu.
Corn	70,247,000 bu.	40,575,000 bu.
Oats	4,745,000 bu.	7,867,000 bu.
Barley	7,335,000 bu.	16,079,000 bu.
Rye	5,620,000 bu.	10,120,000 bu.
Flax	4,385,000 bu.	2,183,000 bu.

Farm Stocks (January 1)

Wheat	283,882,000 bu.	234,514,000 bu.
Corn (for grain)	1,810,218,000 bu.	1,914,184,000 bu.
Oats	792,019,000 bu.	593,865,000 bu.

Produce (February 1)

Butter	29,894,000 lbs.	29,189,000 lbs.
Cheese	123,266,000 lbs.	94,295,000 lbs.
Eggs (shell and frozen)	1,851,000 cases	1,664,000 cases
Frozen Poultry	191,648,000 lbs.	166,962,000 lbs.

Meats, Frozen and Cured (March 1)

Beef	99,097,000 lbs.	74,708,000 lbs.
Pork	790,385,000 lbs.	650,653,000 lbs.
Lard	317,451,000 lbs.	256,640,000 lbs.

Commercial stocks of wheat, corn, and flax, March 3, were substantially above a year ago, with oats, barley, and rye stocks much below. February 1 butter stocks were about the same as 1940, while stocks of cheese, eggs, frozen poultry, beef, pork, and lard were all well above figures for 1940.

Farm stocks of grain January 1 were somewhat above the 1940 figure, due in part to the corn and wheat loan program of the government.

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