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# FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension  
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## Suggestions for Preventing Another Land Boom

A. A. DOWELL

The sharp rise in prices of farm products, together with previous land value experience, caused farmers and others to bid up the price of farm land to fantastic levels during and immediately following World War I. Before the war, the trend in Minnesota land values had been steadily upward, increasing from an average for the state of \$12 per acre in 1870, \$14 in 1880, \$18 in 1890, \$26 in 1900, to about \$40 in 1910. As a result, the purchase of a farm was regarded as an excellent long-time investment. The belief became general that the passing of the frontier and the continued increase in population would force land values to higher and higher levels. War and early postwar prices strengthened this belief with the result that Minnesota land values increased two and one-half times between 1910 and the peak of the boom a decade later.

With the continuation of the boom into the early post-war period, there was a growing conviction that war prices would continue indefinitely and that principal and interest payments could be met out of the anticipated farm earnings. Many farmers, who expected to operate the land, bought farms or added to their holdings at high prices because they feared that delay would prove expensive. Other farmers and townspeople bought for speculative purposes, expecting to sell at a profit. In many cases the down payment represented a relatively small proportion of the total purchase price.

The boom was followed by nearly two decades of declining land values. This period was initiated by the sharp decline in prices of farm products which began during the latter part of 1920 and continued through the following year. At first, farm owners entertained the hope that the decline would prove to be temporary and that prices would return to previous levels. However, with the passing of time, there was a growing conviction that this expectation was not well founded. Land values continued to decline throughout the 1920's even though prices of farm products were reasonably stable from 1922 to 1929.

A further sharp decline in land values accompanied the great depression of the early 1930's. The severe drouths of 1934 and 1936 were important contributing factors in the areas affected. By 1938 the average sale

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price of farm real estate in Minnesota had declined to about one third the average at the peak of the boom, and was considerably below the average in 1910.

Farm real estate taxes also contributed to the decline through their effect on net farm earnings. Taxes rose sharply during the boom and continued to advance for a decade thereafter. Although the trend was

downward during the early 1930's, the recent advance resulted in taxes that, at the beginning of the present conflict, were more than twice the 1913 level.

The decline in land values resulted in widespread distress not only on the part of farmers but of lending agencies and others who depended in whole or in part upon the prosperity of farmers. Many farmers were forced to reduce their living standards and to allow land, buildings, and fences to deteriorate. Foreclosures reached an all-time high.

Land values have strengthened considerably during the past few months. This has been due to several contributing factors. In the first place, prices of most farm products have increased sharply since the beginning of the present war. This has been due primarily to an increase in the domestic demand for farm products. High wage rates and full-time employment mean high incomes for labor. Consequently laborers are in position to pay more for food and clothing and this is reflected in prices received by farmers. The export demand for some farm products also has increased greatly during the past few months. These products include, among others, various dairy products, pork and lard, and eggs and poultry, all of which are produced in abundance by Minnesota farmers. Increased output and relatively high per unit prices have resulted in higher farm incomes, and this is being reflected in prices paid for farm real estate.

In the second place, interest rates on farm mortgage loans are the lowest on record. Before World War I, interest rates on first mortgages averaged 5½ per cent. Rates advanced somewhat during the war and early post-war period but they have declined greatly since. Federal Land Bank loans have been made at a contract rate of 4 per cent since June 26, 1935. A temporary reduction on both old and new loans to 3½ per cent has been in

effect since July 1, 1935 and the deficit met by the Federal treasury. Under existing law the 3½ per cent rate will expire June 30, 1942 unless further action is taken by the Congress. Low interest rates with rising farm income lead to rising land values.

And in the third place, the relationship between prices received and prices paid by farmers, in the case of most Minnesota farm products, is now favorable to farmers. This is in sharp contrast to the situation that prevailed for nearly two decades after the previous war. It has been due to the fact that prices of farm products have increased more than the prices of goods and services required by farmers.

### Rise in Land Values Now Under Way

The combination of low land values, low interest rates on farm real estate mortgages, an expanding domestic and foreign demand for farm products, and a favorable relationship between farm receipts and expenses has set the stage for the rise in land values which is now under way. It does not necessarily follow that a land boom is in prospect. However, farm real estate is one commodity the supply of which has not been rationed, nor have price ceilings been established. Consequently there is a very real danger that a boom may result if the war continues over a period of several years unless a genuine effort is made to prevent it.

Suggestions for preventing a land boom revolve around the use of current income and around ways and means of checking the inflationary trend which is now under way. A boom could occur if present price levels and price relationships continue over a period of years. It would be more likely to occur if the inflationary trend is not brought under control.

Prospective purchasers of farm real estate should keep in mind the fact that a farm is worth what it will earn, not during one or a few profitable or unprofitable years but over a long period of time. Principal and interest payments must be met out of a stream of future incomes. Payments that are made with relative ease during periods of prosperity are made with difficulty if at all during a severe depression. Consequently, land values should not be based upon wartime incomes, but upon incomes that are expected to prevail over the next 20 to 30 years.

### Use Increased Income to Pay Debts

Increased farm income, resulting from war prices, should be used to pay existing short and long term debts, and to set aside a reserve for use during the postwar period. Debts contracted at previous price levels can be paid with relative ease out of wartime incomes. On the other hand, debts which are contracted at inflated prices may prove to be disastrous to borrowers. Experience gained from the previous war and postwar periods suggests the desirability of setting aside a reserve for the proverbial rainy day.

Farmers should support measures designed to check the inflationary trend which is now under way, for a

period of wild inflation would have sharp repercussions in the land market. The danger lies in the increased spending power which, if allowed free play, would be used to bid up the price of the reduced volume of consumer goods. If inflation is to be avoided, it is imperative that the excess purchasing power be used to finance the war effort either in the form of higher taxes (income or other) or purchase of defense bonds or both. To avoid excessive government debt it is desirable that a considerable part of the excess purchasing power be diverted into the Federal treasury in the form of taxes.

Effective stabilization of wage rates and of prices of goods and services, including prices of farm products, would be an important forward step in the battle against inflation. Price ceilings have been established on a number of items and rationing has made its appearance. This is a move in the right direction. However, the danger of inflation will not be removed until all important factors—wages, prices, and profits—are brought under control in one way or another.

Consideration also should be given to the withdrawal of government subsidies to farmers during the war. The principal objective of the various subsidies, which were initiated during the great depression, was to bring farm income more in line with the income of other groups. Now that prices received by farmers for most products have reached a satisfactory relationship to prices paid, it would appear that the need for many of these subsidies has passed, at least for the duration of the war. If a land boom is to be avoided, it is essential that the forces which tend to bring it into being be brought under control.

Whether wartime prices will lead to another land boom will depend upon the length of the war, the measures that are taken to draw off surplus farm earnings, the extent to which the upward spiral of inflation is held in check, and the attitude of buyers and sellers of farm properties. Prudent farmers will use surplus earnings to pay existing short and long term debts and to set aside a reserve for use during the postwar period instead of using it to bid up the price of land.

## Minnesota Farms Can Be Operated with Less Labor

A. W. ANDERSON and S. A. ENGEL

The transfer of farm workers to the armed forces and into war industries makes it necessary for the remaining labor supply to accomplish more. This can be done by (a) omitting or postponing the least productive tasks, (b) performing more work per hour, and (c) working longer hours.

The utilization of man labor on 26 Nicollet County farms in 1941 and 22 Winona County farms from 1935 through 1940 is shown in table 1. All work performed by the operator, his hired help, and the farm family workers is included. Similar labor records kept by farmers in several western Minnesota counties have shown about the same labor utilization except that more labor is devoted to crops and less to livestock.

**Table 1. Utilization of Man Labor on 26 Nicollet County Farms in 1941 and 22 Winona County Farms in 1935-1940**

Labor used for:	Nicollet County		Winona County	
	Hours	Per cent	Hours	Per cent
Buildings and fences, new.....	69	1.0	77	.9
Buildings and fences, maintenance .....	310	4.6	430	5.3
Machinery and equipment .....	122	1.8	299	3.7
Tractor, truck, and auto.....	29	.4	79	1.0
General farm overhead.....	135	2.0	313	3.9
Wood .....	160	2.3	309	3.8
Household and personal .....	46	.7	90	1.1
<b>Total miscellaneous labor.....</b>	<b>871</b>	<b>12.8</b>	<b>1,597</b>	<b>19.7</b>
Horses .....	289	4.3	342	4.3
Dairy cows .....	2,048	30.2	2,410	29.7
All other cattle .....	608	9.0	414	5.1
Sheep .....	12	.2	52	.6
Hogs .....	536	7.9	385	4.8
Poultry .....	485	7.1	548	6.7
Grinding and mixing feed.....	84	1.2	101	1.2
<b>Total livestock labor.....</b>	<b>4,062</b>	<b>59.9</b>	<b>4,252</b>	<b>52.4</b>
<b>Total crop labor .....</b>	<b>1,850</b>	<b>27.3</b>	<b>2,259</b>	<b>27.9</b>
<b>All labor on farm.....</b>	<b>6,783</b>	<b>100.0</b>	<b>8,108</b>	<b>100.0</b>

It may be possible to omit or postpone a substantial part of the work on buildings and fences by limiting improvements and maintenance to the bare necessities. Repairing and servicing of farm machinery and equipment cannot be reduced materially. Wood cutting may have to be maintained or increased since a shortage of coal and fuel oil for heating may develop next year. General farm overhead and household work can be reduced. These changes would reduce labor requirements by not more than 5 per cent.

Most of the reductions in labor must come from work on livestock and crops. And sizeable reductions can be made. The least efficient handlers of livestock use 50 per cent more labor than the most efficient. For example, one Winona County farmer spent four hours per day on his dairy cows; another farmer spent six hours per day on a herd of the same size and same level of production. This difference in labor requirements was found for all levels of production in both Nicollet and Winona counties. The high labor requirements on some farms are due to factors that cannot be removed, such as small herds or marketing products in forms which require frequent deliveries. But considerable labor can be saved on many farms by simple rearrangements in barns and sheds, by the use of labor-saving devices, by better planning of the work, and by the elimination of tasks which do not materially increase the level of production.

Even larger variations in efficiency occur in crop work. Variations from 9 to 19 hours for plowing 10 acres with a two-plow tractor, 3 to 7 hours for springtoothing, 4 to 8 hours for cultivating corn, and 6 to 17 hours for cutting grain are examples of these differences. In general, the least efficient operators spend twice as much time per acre as the most efficient operators. Repairing and servicing machines in slack seasons or rainy days may avoid breakdowns and permit faster work when in the field. Good field arrangement, efficient combinations of machines,

proper adjustment of machines, and careful planning of the work will lower the labor requirements.

It may also be necessary for the farm labor to work longer hours. This will not be pleasant, but wartime conditions may require it. By careful planning, numerous tasks can be shifted to the less busy seasons and rainy days. This will increase the total hours each man can work during the year without making the days unreasonably long at any season.

## Replacements in Dairy Herds

S. A. ENGINE

Records kept by 26 Winona County farmers during the six-year period 1935-40 provide some interesting information concerning replacements in dairy herds. They replaced 27 per cent of their cows each year—25 per cent by home-raised heifers and 2 per cent by purchase. Twenty-five per cent of the cows were sold each year and 2 per cent died.

About half of the cows sold were old, diseased, injured, or otherwise unfit for continued production. The other half could have been continued in production for an additional year or more, but higher producing heifers were available to take their place.

The average number of cows per herd was 21 and the number of calves dropped was 21, or one calf for each cow. The disposal of these calves is shown in table 1. The herds are divided into two groups. The first group of farmers sold practically all of the bull calves and one fourth of the heifer calves as veal. The remaining heifer calves were saved for replacement, sold for breeding purposes, or butchered. The second group sold one half of the bull calves for breeding purposes and the other half as veal. About four fifths of the heifers were saved for replacement or sale for breeding purposes.

**Table 1. Disposal of Young Dairy Stock, Winona County, 1935-1940**

Method of disposal	Herds not selling bulls for breeding	Herds selling bulls for breeding
	Per cent	Per cent
Veals sold .....	56	26
Heifers sold .....	5	8
Bulls sold .....	1	24
Veals butchered .....	1	3
Others butchered .....	1	2
Calves died .....	10	10
Others died .....	1	2
Heifers to milking herd .....	25	25

This information provides the basis for estimating possible increases in cow numbers to help meet the wartime dairy production goals. About one half of the cows sold each year could be retained on the farm for an extra year or more. This would increase the number of cows on farms by 10 per cent or more within a year. A small increase could be obtained over a longer period by raising the heifer calves now vealed. Since this would mean retaining the low producers, this increase in numbers of cows would not produce a proportionate increase in milk. This represents one possible method for increasing milk production; it is not necessarily the most economical method.

## Minnesota Farm Prices For May, 1942

Prepared by W. C. WAITE and REX W. COX

The index number of Minnesota farm prices for the month of May, 1942, was 120. When the average of farm prices of the three Mays, 1924-25-26, is represented by 100, the indexes for May of each year from 1924 to date are as follows:

1924—84	1929—113	1934—53	1939—68*
1925—106	1930—98	1935—86	1940—72*
1926—110	1931—64	1936—79	1941—89*
1927—109	1932—43	1937—97	1942—120*
1928—113	1933—49	1938—75	

\* Preliminary.

The price index of 120 for the past month is the net result of increases and decreases in the prices of farm products in May, 1942, over the average of May, 1924-25-26, weighted according to their relative importance.

**Average Farm Prices Used in Computing the Minnesota Farm Price Index, May 15, 1942, with Comparisons\***

	May 15 1942	Apr. 15 1942	May 15 1941		May 15 1942	Apr. 15 1942	May 15 1941
Wheat .....	\$1.01	\$.99	\$.81	Cattle .....	\$10.50	\$10.70	\$7.90
Corn .....	.70	.68	.53	Calves .....	12.60	12.40	10.00
Oats .....	.45	.45	.29	Lambs-Sheep .....	10.89	10.45	8.56
Barley .....	.70	.67	.43	Chickens .....	.15	.15	.14
Rye .....	.57	.59	.45	Eggs .....	.26	.25	.19
Flax .....	2.40	2.39	1.68	Butterfat .....	.41	.40	.36
Potatoes .....	1.00	1.00	.36	Hay .....	5.91	6.23	5.69
Hogs .....	13.30	13.60	8.30	Milk .....	1.95	2.00	1.60
				Wool† .....	.41	.40	.37

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

† Not included in the price index number.

Minnesota farm prices did not change greatly between April 15 and May 15 and the May index remained at the same level as the April index.

Price controls are now sufficiently extensive to restrain further general price advances for some time. It is estimated that the new price control order brings under some form of control about 75 per cent of the items contained in the index of prices paid by farmers and the commodities processed from about 60 per cent of the farm products entering into the index of prices received by farmers. Price controls are more extensive in the case of nonagricultural commodities, and around 80 per cent of the commodities included in the Bureau of Labor Statistics wholesale price index are now subject to control.

**Indexes and Ratios of Minnesota Agriculture\***

	May 1942	April 1942	May 1941	Average May 1924-26
U.S. farm price index .....	108.7	107.9	81.2	100
Minnesota farm price index .....	120.1	120.2	88.5	100
U.S. purchasing power of farm products .....	112.3	112.2	101.9	100
Minn. purchasing power of farm products .....	124.1	125.0	111.2	100
Minn. farmers share of consumers food dollar .....		57.9	47.5	52.6
U.S. hog-corn ratio .....	17.5	18.3	12.4	12.1
Minnesota hog-corn ratio .....	19.0	20.0	15.7	15.1
Minnesota beef-corn ratio .....	15.0	15.7	14.9	9.9
Minnesota egg-grain ratio .....	17.8	17.6	17.0	14.4
Minnesota butterfat-farm-grain ratio .....	29.7	29.5	39.4	34.5

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

## Fats and Oils Used in The Drying Industries

The consumption of the products of the drying industries (paints, varnishes, linoleum, oil cloth, and printing ink) depends primarily on the rate of industrial activity and the volume of construction. In 1941, industrial activity in the United States was at a new peak and building construction at comparatively high levels. Consequently, the consumption of fats and oils in the drying industries was the highest on record, amounting to 1,054 million pounds or 41 per cent above the average for the period 1935-39. It is very likely that the requirements in 1942 and 1943 will be at least as great as during the past year.

The more important oils used in the drying industries include linseed obtained from both domestic and imported flaxseed, tung and perilla obtained principally from the Far East, castor and oiticica oils imported from Brazil, soybean and fish oils. At the present time the stocks of imported oils are very low. The situation in the Far East prevents imports of any important quantities from that region and the lack of shipping space will limit imports from South America. The supply of fish oils may be less than normal because fishing activity will probably be diminished by military regulations and scarcity of boats and labor. On the other hand, the potential supply of linseed and soybean oils appears especially favorable. Exclusive of imports, the supply of linseed for the crop year, 1942-43, will approach 900 million pounds. Imports from Canada will be available but it is doubtful if there will be any large scale movement from Argentina. This oil constituted 67.2 per cent of the oils used in the drying industries in 1935-39, and 74.4 per cent in 1941. It is reasonable to expect that the proportion will increase significantly in 1942 and 1943. Soybean oil contributed 2.6 per cent of the oils used in the drying industries in 1935-39, and 4.4 per cent in 1941. Although the supplies of this oil will be relatively abundant, increased demand for it in the manufacture of edible products will probably restrict an extension of its use in the drying industries.

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