FARM BUSINESS NOTES

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War and Postwar Farm Prices

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War demands have changed the agricultural situation from one of price-depressing surpluses to one of price-raising shortages. A major share of the increase in demand is due to fuller employment and increased incomes of consumers. Requirements of the armed forces and for lend-lease shipments also have added to demands. During much of the 1930's, governmental programs were seeking to hold production in check, to support prices, and to remove surpluses from normal market channels. At present, public programs are concerned with holding prices in check in order to avoid a runaway inflation and with getting the largest possible output of the products most needed in the war effort.

Prices normally aid farmers in deciding what and how much to produce. They likewise guide consumers in making up their minds regarding what and how much they should buy. In addition, they help decide how the national income is to be distributed. Thus, farm prices affect the farmers' share in the national income, and wage rates that of wage earners. Governmental farm programs have given attention mainly to the effect of farm prices on farm incomes. War needs have shifted attention to raising prices as a way to increase output. But it is only when there is unused capacity for production or there are opportunities for expanding capacity that higher farm prices are an effective magnet for drawing out more production. Farms are now being operated at or near their capacity and shortages of manpower and equipment limit expansion. Therefore, a further rise in the general level of prices will not add greatly to output. However, changes in price relationships may serve to encourage shifts from less essential to more essential lines. Such a program requires two-way flexibility so that some prices may be lowered and others raised.

Price floors are being used as incentives for the continued production of some basic farm commodities. They give assurance to the producer that prices for the specified commodities will not fall below the indicated levels for the period they are in force. Price floors consequently relieve farmers of some of the price uncertainties of the future. Farmers, with very few exceptions, have to plan their production for a future market instead of producing under contracts which stipulate the basis of sale. A desire to avoid this uncertainty is natural and gives support to programs of floors under future prices. One proposal is that the government establish specific minimum prices for each production period in advance. Such prices are sometimes referred to as "necessary prices," the idea being that they will be established at the levels needed to draw forth the supplies which the market is believed ready to absorb at those prices. Efforts to anticipate the prices needed to achieve this end would be subject to some error because it is beyond human capacity to see clearly all factors which will influence price during the periods involved or to interpret the exact consequences of those which are foreseen. Some provision, therefore, would have to be made for possible errors of judgment. However, this is not the most serious limitation on the operation of a program of establishing necessary prices.

Such a plan in order to operate effectively would have to give major weight to the function of price as a director of production and to minimize, if not actually ignore, the effect of price on income distribution. It must be clear that price cannot perform satisfactorily as a director of production unless it is left free to discourage output in times of oversupply as well as to encourage more production when needed. Two-way flexibility is essential in any system of government-controlled "necessary" prices. However, governmental price programs of the past have been more concerned with affecting farm incomes than with adjusting output. Such programs usually have been evolved to overcome a situation of unsatisfactory prices. It is consequently very doubtful whether a program of controlling prices to direct production would be left free to accomplish the intended purpose. There would be strong inclination and political temptation to require that prices be established above certain arbitrary levels. Sellers would look with favor on higher prices but could be expected to resist any lowering of price supports designed to curtail output by making production less profitable. Past experience throws some light on prospects for successful operation of price control for this purpose. The Federal Farm Board was encouraged to acquire supplies to "stabilize" the market but met with resistance when later it endeavored to dispose of its holdings. The commodity loan program during the 1930's started with some flexibility which contemplated lowering the percentage of parity loaned if surpluses occurred. This flexibility later was circumscribed by acts of Congress establishing minimums below which loan figures could not be set. To the extent a program of necessary prices was forced to yield to such influences, its original purpose would be defeated.

Parity price has been the center of much of the discussion and legislation relative to farm prices during the past decade. Interest in some plan of parity price seems likely to continue, hence some appraisal of the factors involved is in place. The bases favored for the calculation of parity prices have been those which provide opportunities for raising prices above existing levels. In other words, the aim has been to increase farm incomes. The objectives of parity prices and of necessary prices consequently are far from being identical, the one being concerned with income and the other with adjusting production to market demand. Any program which seeks to maintain prices above those which would prevail in the market otherwise cannot lose sight of the stimulating effect of such prices on future production. If such a program is to be continued, it will be necessary either to establish controls over production, or to limit the amounts to which the prices will apply, or to develop outlets for part of the supply outside ordinary market channels.

Moreover, if the supply to which the fixed prices are to apply is held in check, it becomes necessary to decide to whom the rights to produce the stipulated quantities shall be granted. Production of some past period is a convenient guide but as time passes such bases become less and less satisfactory. If continued for any considerable time, such a program will tend to interfere with desirable production shifts among areas and among individuals within an area.

Parity prices measured by price relationships existing in some period in the past assume that those relationships should continue indefinitely. This assumption is not valid. Improvements in production do not occur at the same time and rate for all commodities. Mass production and improved methods have made it possible to manufacture automobiles, tires, and radios at considerably lower prices than those prevailing not many years ago. Agriculture itself is far from being an industry without change. Hybrid corn, new farm equipment, and improved feeding methods are illustrative of changes constantly taking place in agriculture. Progress requires that the gains from improved production efficiency be shared with consumers as rapidly as possible. Any program to maintain a fixed relationship among prices generally would lead to a loss of flexibility which would hamper desirable production adjustments.

Export outlets remain important for some agricultural products such as cotton, tobacco, wheat, lard, and certain fruits. If domestic prices are maintained above world levels on commodities of which we have an export surplus, difficulties will be encountered in retaining foreign outlets. In cases where this country is an important factor in the world market, as for instance cotton, a policy of maintaining prices at such levels may stimulate production in other parts of the world which will make inroads on our markets.

The ultimate aim of any public program to raise farm prices presumably is the improvement in farm living which the increased income should make possible. This objective will be attained in full only if the increased incomes are used for that purpose and are not capitalized into higher land values. To the extent the latter occurs, the benefits will go to those who hold title to the land while its price is rising.

As the preceding discussion suggests, it will be highly desirable to give careful consideration to the probable effects of any governmental program of price support for the period after the war before it is adopted. Farmers should recognize the unlikelihood of the continuance of any program which places a heavy burden on either the treasury or the consumer. The permanent benefits to farmers of a program which results in maintaining more persons in agricultural production than needed to supply available markets are questionable. The importance of retaining sufficient flexibility in the price structure and production control to permit and encourage efficient production and desirable production shifts should be remembered.

Minnesota's 1943 Farm Help Program

S. H. Rutford

The 1943 Minnesota crop has now been largely gathered and placed in storage. In spite of the fact that the labor force on farms was the smallest in many years, practically everything that was raised was saved and there was relatively little loss of quality from delays in harvesting. How was this accomplished?

Much emergency help was recruited and used, but it is undoubtedly true that the most important single factor was the longer hours worked by the farm family and the more effective use of this labor. Much more field work was done by farm women. Farm boys and girls worked longer hours and operated more power machinery than in the past. Probably the second most important factor in getting the job done was the closer cooperation which developed between neighbors. This is very difficult to appraise or measure, but throughout the season in community after community the fact that work was going forward satisfactorily was explained on the basis of "farmers are helping each other." It was further indicated by the marked increase in requests for rates for custom work on machinery.

A third very important factor was weather. Favorable weather prevailed at two very important seasons—first during grain harvest and shocking and then this fall during potato and beet harvest—and again for corn picking. Unfavorable weather did delay spring work and again delayed threshing, and did some damage to quality.

While the above factors played a primary role in the 1943 Minnesota farm production program, the job could not have been accomplished without a substantial amount of outside help. This needed additional help was provided through a Farm Help program developed in the state under the leadership of the State Extension Service, but with the active cooperation of the various agencies of the War Food Administration, the Minnesota Manpower Commission, the State Selective Service, and state government agencies.

The program was organized on the assumption that there was no unused pool of skilled farm labor that could be called upon and that, to a large extent, emergency help for farmers would have to come from townspeople living and working in the various communities of the state. To mobilize effectively potential workers called for a high degree of decentralization of organization, and for much acceptance of responsibility by townspeople themselves. The recruitment and mobilization of workers were built around a system of county and trade center farm help committees. County boards of commissioners were asked to and did appoint county committees in all counties to work with county agents in developing the program. Under the leadership of the county committees, each trade center where there were potential workers was asked to set up a trade center committee to recruit and mobilize workers. Seven hundred thirty-six communities were so organized. Each committee designated a volunteer placement officer to receive orders from farmers and to dispatch workers to jobs, making a total of 736 such volunteers.

In each county the agricultural agent was made responsible for working with committees and placement officers in meeting the labor needs of farmers. With funds provided under Public Law No. 45, emergency farm labor assistants were provided for periods of from two to five months in 73 counties where such help was requested by county committees. With two or three exceptions, farm labor assistants put in full time on labor problems.

As of November 1, a total of 38,589 persons had been registered for farm work of one kind or another. A total of 100,587 placements had been made including 65,811 men, 4,931 women, 29,237 nonfarm youth, and 608 couples. The large numbers are made up of persons who worked on farms in their own communities on an emergency basis for anywhere from a few evenings to a week or two. Included also are thousands of nonfarm youth from cities and towns who worked on farms for periods of from several weeks to all summer, workers recruited in northern Minnesota for work in southern and western Minnesota, and year-round workers picked up when they could be found.

As one looks back on the past season it cannot be said that the needs of farmers have been fully met. But it can be said that farmers, and those who have helped farmers, have produced and gathered a good crop and that it is now available for use.

The Farmer's Estimated Income and Victory Tax for 1943

G. E. Toben

The current Tax Payment Act of 1943 provides for payment of individual Federal income taxes during the year the income is received rather than the following year. This is accomplished in two ways, by withholding taxes on certain wage earners each payday, and by filing estimates of the current year's taxes by other individuals. Most individuals were required to file their first estimate on September 15, but farmers were granted additional time. Farmers must file their declarations of estimated income and victory tax for 1943 and pay the tax due not later than December 15, 1943. A regular, complete return accompanied with any additional tax that might be due will be filed on or before March 15, 1944.[1]

The only safe method of preparing the estimated return is to calculate it from the 1943 records. Do this as was done in 1942. Use the instructions and forms on the Farm Schedule for last year as a guide for summarizing the estimated net farm profit. In the absence of records assemble all information immediately as a basis of the best possible estimate because the burden of proof rests on the taxpayer.

If the cash basis is used for calculating the estimated net farm profit from the account book, include estimates of all purchases and sales expected to occur before the end of the year. If there is doubt whether or not an item will be sold, it is best to assume the sale.

If the accrual basis for calculating net farm profit is used, include estimates of purchases and sales of products that will be consumed or sold before the end of the year. The estimated closing inventory should allow for gains in weight and value of livestock and change in feeds on hand between the date the estimates are made and the close of the year.

With either basis the depreciation can be calculated in the same manner as for 1942. In fact, the same charge can be used in computing the estimated net farm profit unless there has been a material reduction in the investment.

Estimates of income should be too high rather than too low. An underestimate of more than 33⅓ per cent results in a penalty. Penalties are not assessed for overestimates of income, and overpayments will be applied against any unpaid liability and the balance will be refunded.

After the net farm income is calculated, compute the tax for 1943 on the form headed "Computation of Estimated Income and Victory Tax for 1943" or on the "Alternative . . . Form 1040-ES." The first is a short cut form which will be mailed to all individuals who filed a tax report in 1942. Those individuals who wish to calculate a return in detail or have unusual nonbusiness deductions may obtain the second form from the county agent or the Bureau of Internal Revenue.

The balance of the tax due for 1943 is calculated on either form in the section entitled "Your Copy of Declaration of Estimated Income and Victory Tax by Individuals." Copy the same information to the (small) Form 1040-ES. Submit only this (small) form with the tax due to the Collector of Internal Revenue.

Those farmers who expected to receive 20 per cent or more of their gross income from nonfarm sources were required to file an estimated return prior to September 15. All individuals who filed at that time need not submit another one in December unless the taxpayer wishes to correct the previous estimate. However, the balance of the tax due for 1943 must be submitted.

[1] If the income tax report is not for the calendar year, file the estimated return on or before the 15th day of the last month and the final return within two and one half months after the close of the tax year.

Minnesota Farm Prices for October, 1943

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

The index number of Minnesota farm prices for October, 1943, is 173. This index expresses the average of the increases and decreases in farm product prices in October, 1943, over the average of October, 1935-39, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, October, 1943, with Comparisons*

	Oct. 15, 1943	Sept. 15, 1943	Oct. 15, 1942		Oct. 15, 1943	Sept. 15, 1943	Oct. 15, 1942
Wheat	$ 1.32	$ 1.27	$ .99	Hogs	$13.90	$13.80	$14.10
Corn	.94	.96	.68	Cattle	12.20	12.40	11.80
Oats	.70	.65	.36	Calves	13.00	13.00	12.70
Barley	1.04	.98	.54	Lambs-Sheep	12.17	12.38	11.46
Rye	.93	.88	.48	Chickens	.21	.22	.16
Flax	2.80	2.86	2.24	Eggs	.41	.39	.33
Potatoes	1.00	1.10	.85	Butterfat	.53	.53	.49
Hay	6.60	6.50	5.00	Milk	2.85	2.75	2.30
				Wool†	.42	.44	.39

* 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 averaged but slightly higher in October than in September. While crop and livestock product prices advanced somewhat, prices of livestock averaged slightly lower than in the previous month. The Minnesota farm price index is now 15 per cent above the index of October, 1942. Crop and livestock product prices advanced 47 and 16 per cent, respectively, during the past 12 months, but livestock prices rose only one per cent. The purchasing power of Minnesota farm products has steadily risen since 1935-39 and is now 26 per cent higher than in that period.

The feed ratios except the butterfat-farm-grain ratio increased slightly from September to October, but the latter continued to decline. This ratio has dropped almost 40 per cent since October, 1942.

Indexes and Ratios for Minnesota Agriculture*

	Oct. 15, 1943	Oct. 15, 1942	Oct. 15, 1941	Average October 1935-39
U.S. farm price index	179.8	158.2	130.1	100
Minnesota farm price index	173.0	150.8	118.3	100
Minn. crop price index	184.5	125.2	101.0	100
Minn. livestock price index	167.0	165.3	124.0	100
Minn. livestock product price index	173.0	148.8	123.5	100
U.S. purchasing power of farm products	131.3	126.8	118.8	100
Minn. purchasing power of farm products	126.4	120.8	107.9	100
Minn. farmers' share of consumer's food dollar	61.8†	58.6	53.2	47.6
U.S. hog-corn ratio	13.1	18.2	15.5	14.1
Minnesota hog-corn ratio	14.8	20.7	18.7	17.8
Minnesota beef-corn ratio	13.0	17.4	16.7	14.7
Minnesota egg-grain ratio	20.6	23.7	23.7	20.9
Minnesota butterfat-farm-grain ratio	25.8	42.7	38.0	36.4

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

† Figure for July, 1943.

Agricultural Marketings' Contribution To the Total State Income

Minnesota farm income now constitutes a larger proportion of the total income of the state than at any time in the last 15 years. The table below compares the Income Payments Received in Minnesota as estimated by the U. S. Department of Commerce and the Cash Receipts from the Marketings of Agricultural Products as estimated by the United States Department of Agriculture.

Total Income Received in Minnesota and Cash Income from Agricultural Marketings

Year	Total income payments received	Marketing of agricultural products	Proportion agricultural marketings of total
	Million dollars	Million dollars	Per cent
1929	1,444	432	30
1930	1,380	364	26
1931	1,191	260	22
1932	897	177	20
1933	867	204	24
1934	1,002	224	22
1935	1,123	275	24
1936	1,324	347	26
1937	1,394	360	26
1938	1,320	328	25
1939	1,378	336	24
1940	1,434	380	26
1941	1,655	505	30
1942	2,034	701	34

The depression of the 1930's resulted in a very great decline in the cash income from the marketing of agricultural products, and the proportion which they constituted of the total income of the state declined to one fifth. The combination of large production and good prices resulted in a rise to over one third of the estimated total income of the state in 1942. In interpreting these data, it should be kept in mind that the agricultural figures represent the sales of products for cash only and do not include other sources of income received by farmers nor the value of the products consumed on the farms where grown.

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