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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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NO. 275

UNIVERSITY FARM, ST. PAUL

NOVEMBER 27, 1945

The Farmer and Nonagricultural Activity

O. B. JESSNESS

University Farm Radio Programs

HOMEMAKERS' HOUR—10:45 a.m.

UNIVERSITY FARM HOUR—12:30 p.m.

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Some of the increased demand for farm products during the war resulted from government purchases for the armed forces and for lend-lease shipment. However, a large part of it came from increased buying power in the domestic, civilian market. This increase in demand was a reflection of expanded employment and higher money incomes among the farmers' customers. It shows very clearly how the market for farm products responds to changes in nonagricultural activity and employment. It demonstrates that the major factor in determining the postwar market for farm products will be the situation in nonagricultural lines. The maintenance of productive activity and employment in other lines at a high level is essential if agriculture is to have a satisfactory outlet for its products.

But what about the fact that practically as much food was consumed during the depression of the 1930's as during the relatively prosperous 1920's? Does this not suggest that the demand for food is inflexible and that the farmers' market is not affected greatly by the buying power of consumers? The apparent contradiction which some see in this lies in a failure to distinguish between consumption and demand. The former is in terms of physical quantities; the latter includes price as well as quantity. Consumption of food remained high during the depths of the depression because farmers continued to produce and market about the same volume of commodities as during the preceding years. Because of the sharp reduction in demand, that volume could be disposed of only at a considerable reduction in price. Moreover, in times of depression consumers with limited means may continue to consume about the same quantities but shift to cheaper foods. Relatively high-priced foods such as dairy products and meats consequently have a special concern in the level of consumer incomes. Their markets have a very close relationship to employment and payrolls.

Another reason why farmers are interested in non-agricultural activity is that some farm products are important raw materials of industry. Cotton, wool, and flaxseed are illustrations. Their outlets are affected

directly by the industrial situation.

One conclusion sometimes drawn from the fact that agriculture is one of the basic lines of activity is that the only requirement for national prosperity is to hold farm income at a high level by maintaining farm prices at parity. No reasonable person minimizes the importance of the farmers' buying power or of farmers as a market. However, the

United States today is a leading industrial and commercial nation. Only about a fifth of the people live on the land and among these are many who are not important producers for market. Farm income consequently represents a minor rather than a major share of the national income today. It is an error to assume that the whole answer to national prosperity and activity is to be found in agricultural prices. We need to recognize the interdependence within the economy rather than to stress the basic nature of any one line. The interest of farmers in nonagricultural conditions means that they are concerned with anything having a bearing on those conditions.

Improved technology and productivity in farming have made it possible for a decreasing proportion of the population to provide the food needs. The number of persons on farms today is smaller than it was in 1910 even though the total population is considerably larger. The expansion of industry and the growth of cities have provided opportunities for migration from farms to cities. The rural birth rate is above that needed to maintain the farm population, while that in the large cities falls short of maintaining urban population. The prospects consequently are that cityward migration will continue. Such migration will tend to improve levels of living for both country and city. But it is essential that opportunities for productive, nonagricultural employment be available if this adjustment is to take place. This is another reason why farmers are concerned with the activity in other lines.

The real source of increased national income and well-being lies in the production of more goods and services for the satisfaction of man's wants. It goes without saying that proper balance among the various lines of production is important. Agriculture tends to maintain production in

depression. Rapid adjustments are difficult to make in an industry so dependent on biological factors. As a result of the small unit, the farmer as an individual is better off if he maintains production than if he curtails output drastically. The solution to depression conditions is not that of curtailing farm output to bring it into line with that of industry. It is instead restoration of activity and employment in lines which have curtailed.

The farmer has a vital concern in the prices he receives but is not alone in being price-minded. Labor thinks and talks in terms of rates of pay. Industry and business are interested in unit prices and profits. That prices and wage rates are important is undeniable. They play an important part in determining how the national income is divided. It is natural for each to seek higher returns for his products and services in order to obtain a larger share. However, the total income available for distribution is determined by the production of goods and services. Price changes affect the division, but the only way the share of everyone can be increased is to enlarge the total by producing more goods and performing more services.

Farmers are benefited by a large output of nonagricultural goods, efficiently produced and priced with an eye to a large volume of sales. They are benefited by high earnings resulting from a high level of efficient employment at productive work. The part played by volume of output and employment is important. Farmers do not gain from prices or wage rates so high that nonagricultural output and employment are restricted.

Because farmers produce for mass consumption they are interested in a wide distribution of incomes among consumers generally. They are affected adversely by anything which curtails consumption by the general run of people. While food is essential to life and demand for it increases with improved incomes, its consumption cannot be expanded indefinitely. Nonagricultural goods and services are of greater variety and not limited in the same way. This is why any slack in the economy needs to be taken up by expansion in nonagricultural lines.

These considerations are basic in the formulation of programs to aid agriculture. The appeal of measures to raise prices by artificial means and to restrict output to gain that end lies in the hope that they will enlarge the farmers' share. However, they are not the real solution for either an unsatisfactory agricultural income or inadequate employment and low national income. A high general level of living depends upon full use of the productive resources available for the satisfaction of wants. Instead of demanding that government use its powers to maintain arbitrary prices for them and to restrict output, farmers ought to encourage government, labor, and industry to expand nonagricultural production and employment, and to adopt labor and price policies that will serve that end.

Food is essential to life in depression as well as in prosperous times. Because of the importance of an adequate diet to health and productivity, general welfare will be served better if funds are used to maintain food consumption rather than to curtail agricultural output. Public

programs to bolster farm income during periods of severe depression will do better to rely on some form of income payment rather than on maintaining prices above market levels. The latter will encourage expansion of output, lower consumption, restrict exports, and invite the use of substitutes. If such prices are to be maintained for any period of time, the government will find it necessary to enforce effective controls over output and sales, and to assume charge of the disposal of the part of the supply which the market will not absorb at those levels. It is unrealistic to expect that farmers can be left free to determine their own production programs if their prices are to be maintained at artificial levels by means of government funds.

The advantage of using income payments rather than price maintenance is that with the former the market will be allowed to arrive at prices which will help guide production and will move supplies into consumption and export. The objection commonly raised to income payments is that they are a subsidy and therefore are unacceptable to farmers. The point which this overlooks is that the use of government funds to maintain prices above market levels likewise involves subsidy. Income payments should be used only in periods of serious maladjustment. Under conditions of a high level of employment and activity in other lines, there will be an active demand for farm products, foreign trade will be expanded, and employment opportunities will be available for farm people. Clearly, government programs to maintain farm prices or incomes at certain levels are not an adequate substitute for nonagricultural activity and employment.

Farmers' 1945 Income Tax Returns¹

G. E. TOBEN

Preparing the 1945 Income Tax Returns for Minnesota farmers will be easier than it has been for several years. No major change in the federal law has been made and the changes in the Minnesota income tax law provide for greater similarity with the federal regulations relating to farm returns. For 1945, identical copies of the "Schedule of Farm Income and Expense" may be submitted with both returns.

The four changes in the Minnesota state law that are of interest to farmers are: (1) Filing regulations will require nearly all farmers to report. The new state law requires a return when the gross income of a single individual exceeds \$1,000, or the combined income of husband and wife exceeds \$2,000. (2) The income of a dependent is no longer included in the return of the parent, but in the return of the child if such return is due. However, the dependent credit allowed for this child shall be reduced \$1.00 for each \$100 earned by the child. Fractional parts of \$100 shall be disregarded unless more than \$50, in which case it shall be considered as \$100. (3) Net operating losses may now be carried forward for a period not exceeding two years. (4) A new ruling ap-

¹ Article reviewed by the United States Collector of Internal Revenue, District of Minnesota, and State of Minnesota, Department of Taxation, and has been found acceptable.

plies to the classification and tax treatment of livestock sold.

The new state ruling on livestock is similar to the corresponding federal ruling. These rulings provide that on both the state and the federal return, tax may be computed on half the gain from the sale of certain livestock provided the net gains from the sale of this livestock and other depreciable property exceeds the net losses. To come within this ruling the livestock must be in use for work, breeding, or production purposes at the time of sale and must have been owned more than six months.

Livestock that come within these rulings include work horses or mules, cows, sows, ewes, and stallions, bulls, boars, or bucks that are in use. Also included are mature chickens, turkeys, ducks, and geese in use for breeding or egg production. Bred fillies, heifers, gilts, and yearling ewes are included only if bred with the intent of using in the herd; if they are bred for sale they do not come within this ruling. Other animals that do not come within this ruling are feeder livestock and other young stock which have not been worked, used for breeding, or for egg production. The classification is based on the actual and intended use of the seller; the use made by the buyer is not considered.

Filing dates are the same as last year. Federal regulations provide that a farmer whose income tax returns are on a calendar year basis must either (1) file a complete and final return by January 15, 1946, or (2) file a Declaration of Estimated Income Tax by the same date and then submit the final return by March 15, 1946. State regulations provide that the farmer's return is due March 15, 1946, when the calendar year basis for reporting is used.

The preparation of a final tax return requires (1) the possession of all the facts and (2) an understanding of the income tax provisions. Tax consultants may aid in preparing returns in line with regulations, but they are dependent on the farmer for the facts regarding income and deductions. To provide these facts adequate farm records must be maintained. Without records some transactions will be forgotten. Those overlooked are more frequently expense items than income because income usually consists of larger items which can be readily assembled. Generally there are a greater number of expense items. Many are individually small, but important as a group. Each dollar of allowable expenses which are overlooked will probably increase the federal tax liability 23 cents or more.

Work Done by Horses and Tractors

S. A. ENGENE

Records kept by 24 Nicollet County farmers in 1943 show the work for which tractors and horses were used. All of these farmers used tractors, with two tractors on each of seven farms. Three farmers had no horses. The average number of work horses per farm was 3.5. The average hours per farm of tractor use and horse work are shown in table 1.

Tractors were used largely for field work. Eighty four per cent of the drawbar hours were spent in the field. Only a little more than one half of the horse hours were spent in the field.

The tractors were used for the heavy draft operations in the field. More than 90 per cent of the field hours of the tractor was used for the operations where it is relatively convenient to use implements that would require the power of four or more horses. These include seedbed preparation, drilling grain, cutting grain and corn, cultivating corn, and pulling the corn picker. Only 20 per cent of the horse work was used for these heavy jobs. Horses were used in the field largely for the lighter jobs such as planting corn, pulling wagons when harvesting grain or corn, mowing, raking, and hauling hay.

More than three fourths of the field power used by these farms was supplied by tractors. Horses were used 907 hours. About 3,400 hours of horse work would have been required to do the field work done by the tractors. This was estimated from the rate of accomplishment in each of the jobs for which the tractors were used.

As an average for the jobs performed by tractors, each hour of tractor use accomplished as much as 6.4 hours of horse work ($3400 \div 534$). Two thirds of this tractor use was with two-plow tractors and one third with three-plow tractors. The relative accomplishment of tractors would be less for those field jobs where the horses are now used. Many of those jobs are of light draft, where size of implement is limited by convenience of operation rather than lack of power.

Horses were used for hauling manure. Much of this was hauled daily from the barn, in small loads. Horses were also used for much of the light hauling around the farm.

Table 1. Hours of Tractor Use and Horse Work per Farm on 24 Nicollet County Farms—1943

Operation	Hours of tractor use per farm	Hours of horse work per farm
Plow, disk, spring tooth	229	11
Spike-tooth harrow, cultipack	47	18
Drill grain	17	58
Cut or combine grain	39	17
Haul while threshing	3	170
Plant corn	10	88
Cultivate corn	94	70
Pick corn	51	102
Cut corn	21	9
Haul while filling silo or shredding		88
Mow hay	12	113
Rake hay	3	52
Haul, stack, bale hay	6	105
Other field drawbar work	2	6
Total field work	534	907
Haul manure	38	478
Haul feed, bedding, livestock	16	176
Haul wood	4	25
Move, work on buildings, machinery	12	15
Misc. hauling or drawbar work	35	38
Total livestock and misc. work	67	254
Total all drawbar work	639	1,639
Total belt work	107	
Total all work	746	1,639

Minnesota Farm Prices For October, 1945

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

The index number of Minnesota farm prices for October, 1945, is 170. This index expresses the average of the increases and decreases in farm product prices in October, 1945, 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, 1945, with Comparisons*

	Oct. 15, 1945	Sept. 15, 1945	Oct. 15, 1944		Oct. 15, 1945	Sept. 15, 1945	Oct. 15, 1944
Wheat	\$1.54	\$1.47	\$1.43	Hogs	\$14.00	\$14.00	\$13.70
Corn	1.02	1.02	1.01	Cattle	10.50	11.60	11.00
Oats .....	.57	.51	.57	Calves	13.10	13.20	13.10
Barley	1.06	1.02	.93	Lambs-Sheep	12.24	12.27	11.86
Rye	1.45	1.35	.96	Chickens .....	.20	.22	.21
Flax	2.91	2.91	2.91	Eggs .....	.35	.33	.34
Potatoes .....	.95	1.25	1.25	Butterfat .....	.53	.53	.53
Hay	7.20	7.60	10.00	Milk	2.80	2.75	2.80
				Wool† .....	.48	.47	.43

* 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 of cereal crops with the exception of corn advanced several cents from September to October. Prices of potatoes in October were at the lowest level since 1942. Cattle prices declined more than one dollar a hundred pounds, but the prices of hogs, calves, and lambs-sheep remained the same or changed only slightly. The trend in egg and milk prices was upward. The Minnesota farm price index is about the same as in October, 1944, but the index of prices paid for commodities purchased by farmers increased. In consequence, the Minnesota purchasing power of farm products is about four points lower than one year ago.

Most of the feed ratios are about the same as in October, 1944. The increase in the butterfat-farm-grain ratio is due primarily to the higher feed payment given to producers of butterfat.

Indexes and Ratios for Minnesota Agriculture*

	Oct. 15, 1945	Oct. 15, 1944	Oct. 15, 1943	Average Oct. 1935-39
U. S. farm price index	187.5	182.7	182.7	100
Minnesota farm price index	170.0	169.7	173.0	100
Minn. crop price index	192.4	189.7	184.5	100
Minn. livestock price index	160.1	160.0	167.0	100
Minn. livestock product price index	167.5	168.6	173.0	100
U. S. purchasing power of farm products	128.0	129.3	133.4	100
Minn. purchasing power of farm products	116.0	120.1	126.4	100
Minn. farmers' share of consumers' food dollar	66.1†	62.5	64.4	47.6
U. S. hog-corn ratio	12.5	12.2	13.1	14.1
Minnesota hog-corn ratio	13.7	13.6	14.8	17.8
Minnesota beef-corn ratio	10.3	10.8	13.0	14.7
Minnesota egg-grain ratio	16.5	16.7	20.6	20.9
Minnesota butterfat-farm-grain ratio	36.9‡	34.5‡	25.8	36.4

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

† Figure for July, 1945.

‡ Includes an allowance for dairy production payments.

Production, Exports, and Support Prices

Examination of the period 1920 to 1939 indicates that the parity ratio for agricultural products as a group is closely associated with the volume of industrial output relative to agricultural production and the amount of agricultural exports. In this discussion it is assumed that agricultural production will continue at a high level. If the Committee for Economic Development estimates of industrial output at 141 per cent of the 1939 level are realized, and agricultural exports are at a level of about 1.5 billion dollars (the 1910-14 level), the parity ratio for agricultural products should be around 90. This would mean that agricultural prices would be at about the support levels set in the Steagall Amendment. Only commodities overexpanded relative to ordinary demands would require special assistance, and the price support program could be carried through without excessive drain upon the Treasury.

If exports should decline to the level of the 1935-39 period, then the parity ratio might be expected to decline to about 80. Agricultural sales in 1943 and 1944 were about 20 billion dollars with the parity ratio at 115. If the parity ratio had been at 90, these sales would have approximated 15 billion dollars. To raise the parity ratio from 80 to 90 it thus appears would require an annual outlay of about 1.5 billion dollars.

If the estimate of probable industrial output turned out to be too high and the index stood at 125 instead of 141, then an additional three-quarters of a billion dollars would appear to be required for support prices. If a very unfavorable situation develops in which we return to the 1935-39 level of industrial output and export of agricultural products and in which the current level of agricultural output is maintained, then it would appear that the parity ratio would decline to about 66. At this level expenditures of around 3½ billion dollars would be required to maintain support prices at a parity ratio of 90.

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Cooperative Extension Work in Agriculture and Home Economics, University of Minnesota, Agricultural Extension Division and United States Department of Agriculture Cooperating, Paul E. Miller, Director. Published in furtherance of Agricultural Extension Acts of May 8 and June 30, 1914.