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# FARM BUSINESS NOTES

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## Agricultural Price Policy

O. B. JESNESS

Farmers want prices for their products which will yield them better incomes. It is the same desire which leads workers to seek higher wage rates and manufacturers to want prices and profits which will yield higher returns. This illustrates the important function that prices perform in deciding how the national income is to be divided. Price is viewed as income and cost as outgo, but the latter itself is a form of price, for what is price to the seller becomes cost to the buyer. Clearly, it is not possible to increase the real income of everyone merely by raising prices. Such an increase in income can come only from enlarging the output of goods and services.

### Functions of Price

But prices perform other functions than that of playing a part in distributing the national income. Prices influence and direct production, particularly in a competitive field such as agriculture. A profitable price expands output, at least as long as unused producing capacity is available or there are opportunities for expanding that capacity. Price relationships as well as the general level of farm prices are important. Farmers study the crop and livestock outlook and adjust their production plans in line with price prospects.

Under reasonably normal conditions, prices in the agricultural markets represent a balancing between amounts offered and the readiness of buyers to absorb them. A relatively large supply will tend to lower price; an active demand will give strength to the market. Price tells farmers what and how much the market wants them to produce. Price also serves as an important guide to consumers in deciding what and how much to buy.

The market usually has been relied upon to arrive at prices for farm products. Farmers have not always been satisfied with the results, but any dissatisfaction has been over the income results of prices rather than at the way prices guide production and consumption. Various programs to improve income by raising prices have been adopted or proposed. Up to relatively recent times most of these programs have tried to raise prices by influencing

### University Farm Radio Programs

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the amounts offered for sale or by expanding the demand rather than by having the government actually fix prices. Thus, the protective tariff seeks to raise prices by reducing supplies from abroad. Some interstate trade barriers aim to limit competition from other domestic products or areas. The principal hope for higher prices from such proposals as the McNary-Haugen, the

Export Debenture, and the allotment plans lay in reducing supplies on the domestic market by exporting surpluses. The Federal Farm Board held supplies off the market to bolster current prices, but its operations could be only temporary, for no means of recovering the funds thus employed had been provided.

The Agricultural Adjustment program was provided with additional means of attaining higher prices in its authority to seek adjustment of farm output. This program gave legal status to parity prices which previously had been used as a convenient indicator of the relationship between prices received by farmers for their products and the prices paid by them for things which they buy. Accumulations of surpluses under the program demonstrated that there was a need for more effective control of production if arbitrary price levels were to be maintained.

### Price Policy During War

Price ceilings became part of public policy during the war period to ward off a runaway inflation. This program recognized that during war productive resources have to be used so largely for war needs that civilian production must be curtailed rather than increased. Under such circumstances rising prices soon lose their effectiveness in expanding output. The limitations of price in allocating short supplies under such conditions made rationing necessary.

Subsidies were adopted in lieu of price increases in some instances in order to avoid the inflationary spiral which the latter might produce. Support prices were provided as assurances to farmers that they could undertake all-out production of the needed commodities without fear of a sudden market collapse. Their continuance for a two-

year period after the official ending of the war presumably was intended as an aid to farmers during a period of reconversion.

### Future Price Policy

What shall the future agricultural price policy be? Shall government price supports be continued indefinitely? If so, shall these supports continue to be expressed in terms of parity? Shall the parity formula be revised? Or shall government withdraw from the farm price field and return to the market the function of arriving at prices?

There are several important points which call for consideration in arriving at answers to such questions. What will be the consequences of a government program of maintaining prices above market levels? Such prices will stimulate expansion of production, lessen consumption, and reduce opportunities for exports. In short, they will create surplus problems. In consequence, if the government is to replace the market in arriving at prices, it will eventually have to establish effective controls over the volume of output or sales and over the disposal of surpluses. Will these controls be acceptable to farmers? Will they aid or hinder the best use of available productive resources for the satisfaction of human wants?

Points such as these indicate that price maintenance by government is not as simple an undertaking as often assumed and that the results may not all be favorable. But what of the alternative of letting the market continue to arrive at prices? To some this seems to imply that government will have no active interest in farm welfare. Such a conclusion is not warranted. Price maintenance is by no means the only way open to the government in aiding agriculture. The war period has demonstrated very clearly the importance to agriculture of a high level of productive employment and activity in nonagricultural lines. Farmers need such a condition in the rest of the economy to provide a good market for farm products and opportunities for productive employment for rural people not needed in agriculture. Public policy should aim at developing and maintaining conditions favorable to a high level of non-agricultural activity. Government may well take a more active part in nutrition programs to improve the level of health and productivity of the population. While nutrition programs should have that improvement as their main objective, they may expand the market for certain protective foods. Public agencies should continue, and should expand research and educational efforts to develop more efficient methods of production and marketing of farm products and improvements in farm living. Education, health facilities, roads, and other services benefiting rural people should have increased attention. Government might well give more consideration to improving market functioning by better market information, improved grading and standardization, and the elimination of unfair and restrictive practices.

If severe depressions occur in the future, the basic remedy will not be that of reducing food production to the level of depressed lines but rather that of restoring as quickly as possible productive activity in such lines. Agricultural income may be supported with less interference

to normal activity by the use of direct income payments than by arbitrary price maintenance. The objection to such payments on the grounds that they are a form of subsidy loses weight when it is realized that the maintenance of artificial prices by use of public funds likewise is a subsidy. Such payments should be limited to emergency periods rather than become permanent.

Agricultural policy will do well to avoid measures whose gains are capitalized into higher land values instead of being used for better living. The aim should be to aid, not hinder, desirable adjustments on individual farms and among regions. The best use of resources should be sought in all lines of endeavor. Sight should never be lost of the fundamental importance of production to the satisfaction of man's wants. The aim of public policy should be to encourage and facilitate a high level of production generally.

If citizens demand that government guarantee them a job or an income, they must turn over to the government controls needed to make such guarantees effective. Such controls not only may limit individual freedom but may alter the basic structure of government itself. Public policy ought to serve the interests of citizens "clear across the board" rather than be designed to be a special benefit to selected groups. This point is often lost sight of by pressure groups.

International cooperation is vital to permanent peace. Agricultural price policy and other aspects of public policy should aid, not hinder, effective international cooperation. Efforts to maintain an artificial price structure are nationalistic at heart and lead away from international cooperation to maintain peace. This aspect of public policy deserves more attention than it is now receiving.

## Employment and the Farm Market

WARREN C. WAITE

The income which farmers receive from the sale of their products is a portion of the amount spent by the final consumers for these products. Included in the expenditures by consumers are payments for the processing and marketing of the various products. The difference between the total consumer expenditures and the deductions for marketing and processing constitutes the amount received by farmers. While prices to farmers vary directly with consumer expenditures, they change relatively more than the latter because marketing margins change slowly. As a result there are marked changes in the proportion of the consumer's food dollar received by the farmer. In 1935-39 the Minnesota farmer's share of the consumer's food dollar was 47.6 per cent while on October 15, 1945, it was 61.0 per cent.

As the proportion of consumers' income spent for food is fairly constant, the amount received by farmers for their products fluctuates with the income of consumers. This relationship has been very close. During the prewar years of 1921 to 1939 a change of 10 billion dollars in the non-farm income in the United States was accompanied by a change of approximately 1.6 billion dollars in the cash receipts from farm marketings. This relationship held both

for the periods of high and low nonfarm income. The relationship is even closer between the gross cash sales by Minnesota farmers and the national income. In the period from 1921 to 1939, changes of a billion dollars in the national income were accompanied by a change of about  $5\frac{3}{4}$  million dollars in cash sales by Minnesota farmers.

The facts of these relationships are well established and generally accepted. There have, however, been differences in the interpretation of the causal relationships. One group maintains that agriculture is so important that one dollar of farm income leads to about seven dollars of national income. For this to be true, the farmer's dollar would need to be seven times more important in the economy than other dollars. (The point may be made that the farmer is a large buyer of machinery and equipment. This is true, but a considerable share of nonagricultural income is used in a similar way.) A more realistic view is that the underlying factors which are favorable to the establishment of a high national income also operate to produce a large agricultural income.

The major part of the nonfarm income is composed of payments to individuals in the form of wages and salaries. Agriculture is thus interested in conditions that will result in full employment and large total payrolls. Increasing hourly rates of pay may or may not increase total payrolls and hence the demand for agricultural products. If wage rates are forced too high, unemployment may result and this could be sufficient to lower total payrolls. Wages also enter into the cost of things bought by farmers. This is indicated by the close relationship between the index of the cost of things bought by farmers and the index of payrolls per unit of manufactured products bought by farmers. The farmer's interest will be served best by a level of wages that leads to as full employment as possible. At such a level the demand for his products will expand more than the increase in the cost of things which he buys. If, however, wages are increased and employment falls off, demand might actually decline. At best the demand for his products will probably expand less and his sale prices rise less than the cost of things which he buys. In these circumstances he would lose rather than gain.

## How Time Is Used in Hay Making

S. A. ENGENE

A careful analysis of the present way of putting up hay is likely to reveal unexpected opportunities to save time and effort. Since conditions vary from one farm to another, each farmer will find it profitable to study his own methods. Data showing how the time used for hauling hay was spent on a group of Nicollet County farms in 1945 can provide a basis for comparison and help in the analysis.

The use of time in hauling hay with a loader on four farms is shown in table 1. Farmer A used a crew of three men hauling with a truck. Farmer B used two men with a team and wagon. Farmer C used a crew of two men and two boys with teams on two wagons. Farmer D used three men (one elderly and incapable of doing heavy work) with teams on two wagons.

Table 1. Time Required to Haul Hay with Loader

	Farm A	Farm B	Farm C	Farm D
	Minutes per ton			
Travel to and from field.....	6	24	21	24
Hook to loader and unhook.....	2	2	5	7
Lay sling on wagon.....	3	3	2	6
Load.....	37	32	39	50
Fasten, pull back, lay aside sling.....	7	13	7	16
Pull sling up.....	7	11	15	12
Spread hay in mow.....	19	0	19	27
Wait.....	3	11	14	10
Miscellaneous.....	2	4	13	0
Service equipment.....	3	1	1	9
Get team ready.....	4	3	5	11
Time per ton.....	93	104	141	172
Rods barn to windrow.....	35	100	110	150
Weight per load, pounds.....	2,000	1,800	1,650	1,500

Approximately one half of the total time on these farms was required to bring the hay to the barn. This time might be reduced by using tractors or trucks that could be driven at higher speeds than horses. Unloading the hay at the barn and spreading it in the barn required approximately one third of the total time. Approximately ten minutes per ton was spent in waiting.

The time required to haul hay on two farms using buck rakes in place of wagons is shown in table 2. Farmer A, working alone, used a tractor-mounted buck stacker. The road from the field to the barn was very rough. Farmer B used a homemade, tractor-mounted buck rake. An old man handled the slings and a partially disabled man spread the hay in the barn. The work done by these two men was less than could have been done by one able-bodied man. This accounts for most of the waiting time on this farm.

Table 2. Time Required to Haul Hay with Buck Rake

	Farm A	Farm B
	Minutes per ton	
Travel to and from field.....	24	19
Fill buck.....	14	23
Drop load at barn.....	2	4
Fasten, pull back, lay sling.....	6	20
Pull sling up.....	5	4
Pick up loose hay at barn.....	5	6
Spread hay.....	9	25
Wait.....	0	53
Service equipment.....	7	5
Time per ton.....	72	159
Rods barn to windrow.....	80	80
Weight per load, pounds.....	800	630

The time required per ton for picking up the load in the field was considerably less with the buck rakes than with the loaders, and most of the heavy work was eliminated. The time required in going to and from the field was approximately the same as for the men using loaders.

Saving 14 feet (5 steps) of travel every day saves one mile a year. Saving one minute a day saves six hours a year. A careful study of methods of working and arrangements of farmsteads and buildings will reveal many opportunities to save 14 feet of travel or one minute of time every day.

## Minnesota Farm Prices For January, 1946

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

The index number of Minnesota farm prices for January, 1946, is 167.5. This index expresses the average of the increases and decreases in farm product prices in January, 1946, over the average of January, 1935-39, weighted according to their relative importance.

**Average Farm Prices Used in Computing the Minnesota Farm Price Index, January, 1946, with Comparisons\***

	Jan. 15, 1946	Dec. 15, 1945	Jan. 15, 1945		Jan. 15, 1946	Dec. 15, 1945	Jan. 15, 1945
Wheat .....	\$1.56	\$1.56	\$1.45	Hogs .....	\$13.90	\$14.00	\$13.70
Corn .....	.30	.32	.86	Cattle .....	10.20	9.80	11.10
Oats .....	.68	.66	.66	Calves .....	13.00	13.00	12.70
Barley .....	1.09	1.09	1.01	Lambs-Sheep .....	11.98	11.98	12.22
Rye .....	1.66	1.56	1.06	Chickens .....	.20	.21	.21
Flax .....	2.91	2.91	2.91	Eggs .....	.34	.42	.35
Potatoes .....	1.15	.95	1.35	Butterfat .....	.54	.54	.53
Hay .....	8.70	8.30	11.90	Milk .....	2.85	2.85	2.75
				Wool† .....	.46	.47	.41

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

† Not included in the price index number.

Prices of crops sold by Minnesota farmers averaged 2 per cent higher on January 15 as compared with December 15. This over-all increase was due to the higher prices received for oats, rye, potatoes, and hay. Livestock prices averaged only slightly higher, although cattle prices increased substantially. Because of the lower prices of eggs, livestock product prices declined about 3 per cent on the average. The Minnesota farm price index is about the same as in January, 1945. The crop price index and the livestock product price index are up 5.7 and 1.6 points respectively, but the livestock price index shows a decline of 3 points.

Both the beef-corn and egg-grain ratios are much lower than one year ago. The butterfat-farm-grain ratio is higher, primarily as a result of the larger food subsidy paid producers.

**Indexes and Ratios for Minnesota Agriculture\***

	Jan. 15, 1946	Jan. 15, 1945	Jan. 15, 1944	Average Jan. 1935-39
U. S. farm price index .....	189.7	185.1	180.5	100
Minnesota farm price index .....	167.5	167.7	164.6	100
Minn. crop price index .....	168.6	162.9	168.4	100
Minn. livestock price index .....	169.4	172.4	167.6	100
Minn. livestock product price index .....	164.4	162.8	158.7	100
U. S. purchasing power of farm products .....	128.3	128.6	129.0	100
Minn. purchasing power of farm products .....	113.3	116.5	117.7	100
Minn. farmers' share of consumers' food dollar .....	61.0†	62.8	62.2	48.4
U. S. hog-corn ratio .....	12.8	12.9	11.3	12.7
Minnesota hog-corn ratio .....	15.4	15.9	12.7	14.9
Minnesota beef-corn ratio .....	11.3	12.9	11.4	15.4
Minnesota egg-grain ratio .....	15.9	17.5	13.4	15.0
Minnesota butterfat-farm-grain ratio† .....	34.9	32.5	27.8	33.9

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

† Figure for October, 1945.

‡ Includes an allowance for dairy production payments.

## Cattle Feeding Situation

The number of cattle on feed for market on January 1, 1946, was 4 per cent smaller than a year ago, according to reports of the United States Department of Agriculture. The estimated number on feed in all important feeding states was 4,157,000 head compared with 4,324,000 head a year earlier and 3,967,000 head January 1, 1944.

In the 12 North Central states, which includes the corn belt, the estimate of 3,310,000 head or about 80 per cent of the total number on feed indicates a decline of 5 per cent from the number reported on January 1, 1945. There was considerable variation among the states in the changes from last year with numbers up in Ohio, Indiana, Nebraska, and South Dakota, unchanged in Wisconsin and Minnesota, and down in Illinois, Michigan, Iowa, Missouri, North Dakota, and Kansas. Of the three most important feeding states, Iowa was down 10 per cent, Illinois was down 5 per cent, and Nebraska was up 3 per cent. The shipment of stocker and feeder cattle into the corn belt states during the period July to December, 1945, was considerably above the shipments of the corresponding period of 1944, indicating that at least as many cattle would be fed in this region as last year. Apparently the decrease in feeding from last year is in the number of locally raised cattle.

Compared with 1945, larger proportions of the cattle on feed on January 1 were in the 900-1,100 pound group and in the group under 600 pounds, including calves, with an offsetting decrease in the 600-900 pound group. About 39 per cent of the cattle were intended for market during January-March as compared with 42 per cent last year. If the unsatisfactory gains from feeding soft corn reported by many feeders are general, it is likely that a larger proportion will be marketed during these months than was originally anticipated.

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