FARM BUSINESS NOTES

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The Postwar Situation in the Dairy Industry

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The supplies of dairy products for domestic consumption in the United States during 1947 may be about the same or slightly less than the estimated volume consumed in 1946 even though a larger proportion of total production will move into domestic markets. Although prices of dairy products are high there is indication that culling may further decrease the total number of dairy cows. In Minnesota, approximately 30 per cent of the total cost of keeping a dairy herd consists of labor. For some of the other livestock enterprises less than 15 per cent and in the hog enterprise less than 10 per cent of the total are labor costs. A more rapid increase in farm wage rates compared with other production costs may influence the farmer who hires labor to shift to livestock enterprises requiring comparatively less labor.

The demand for dairy products is expected to continue strong through 1947 in spite of a probable decline in industrial production and income in the latter half of 1947. With somewhat less purchasing power, consumers may take less fluid milk at the prevailing prices. The butterfat that becomes available in this way will probably be consumed in fluid cream which has been and is still in short supply compared with the prevailing strong demand. Fat solids in milk will be in strong demand in all forms during most of 1947 at market prices as favorable as in 1946. The nonfat solids market is expected to weaken during 1947 because of reduced military purchases and foreign shipments.

Regardless of the form in which fat and nonfat solids are consumed, it all must come from the same total milk supply. If the total supply of milk remains the same, reduced consumption of one product will increase the supply of another. The proportion of milk sold by farmers in the United States as whole milk rather than as cream was 75 per cent in 1946. It is quite likely that this percentage may drop in the next several years, but it will probably remain far above the average of 56 per cent which prevailed during 1935-39. The main reason for this shift was the need for, and favorable price of, dried skim milk.

In Minnesota the wartime shift to the sale of whole milk was more significant; only about 11 per cent of the total milk equivalents were sold as whole milk during 1935-39 compared with an estimated 60 per cent in 1946. The per capita supply of fat solids in the postwar period may not be greatly different from prewar years, but the per capita supply of nonfat solids will depend on the extent to which farmers shift back to the sale of cream when prices of whole milk may be less favorable.

The total supply of milk increased from an annual average of 103.6 billion pounds in 1935-39 to 121.7 billion pounds in 1945. The form in which the milk supply was utilized and the changes that occurred are given in table 1.

Most significant is the large increase in fluid milk and cream consumption. On a per capita basis the average annual consumption was 340 pounds during 1935-39 and increased to 438 pounds in 1945. With removal of controls on July 1, 1946, and resulting higher retail prices there has been a significant decline in the per capita consumption of fluid milk. A further marked decline in fluid milk consumption in 1947 is expected to be offset partly by an increase in consumption of fluid cream. If consumer purchasing power declines over the next several years, the total per capita consumption of fluid milk and cream may decline considerably. A larger volume of milk will then become available for manufactured dairy products.

Dry whole milk and dry ice cream mix became important wartime products; however, any increase or de-

Table 1. Changes in the Utilization of Milk—United States

	Average 1935-39	1945	Increase 1935-39 to 1945	Increase
	Billion pounds			Per cent
Total milk consumption (human)	103.6	121.7	18.1	17
Consumption fluid milk and cream	44.2	58.5	14.3	32
Cheese	6.7	11.1	4.4	66
Evaporated and condensed milk	4.8	8.9	4.1	86
Dry whole milk	.1	1.6	1.5	.....
Other fat uses	14.0	14.2	.2	1
Creamery butter	33.8	27.4	—6.4	—19

crease in the manufacture of these products will not greatly affect the industry as a whole, because the percentage of the total supply of milk so used is comparatively small. The whole milk equivalents used in cheese increased 4.4 billion pounds from 1935-39 to 1945 and 4.1 billion pounds for evaporated and condensed milk. Most of the increase went into military and foreign uses. During the war, per capita civilian consumption of these products was less than prewar. Per capita consumption very likely will increase to prewar levels and in the case of cheese may exceed it, but not enough to absorb the wartime level of production. As a result of the failure to absorb this increase, more milk will become available for other purposes. Evidence of a downward trend in production may be noted by comparing the first nine months of 1946 with the same period in 1945 when the production of Cheddar cheese dropped 13.5 per cent and evaporated milk 22.7 per cent.

The butter industry will readily take and welcome a considerable volume of the butterfat released from these other sources. But what about the nonfat solids which will be released? The production of nonfat solids and the increase from the average annual prewar production to 1945 are given in table 2.

Monthly figures indicate that nonfat solids production for 1946 is as large as in the comparable period in 1945. During the prewar years practically all dried nonfat solids were consumed domestically. During the war and early postwar period, over half of the nonfat solids were used for military, lend lease, and foreign shipment. In 1945, such outlets absorbed 380 million pounds, nearly all of the increase in production from the prewar years. How much of the volume of nonfat milk powder can continue to find a foreign market? During the war most of it was shipped on a relief basis. In the future the importing countries will have to have foreign exchange for its purchase.

In 1946 a smaller volume of nonfat solids has gone into military channels and foreign outlets, leaving a larger volume for domestic markets. This shift has been sufficient to bring supply of nonfat solids into balance with demand, as evidenced by practically no change in prices when ceilings were removed. Prices of other dairy products rose sharply with removal of ceilings, indicating a short supply relative to demand. Prices of nonfat solids have been steady during the time milk production declined seasonally, but what will the price be when the flush production period of spring and early summer in 1947 is reached?

Facilities are available in the United States to manufacture well above a billion pounds of dried milk products per year. As indicated earlier, there has been a decided shift from the sale of cream to the sale of whole milk from farms. Farmers will be reluctant to shift back, especially in the areas with few hogs and poultry where milk has a low alternative feed value. As more milk is released from the other channels (fluid milk and cream, cheese, evaporated and condensed milk, and dried whole milk) and more butterfat is churned, a large additional volume of skim milk will become available for drying. This volume will move into domestic market channels in addition to the volume that is diverted from foreign outlets. Indications are that domestic market channels can absorb a much larger volume of nonfat solids in the postwar period. However, a price decrease will be necessary if any significant increase in consumption is to be accomplished. Much of the available supply of skim milk may find its way to lower value uses such as dry skim milk for animal feed and casein. Casein production decreased from an annual average of 45 million pounds during 1938-45 to an estimated 13 million pounds in 1946. The decided increase in casein prices since the ceiling was removed indicates an exceptionally strong demand. New and increased uses for casein are also in prospect.

In summary, the following situation for dry nonfat solids appears to be in prospect:

1. A further increase in production as butterfat is diverted from whole milk uses to the manufacture of butter.
2. An increased supply in domestic markets with increased production and reduced foreign outlets.
3. Increased domestic consumption at comparatively lower prices.
4. A shift of part of the supply of skim milk to lower value uses at lower prices.

Table 2. Production of Dried Nonfat Solids

	United States			Minnesota		
	Annual average 1935-39	1945	Increase	Annual average 1935-39	1945	Increase
	Million pounds			Million pounds		
Skim milk, human food	242	632	390	10	170	160
Skim milk and buttermilk, animal feed	189	69	—120	24	29	5
Total dried nonfat solids	431	701	270	34	199	165

"Exempt" Cooperative Associations

W. H. Dankers

The Internal Revenue Law now in force provides certain exemption for specified types of cooperatives that meet certain requirements. Although not granted to all cooperatives, exemption from income tax is granted to nonprofit cooperatives engaged in the marketing of farm products or the purchasing of supplies and equipment *for farmers*. To meet the exemption requirements "substantially all" of the capital stock or memberships must be kept in the hands of producers using the association. More business must be done with members (stockholders) than is done with nonmembers. In a purchasing association not more than 15 per cent of the business may be done with patrons who are neither members nor producers. In both marketing and purchasing associations there must be like treatment of all patrons whether they are members or nonmembers.

Exemption from income tax is not automatic under the federal and state laws—the burden of proof rests with the association.

1. A formal application for federal income tax exemption must be made to the Collector of Internal Revenue. A "letter of exemption" may or may not be granted, de-

pending upon the organization and operation of the association.

2. Even though exemption has been granted, an association is subject to examination by the Internal Revenue Bureau at any time. If it is found that the original application for exemption did not correctly state the facts, or the manner of operation of the association has changed, the exemption may be cancelled.

3. When an association changes its manner of operation, it must notify the Internal Revenue Bureau so that a new ruling may be obtained regarding the "exempt status" under the new conditions.

Although a cooperative association must satisfy the individual requirements of federal and state laws for income tax exemption, it is generally assumed in Minnesota that when federal requirements have been met an association has also qualified for exemption from state income tax.

Exempt cooperatives are required to file an annual "information return" in place of the usual "income tax return." If organized with capital stock, they are not required to pay any tax on the limited dividends on stock which they are permitted to pay. They are also relieved of the documentary stamp tax.

There is some feeling that the distinction between "exempt" and "nonexempt" associations lacks justification. However, the issues involved in the matter of exemption provided by law are not as significant as those involved in the freedom from taxation of patronage refunds.

Marketing and purchasing cooperatives in effect serve as an agent for their patrons. Cooperative marketing associations which distribute any financial balances remaining at the end of the year to the patrons, in cash or credit (patrons' equity reserves), in proportion to the amount of business handled for each are in effect allocating final payments for goods delivered. Such amounts are income to the patrons, not to the association, and are taxable as part of the patrons' income. Similarly, cooperative purchasing associations which distribute balances at the end of the year to their patrons, in proportion to the amount of business handled for each, are refunding overpayments. Such refunds represent savings to the patrons, not income to the association. Cooperatives which carry on their operations at cost have no income of their own to which an income tax logically can be applied. As its name implies, an income tax applies only where there is income. Any association organized and operated as a cooperative association and not having income to the association would not pay income tax.

Changes in 1946 Income Tax Regulations

GLEN MYERS

There have been no major changes in either the federal or Minnesota income tax regulations for 1946. Identical copies of the "Schedule of Farm Income and Expenses" may be submitted with both returns as in 1945. For the federal return a farmer must file either a final return by January 15, 1947, or he may file an estimate by January 15, 1947, and submit a final return by March 15, 1947. A payment in full must accompany the estimate. State regulations require that a complete final return be filed by March 15, 1947. A farmer filing an estimated tax return prior to January 15, 1947, may simplify the task by using 1945 income as a basis. There will be no penalty for underestimating the tax in the case of farmers, if this basis is used.

The requirements for filing a state and federal income tax return are the same as last year. For the state return, single individuals with gross income exceeding $1,000 and married persons with gross income exceeding $2,000 must file. For the 1946 federal return, every individual whose gross income is $500 or more is required to file regardless of whether he is married, single, or a minor.

There has been no change in the tax rates for the Minnesota state return. In the federal return the tax rates are the same, but the method of figuring the tax has been changed. The surtax exemptions for 1946 are the same as for 1945, $500 for the taxpayer, $500 for his wife, and $500 for each dependent.[1] Whereas in 1945 the taxpayer was not allowed any normal tax exemptions for dependents, the 1946 regulations provide the same exemption for normal tax as indicated above for surtax. The general effect of this change is to lower the amount of tax due. In 1946 a taxpayer, married, with three dependents, having an adjusted gross income, for example, of less than $2,775 will have no tax to pay when computing his tax according to the tax table. In 1945 the same size family with an adjusted gross income of $2,750-$2,775 would have had a $60 tax.

Federal regulations for 1946 permit a farmer to pay a dependent a salary and still claim him as a dependent provided the following conditions are met: (1) the taxpayer furnishes more than half of the support; (2) the amount earned by the dependent was less than $500. A further clarification of this interpretation of the ruling provides that, should a taxpayer pay a dependent a salary of $450, for example, and the dependent in turn use $150 of this amount to pay for any of the necessities of living,[2] the amount of salary which the taxpayer could deduct would be limited to $300.

The 1946 regulations in regard to livestock are the same as last year. These rulings provide that on both the state and 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 exceed 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. The classification of livestock as used is based on the actual and intended use of the seller; the use made by the buyer is not considered.

[1] A dependent is interpreted to be a person who meets the following conditions: (1) the taxpayer furnishes more than half of his support for the calendar year in which the taxable year of the taxpayer begins; (2) the gross taxable income of the person supported is less than $500 for the calendar year in which the taxable year of the taxpayer begins; (3) the person supported is related to the taxpayer within the meaning of the law; and (4) the person, if married, did not make a joint return with his or her spouse.

[2] It has been ruled that it is one of the duties of a taxpayer to furnish to a dependent food, clothing, education, medical care, and any other ordinary necessities for a livelihood.

Minnesota Farm Prices For October, 1946

Prepared by W. C. WAITE and O. K. HALLBERG

The index number of Minnesota farm prices for October, 1946, is 252.5. This index expresses the average of the increases and decreases in farm product prices in October, 1946, 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 15, 1946, with Comparisons*

	Oct. 15, 1946	Sept. 15, 1946	Oct. 15, 1945		Oct. 15, 1946	Sept. 15, 1946	Oct. 15, 1945
Wheat	$1.94	$1.82	$1.54	Hogs	$20.60	$16.00	$14.00
Corn	1.69	1.69	1.02	Cattle	16.50	15.00	10.50
Oats	.74	.68	.57	Calves	15.90	15.20	13.10
Barley	1.47	1.45	1.00	Lambs-Sheep	16.20	15.03	12.24
Rye	2.13	2.03	1.45	Chickens	.305	.253	.201
Flax	3.79	3.79	2.91	Eggs	.450	.372	.398
Potatoes	1.20	1.25	.95	Butterfat	.930	.800	.530
Hay	9.30	9.60	7.20	Milk	4.400	3.750	2.800
				Wool†	.440	.440	.480

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

† Not included in the price index number.

The prices of Minnesota farm products rose nearly 13 per cent from September to October. This increase is largely due to a gain of 18 per cent in both livestock and livestock product prices, while crop prices rose only about 3 per cent. The prices quoted are as of October 15, the day of meat decontrol, but before the lifting of controls on grains. Some prices have risen considerably since that time. The purchasing power of Minnesota farm products rose to a new high of approximately 51 per cent over the 1935-39 average.

Both the hog-corn and the beef-corn ratio rose, owing to lifting of ceilings on livestock, although these ratios are still below the average of 1935-39, particularly the beef-corn ratio. Major farm prices that increased from September to October were hogs, 29 per cent; eggs, 21 per cent; chickens, 20 per cent; and milk, 13 per cent; while potatoes and hay each declined slightly.

Indexes and Ratios for Minnesota Agriculture*

	Oct. 15, 1946	Oct. 15, 1945	Oct. 15, 1944	Average October 1935-39
U. S. farm price index	257.0	187.5	182.7	100
Minnesota farm price index	252.5	170.0	169.7	100
Minn. crop price index	261.8	192.4	189.7	100
Minn. livestock price index	235.5	160.1	160.0	100
Minn. livestock product price index	272.7	167.5	168.6	100
U. S. purchasing power of farm products	154.2	128.0	129.3	100
Minn. purchasing power of farm products	151.5	116.0	120.1	100
Minn. farmers' share of consumers' food dollar	65.3†	61.0	62.5	47.6
U. S. hog-corn ratio	13.5	12.5	12.2	14.1
Minnesota hog-corn ratio	12.2	13.7	13.6	17.8
Minnesota beef-corn ratio	9.8	10.3	10.8	14.7
Minnesota egg-grain ratio	10.3	16.5	16.7	20.9
Minnesota butterfat-farm-grain ratio	34.8	27.9	29.0	36.4

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

† Figure for June, 1946.

Government Payments to Minnesota Farmers, 1934-1945

Government payments to Minnesota farmers have varied from a low of approximately nine million dollars in 1936 to a new high of over 42 million dollars in 1945. These payments have varied as a proportion of the cash income from approximately 2.5 per cent in 1936 and 1943 to a high of 9.46 per cent in 1940.

Minnesota has received slightly less than a proportionate share of these payments, as is indicated by a comparison of the averages of columns 4 and 5, table 1, but received proportionately more in 1944-1945, when dairy payments were an important part of the payments.

Payments were well above average during 1944 and 1945 despite the fact that these were years of unusually large farm income. Much of this total, however, consisted of subsidy payments which had been designed to increase production of essential agricultural products without raising price ceilings. Items which were important in this program were milk, pork, beef, and flax. In the early years the payments had been for curtailing or adjusting production and for soil-conserving practices.

Table 1. Government Payments to Minnesota Farmers, 1934-1945

Year	Payments to Minnesota farmers	Proportion of total Minnesota farm income	Proportion Minnesota payments to national payments	Proportion Minnesota farm income to national farm income
	1,000 dollars	Per cent	Per cent	Per cent
1934	23,437	9.05	5.15	3.49
1935	14,713	4.37	2.44	3.76
1936	9,203	2.52	3.13	4.20
1937	17,497	4.48	4.63	4.17
1938	15,301	4.39	3.11	4.23
1939	26,599	7.58	3.22	4.17
1940	40,552	9.46	5.22	4.62
1941	19,619	3.73	3.24	4.33
1942	32,044	4.41	4.59	4.48
1943	22,265	2.46	3.27	4.46
1944	35,687	4.17	4.35	3.98
1945	42,536	4.66	5.45	4.18
Average	24,954	5.11	3.98	4.17

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