FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
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Support Prices for Farm Products

O. B. JESNESS

The term "support prices" usually is employed to refer to price floors provided by war measures enacted by Congress to encourage farmers to undertake all-out production. The Stabilization Act of 1942 provided price support for basic commodities, including corn, wheat, cotton, rice, tobacco, and peanuts. The Steagall Amendment provided similar support for certain other products and directed the Department of Agriculture to endeavor to maintain fair price relationships for a third group within the limits of available funds. Provision was made for the continuation of support prices two years from the first of January after official declaration of the end of the war. The President's declaration in late December, 1946, means that the program will continue through 1948. The purpose of this extension presumably was to provide an interim for adjustment of farm output to peacetime requirements. Unfortunately, price supports may delay, rather than speed up, needed adjustments.

The level at which prices are to be supported is 90 per cent of parity (92½ per cent for cotton). Because of the active demand, prices for most products have been above support levels. Even with a strong market some commodities, for instance potatoes and eggs, have fallen to support levels.

Indications are that farm prices have reached and passed their peak for this war period. In fact, some commodities have turned downward rather sharply. Unless an unexpectedly severe depression with large-scale unemployment occurs, a drastic drop in prices of farm products generally is not an immediate prospect. However, prices for various products are likely to sag sufficiently during the next two years to bring price support for them into play. Support prices were used during the war mainly as an incentive to production. Price support for this purpose may continue for a few products, such as flaxseed, for which prospective supplies are inadequate, but from now on its principal aim will be to protect farmers against serious price decline.

University Farm Radio Programs

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UNIVERSITY FARM HOUR—12:30 p.m.

Station KUOM—770 on the dial

Support Based on Parity

The tie-up of support prices with parity means that the relationship among prices provided by the parity formula is extended to the support program. One difficulty with this is that the base period of August, 1909, to July, 1914, used for parity prices, is now out of date. Many changes affecting agriculture have taken place during the last three decades. The tractor, the corn picker, the combine, and other new and improved equipment have come into extensive use. The use of hybrid corn has become practically universal in the Corn Belt and has increased yields. The yields of other crops such as cotton also have increased. These and other changes have altered production costs and price relationships. While gains in production efficiency may not have been so marked for livestock and livestock products, these lines are far from static. Nor has demand remained unchanged. The availability of replacements such as synthetic fibers for cotton and wool cannot be ignored. The shift from animal to mechanical power has affected both supply and the market. These illustrations are sufficient to raise serious doubts about the suitability of the parity formula as a basis for price supports in the period ahead.

Support prices are not simply a case of assuring farmers a better and more stable income. The problems of their effectiveness, inequalities which they create, and the governmental controls to which they may lead deserve careful consideration by farmers and citizens generally. This matter takes on added importance because of efforts which are being made to continue this or some similar program for a longer period of time.

If the price of only an occasional product falls to the level where supports are called into play, shifts to more profitable lines might take care of much of the problem. However, the decided expansion in farm output during the war and the prospects for continued large production indicate extensive use of supports at some future time if market demand should shrink.

Controls Will Be Needed

As long as the object was that of encouraging production, supports logically were assured for total output. However, as the scene shifts to one of maintaining prices rather than expanding production the situation changes. The Secretary of Agriculture has asked Congress to decide whether or not supports are to be limited to specific amounts or allotments. If supports become at all general, production controls will become essential. Prices above the market will encourage continued large production and check demand, with the result that surpluses will accumulate. The drain on the treasury and the difficulty of holding or disposing of surpluses so as not to involve heavy expense, depress the market, or lead to waste will force the adoption of some form of control.

As past experience demonstrates, it is not easy to restrict or control farm output. Curtailing acreage has not been too effective in reducing output. How shall production controls be managed? Who shall have the right to share in the market and in what amounts? The easy way may be to base allotments on past production. Temporarily, this may work fairly well, but soon such a method restricts desirable adjustments on individual farms as well as between regions. Agriculture is not a static industry. Changes in technology, crops, and markets call for frequent changes in the production pattern.

Unless effective production control can be established, any program which results in keeping farm prices at an artificially high level will create problems of surplus disposal. The commodity loan program used to support prices before the war built up unwieldy stocks of such commodities as wheat, corn, and cotton. True, the abnormal war demand found outlets for these supplies. However, it is not reasonable to count on periodic return of abnormal demand to solve this problem.

Surpluses for Food Relief?

The need for food in less privileged parts of the world has been suggested as an outlet for surpluses. The lend-lease program and UNRRA provided a market for sizeable quantities of farm products during the war. The former ended with the period of active fighting and the latter is winding up its affairs at present. Some provision for making relief food available will no doubt continue for a time. The large war debt and the need for balancing the federal budget limit funds available for continuing this program. Moreover, as recovery takes place elsewhere it will become increasingly difficult to dispose of products as relief without interfering with customary trading. International cooperation may include programs to improve the food situation in depressed areas. If so, it is to be hoped that such programs will be concerned with improved food supplies rather than with maintaining prices in exporting countries at arbitrary levels.

A popular view is that surpluses can be readily disposed of abroad by a two-price system, which will maintain prices within the country at an established level and sell the balance abroad at world prices. This can be made to appear much simpler than it actually is. For one thing, it assumes an ever-present world market for any and all surpluses. This is unrealistic in view of limited foreign exchange and extensive trade controls. Schemes of this kind often are frowned upon by importing countries as a form of unfair competition. Such a program would lead towards nationalism because barriers to imports would be demanded to protect the arbitrary price structure and to keep exported products from returning. These barriers would lessen rather than expand export opportunities. The results would not serve the interest which this country has in expanding multilateral trading in the world. A program of this kind would hinder rather than aid world cooperation to maintain peace.

Problems to Be Weighed

A fundamental question involved in a continuing program of agricultural price support relates to the role which government is to play. Is price to be determined by government through the use of some formula rather than by buyers and sellers in the market? Will the controls necessary to make this program work serve the interests of general welfare, or even of farmers? There was widespread objection to price ceilings. A considerable share of this arose because ceilings were not sufficiently flexible to keep prices in proper relationships. Price supports involve the same difficulty, particularly when tied to an arbitrary formula. Other questions which present themselves include the probable effects of continued price supports on land prices. Will they be capitalized into land rather than be used for better living? Will they tend to slow up the cityward migration of rural people and thus lead to overmanning of agriculture? Will they foster the best use of productive resources? These are illustrative of considerations which deserve careful review in deciding upon agricultural policy for the future.

Plan Machinery Purchases Carefully

S. A. Engene

More than 15 cents out of every dollar of farm sales goes to pay for the costs of machinery and mechanical power. That is the amount paid by farmers in the farm management services in Minnesota, as shown by their records.

On January 1, 1946, the average inventory value in machinery and mechanical power on those farms was $3,350, or $15.00 for each acre of land. On 10 per cent of them inventory values exceeded $25.00 an acre. The cost of replacing those machines with new would be about twice as high.

Prices received by farmers will probably decline during the next few years as adjustments are made from wartime conditions. Prices for machinery, repairs, and fuel will not fall as much. Machinery costs may then take a bigger share of the farmer's dollar. Careful study of the probable cost and return for the purchase that is planned will help to prevent that share from becoming too large.

The annual cost of crop machinery averages about 13 per cent of the original investment. Studies in several

states confirm this result. The annual costs for a group of farmers in Nicollet County for 1941, 1942, and 1943 were:

Depreciation	5.0 per cent of original cost
Repairs, taxes, and insurance	4.5 per cent of original cost
Interest	2.5 per cent of original cost
Housing	1.0 per cent of original cost
Total	13.0 per cent of original cost

This means that a farmer buying a new machine for $100 can figure roughly that its use will cost him $13.00 a year. These costs vary considerably among farmers, according to amount of use and kind of care. They also vary to some extent among different kinds of machines.

The cost of a new machine must be balanced against the increase in income or savings in other costs that will result from its use. With the new machine the farmer may be able to prepare a better seedbed, to cultivate more thoroughly, and to do the work more nearly at the optimum time. This may increase his production. With the use of the new machine he may also reduce some of his other costs, especially his labor costs. By owning some of the machines in partnership with others or by doing custom work it may be possible to spread the cost to advantage.

To be profitable, a purchase of a machine must return more than can be earned by using the capital for other purposes. The farmer's limited capital might be used more profitably for the purchase of improved livestock or commercial fertilizer.

Adequate machinery can make farming more comfortable and pleasant by eliminating some of the hard drudgery. Here the value of the machine must be compared with the pleasure that can be made by improvements elsewhere. Remodeling of the house, a mechanical refrigerator, or education for the children may yield greater satisfaction to the family. Each alternative must be weighed carefully. Each family may reach a different decision, because of the different valuations placed on these factors.

Does It Pay to Save Labor?

R. O. Olson

Labor costs are a large item of expense on many farms. The efficient use of labor is, therefore, of considerable importance in increasing farm earnings.

Farm records from the Southeast Minnesota Farm Management Service showed a great deal of variation in the number of units of crops and livestock (i.e., work units[1]) cared for by each farm worker. As indicated in table 1, the one third of the farmers having the highest work units per worker each used an average of 1.8 workers a year. The one third of the farmers having the lowest work units per worker used an average of 2.6 workers to handle the same size and type of farm.

During each of the six years studied, those farmers having high work units per worker saved an average of 0.8 worker per farm. This would amount to an average saving of approximately $600 per year. Since there was no difference in the size or type of the farms in these two groups, the savings in labor costs could be expected to result in higher earnings. Unfortunately, it did not. An explanation is found in the fact that the farmers having high work units per worker consistently had lower crop yields and lower returns per $100 of feed fed to productive livestock. By caring for more units of crops and livestock the workers failed to do as good a job on each unit. Productivity of each worker did not increase and, therefore, total production went down.

Contrary to what might be expected, power, machinery, and building expenses per work unit were substantially lower for the group having high work units per worker. Apparently these farmers did not save labor by using more power and machinery.

Table 1. Relationship of Work Units per Worker to Other Management Factors and to Earnings, Southeast Minnesota Farm Management Service, Average 1940-1945

	Avg. of ⅓ farms with high W.U. per W	Avg. of ⅓ farms with low W.U. per W
Operator's labor earnings	$3,289	$3,307
Index of crop yields	97	102
Index of return per $100 feed fed to productive livestock	98	102
Power, machinery equipment, and building expense per W.U.	$2.46	$2.75
Total work units*	638	637
Work units per worker	363	253
Number of workers	1.8	2.6

* Records were sorted to eliminate variations in size of business.

Does it pay to save labor? It did not for the farmers included in this study. They increased their work units per worker by doing less thorough work or by doing poorer quality work. The loss in income owing to lower production offset the savings in labor costs. Attainment of high work units per worker will pay only if it is the result of increasing the real efficiency of the workers.

There is considerable opportunity on most farms for increasing the number of units of crop and livestock handled by each worker without impairing production. Careful planning and thorough study of the work to be done will reveal unessential tasks which can be eliminated. Careful arrangement of the building, farmstead, and field will save time and steps. Wise selection of enterprises to provide an even distribution of labor throughout the year will make it possible for each worker to handle more crops and livestock without doing an inferior job. Wise use of machinery and power, where its cost is less than the cost of the labor replaced, will effect savings. High work units per worker attained in this way will mean higher labor efficiency and higher earnings.

[1] A work unit, as ordinarily used, represents the average amount of work accomplished by a farm worker working at average efficiency in a 10-hour day. Total work units are obtained by multiplying each unit of livestock and crops by the normal number of work units required to care for it for a year, and adding the products. The total work units are divided by the average number of workers to get the number of work units per worker.

Minnesota Farm Prices For January, 1947

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

The index number of Minnesota farm prices for January, 1947, is 242.4. This index expresses the average of the increases and decreases in farm product prices in January, 1947, 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, 1947, with Comparisons*

	Jan. 15, 1947	Dec. 15, 1946	Jan. 15, 1946		Jan. 15, 1947	Dec. 15, 1946	Jan. 15, 1946
Wheat	$1.95	$2.01	$1.56	Hogs	$22.00	$22.60	$13.90
Corn	1.04	1.07	.90	Cattle	17.00	16.80	10.20
Oats	.73	.75	.68	Calves	18.20	17.60	13.00
Barley	1.55	1.50	1.09	Lambs-sheep	18.70	18.36	11.98
Rye	2.55	2.51	1.66	Chickens	.210	.230	.204
Flax	6.96	6.95	2.91	Eggs	.339	.376	.337
Potatoes	1.10	1.15	1.15	Butterfat	.74	.94	.54
Hay	10.30	11.00	8.70	Milk	4.00	4.60	2.85
				Wool†	.43	.44	.47

* 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 Minnesota farm products dropped approximately 6.6 per cent from December, 1946, to January. The decrease was especially noticeable in prices of livestock products which fell about 18 per cent, while crops and livestock were only 1 per cent lower. The large decline in butterfat and milk prices was partially a normal seasonal drop but was also due to more than average increases in butter and milk production.

The purchasing power of Minnesota farm products decreased from December's high of 52.5 to 40.3 per cent over the 1935-39 average. Egg-grain and butterfat-grain ratios decreased slightly but feed ratios remained high with the hog-corn ratio being the highest since 1938.

Specific decreases were largest in milk, 21.3 per cent, butterfat 13.1 per cent, eggs 9.8 per cent, and chickens 8.7 per cent.

Indexes and Ratios for Minnesota Agriculture*

	Jan. 15, 1947	Jan. 15, 1946	Jan. 15, 1945	Average Jan., 1935-39
U. S. farm price index	239.4	189.7	185.1	100
Minnesota farm price index	242.4	167.5	167.7	100
Minn. crop price index	212.0	168.6	162.9	100
Minn. livestock price index	270.1	169.4	172.4	100
Minn. livestock product price index	214.9	164.4	162.8	100
U. S. purchasing power of farm products	138.5	128.3	128.6	100
Minn. purchasing power of farm products	140.3	113.3	116.5	100
Minn. farmers' share of consumers' food dollar	63.8†	60.5	62.8	48.4
U. S. hog-corn ratio	18.0	12.8	12.9	12.7
Minnesota hog-corn ratio	21.2	15.4	15.9	14.9
Minnesota beef-corn ratio	16.3	11.3	12.9	11.7
Minnesota egg-grain ratio	13.5	15.9	17.5	15.0
Minnesota butterfat-farm-grain ratio	30.7	26.6	27.3	33.9

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

† Figure for November, 1946.

Month-to-Month Changes in Minnesota Farm Prices

H. G. HIRSCH

The Minnesota farm price index which is published regularly on this page does not permit a comparison of the farm price level of two succeeding months. A measure of the average percentage change of Minnesota farm prices relative to the preceding month has therefore been carried in the text of the price report on this page since last September and will regularly be published in the future. (As shown in the adjacent column, January prices average 6.6 per cent lower than December prices.)

The table below shows the average percentage changes from month to month of Minnesota farm prices for the last four years. (Price changes from December, 1941, to May, 1943, have been published in *Farm Business Notes* No. 246.) For the entire period from December, 1941, to December, 1946, the average monthly rate of change of all farm prices was an increase of 1.3 per cent. It was a 2.3 per cent increase from December, 1941, to March, 1943, but only a 0.1 per cent increase from April, 1943, to August, 1945, when OPA curbs on inflation were most effective; however, it jumped up to 2.6 per cent for the period from September, 1945, to December, 1946.

Relative Changes of Minnesota Farm Prices from Month to Month, January, 1943, to December, 1946

	1943	1944	1945	1946
	Per cent			
January	+4.5	−0.2	+0.8	−0.4
February	+2.8	+1.6	+1.1	+1.2
March	+3.9	0.0	+0.9	+3.5
April	+0.7	−1.0	+1.0	+1.5
May	−0.9	+0.3	+0.8	+2.3
June	−0.7	−0.3	+2.2	+2.8
July	−0.7	+0.6	+0.6	+18.6
August	+1.2	−1.4	−1.3	+5.3
September	+2.5	−2.7	−2.7	−3.4
October	+0.7	+1.5	−1.0	+12.9
November	−3.7	−0.8	−0.9	+2.1
December	+1.3	+0.1	+1.2	+0.4

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