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FARM BUSINESS NOTES

Prepared by the Divisions of Agricultural Economics and Agricultural Extension
Paul E. Miller, Director Agricultural Extension

NO. 329

UNIVERSITY FARM, ST. PAUL

MARCH 30, 1951

Defense and the Farmer

O. B. JESNESS

University Farm Radio Programs

HIGHLIGHTS IN HOMEMAKING

10:45 a.m.

UNIVERSITY FARM HOUR—12:30 p.m.

Station KUOM—770 on the dial

in nonagricultural lines.

Wool is a war commodity and relatively short supplies and increased requirements have driven prices up decidedly. A small acreage and low yields in 1950 shifted the situation in cotton from one of concern over prospective surpluses to one of fear over shortages, at least until this year's crop is available. The general effect of these various

developments has been to return the average of all farm prices to a level above parity, even though many individual commodities are still below.

Farmers have become aware of the rising prices, not only in selling but also in buying. Machinery and other supplies are costing more. Increasing scarcity of labor is reflected in higher wage rates. There is concern over possible shortages, particularly in labor but also in machinery, building materials, and certain chemicals which are important in fertilizers and spray materials.

By and large, however, farmers are in a relatively strong position to maintain and increase output. Many farmers used income during the war period to reduce debts and improve their financial position. Since the end of the war they have added decidedly to their stocks of machinery and equipment. New and improved technology has increased farm productivity. Included are improved strains of hybrid corn and other grains, improved livestock, artificial breeding, expanded use of fertilizers, and new and better machines. Agriculture gives every indication of being prepared to hold up its end barring extremely unfavorable weather conditions. Food shortages are not in prospect at this time.

Inflation again has reared its ugly head. Americans continue to regard the consequences of inflation with mixed feelings. It is only natural to view with favor the effects of rising prices on income. Rising prices of goods and services purchased, however, mean increased costs which are most unwelcome. The reaction of consumers to rising living costs has been especially marked.

A year ago farmers showed considerable concern over the prospects for lower prices of farm products. Indications were that supplies in various lines might outrun the readiness of the market to absorb them at prices providing an acceptable return. Developments in Korea and the action of the United Nations to meet the aggression altered these prospects very decidedly. Plans for

greater defensive rearmament added requirements to an economy already operating at a very high level. One result has been to push well into the background fears of a slowdown in economic activity as shortages in housing, automobiles, and other lines were met.

The increased activity and employment during the last half of 1950 were in anticipation of rather than a direct result of increased expenditure for rearmament. Considerable "scare" buying and some evidence of hoarding were in the picture during the summer. Their effects on prices encouraged still more buying in an effort to stock up before prices went up still more. Complaints over rising living costs and demands for price controls became increasingly evident.

Appropriations are now being translated through orders into active defense production. The effects of this and of additional appropriations will increase in the months ahead. Because activity already was high, the program involves shifting plants and workers from peace time to defense production. As the latter increases, shortages may develop in some civilian goods needing strategic materials and labor.

The effects of the increased tempo were reflected promptly in the markets for some farm products. Meats, especially beef, lamb, and mutton, supply an illustration because current production is none too abundant. While the supply of pork was more generous, the increased demand has brought higher hog prices as well. The market for dairy products likewise has improved. These are among the commodities for which the level of consumer incomes is very important. They illustrate the stake which farmers have in maintaining a high level of productive activity

While more people than ever before seem to be aware of inflation, it is apparent that not everyone understands its basic cause. Rising prices are a consequence of inflation. The cause is a more rapid expansion in money supply than in the supply of goods and services available to civilians in the market. War and preparation for war increase employment and activity and hence add to spendable incomes. At the same time, they limit the production of many civilian goods. Income receivers may try to spend all their incomes in such a situation but if they do, the effect is to drive up prices rather than to add to goods and services.

The insistent demand for the imposition of price controls rather than higher taxes suggests that the understanding of the nature of inflation is none too good. Price controls deal with consequences rather than with causes. There may be conditions under which the use of such controls becomes nearly indispensable. However, they cannot be the major reliance. They bottle up inflationary pressures rather than eliminate them. They build up threats of runaway conditions at some future time.

Moreover, price controls are extremely involved and difficult to administer. They may shift some production from goods vitally needed to less important lines. They may discourage production. For some consumers goods short in supply, as for instance meat, price controls may require consumer rationing to avoid unfair distribution of the available supply. They may become tempting to black market operators and their patrons.

Because inflation results from an excess supply of money in relation to available goods and services, the real remedy lies in reducing the money supply. The means to this end include curbs on credit and increased tax collections. Fortunately, some steps were taken quite promptly to restrict certain types of credit. More can be done, however. Unless the recent decision of the Treasury Department to offer a bond issue at $2\frac{3}{4}$ per cent materially eases the pressure on the Federal Reserve System to support the government bond market, the administration will need to examine more carefully the inflationary effects of such support.

The present is not the time for deficit spending. The necessary budget should be met in full by increased taxes. If present requests are authorized in full, a total of over 70 billion dollars is in prospect. Unless this is reduced, new taxes to provide between 15 and 20 billions of added revenue may be needed. This focuses attention on the vital importance of strict governmental economy in both ordinary and defense expenditures in order that the needs may be met without waste or extravagance. The budget cannot be met unless the tax load is distributed as fairly as possible among all who have any ability to pay. If the added taxes are to be effective in curbing inflation, they must not be treated as increased living costs to be met by higher prices or wage rates.

Citizens naturally are not happy over the prospects of still heavier federal taxes. The temptation may be strong to resist and to rely on borrowing to pay the bill. To do so in the present situation would be highly inflationary. Citi-

zens therefore need to balance the costs of higher taxes against the costs of more inflation. For many, inflation will cost more than the added taxes. A life insurance policy which would have provided \$1,000 of purchasing power in 1940 now yields less than \$600 of purchasing power. An E bond purchased ten years ago matures this year at a higher dollar value but the latter represents less buying power than the original investment. Money kept in cash during this period has depreciated even more because there has been no interest. Inflation is a heavy levy on citizens. In many instances it has cost more since 1940 than an individual's federal tax bill.

Citizens need to continue to buy government bonds. The Treasury will require considerable sums for refunding maturing bonds during the next few years. Unless citizens provide the means, the Treasury will turn to inflationary borrowing from the banking system. The citizen is under obligation to buy bonds. His government is under obligation to do everything within its power to assure the purchaser that the value of the bonds will not evaporate through inflation. The government is restricting the borrowing of its citizens. It is urging caution and reserve in spending. The government, in turn, should hold its own borrowing in check and practice similar economy because its operations are as inflationary in their effects as those of its citizens.

Trends in Mechanization on Dairy Farms in Southeastern Minnesota, 1930-1949

WILLIAM E. McDANIEL

The farmer's investment in mechanical power and machinery and his expenditures for operating them have increased sharply in the past twenty years. This is indicated by records of the Southeastern Minnesota Farm Management Service (table 1).

The effects of the rising price level are included in the expense of operation figures in table 1. Physical quantities of gasoline, oil, lubricants, and parts used in the operation of mechanical power in 1949 were four times as great as those used in 1930 and more than two and one-half times those used in 1940.

The upkeep of machinery in terms of physical cost changed little between 1930 and 1940 but had more than doubled by 1949.

Table 1. Average Inventories and Operating Expenses of Mechanical Power and Machinery on 160-acre Dairy Farms in Southeastern Minnesota

	1930	1940	1949
Number of farms	66	30	34
Inventories			
Mechanical power	\$584	\$793	\$1,885
Machinery	795	1,029	2,152
Operating expenses			
Mechanical power	\$165	\$205	\$833
Machinery	41	37	146

Table 2. Proportion of 160-acre Southeastern Minnesota Dairy Farms Having Selected Kinds of Machinery

	1930	1940	1949
	per cent		
Tractors	58	90	100
Combines .....	.....	6	24
Corn binders	85	87	39
Corn pickers	12	20	55
Corn shellers (power)	4	3	21
Field choppers .....	.....	.....	28
Grain binders	98	96	55
Hay balers .....	.....	.....	12
Hay loaders	77	87	61
Manure loaders .....	.....	.....	12
Portable elevators	15	33	48
Rakes (dump)	73	63	24
Rakes (side delivery)	69	80	88
Silage cutters	53	50	31
Sprayers (field) .....	.....	.....	58
Spreaders (lime and fertilizer)	7	12	43

The proportion of the 160-acre farms on which there were selected kinds of machinery is shown in table 2. Combines, field choppers, hay balers, and sprayers are expensive machines which some of these farmers have purchased in recent years. This is resulting in increased investment in farm machinery. The inventory of farm machinery in 1949 was more than two and one-half times the value in 1930 and twice that of 1940. Because of the large investment involved in new types of equipment, many operators have found the use of custom work as well as the cooperative ownership of machinery to be economical practices. The amount of custom work hired on these 160-acre farms in 1949 was 170 per cent greater than in 1930 and nearly 100 per cent more than in 1940. Generally, the custom work is performed by another farmer.

In deciding whether or not to buy specialized machinery, farmers should consider the possibilities of hiring custom operators to do the work. They should also consider doing custom work for others if they purchase the machinery.

Two groups of farmers who should give special consideration to the use of custom work and cooperative ownership of machinery are: (1) beginning farm operators with limited capital; and (2) farmers with businesses too small for the optimum use of specialized equipment.

Interest Rates on Short-Term Bank Loans to Farmers

SHERWOOD O. BERG

There is considerable variation in the rate of interest that Minnesota farmers are paying on their short-term agricultural production loans from commercial banks. This has been revealed in a sample study of 1,094 short-term loans made by eight selected state banks located in four type-of-farming areas in the state.

The most common interest rate on such loans was seven per cent, with two-fifths of all loans made at this rate. One-third of the loans were made at six per cent, one-fourth at eight per cent, and a few at four and five per cent.

Table 1. Interest Rates on Farm Production Loans by Size, Eight Minnesota State Banks, 1948-1949

Size of note	Per cent of notes	Interest Rate					Total
		4%	5%	6%	7%	8%	
per cent of notes							
Under \$250	50.5	0.8	.....	10.3	49.2	39.7	100
\$250-\$499	15.0	1.7	.....	39.8	41.5	17.0	100
500-749	10.5	.....	3.6	59.0	27.7	9.7	100
750-999	3.6	.....	10.7	60.7	21.4	7.2	100
1000-1499	9.0	7.1	4.2	64.8	21.1	2.8	100
1500-1999	3.3	.....	3.8	75.1	13.4	7.7	100
2000-2999	4.7	5.4	10.8	75.7	8.1	.....	100
3000-4999	2.3	.....	27.8	72.2	.....	.....	100
5000-over	1.1	.....	55.6	44.4	.....	.....	100
Total	100.0	1.5	3.0	33.5	37.6	24.4	100

One of the factors accounting for the variation in the interest rates on commercial bank loans to farmers was the size of the loan. Interest rates declined as size of loan increased (table 1). By this means, banks attempted to compensate for differences in cost of servicing loans of different size, for certain costs incurred in making and servicing a loan are the same irrespective of size of loan. In order to attract and keep large borrowers, lower interest rates may have been offered such customers. These individuals frequently maintained substantial deposit balances in the bank and represented considerable volume of a country bank's business. It is also probable that farmers using large amounts of credit may have been more inclined and possibly better qualified to shop around for the most favorable interest rates.

Interest rates also tended to vary by type-of-farming area (table 2). The highest rates were found in the north-east dairy and the Red River Valley areas of the state. The lowest rates prevailed in the southwestern livestock and central dairy areas. In the Valley area, the rates were undoubtedly influenced by the greater production and price risks found in a predominately cash crop area as contrasted to the diversified crop and livestock system of southern Minnesota. Loans in the northeast were not only the smallest but were also the greatest in number per farmer-borrower. Such loans involve more work by bankers and consequently cost borrowers more.

These findings did not reveal the "effective" rate of interest. If notes were discounted, if filing and abstracting fees were added, if minimum service charges were involved, the interest rates were actually higher than the contract rates discussed above.

Table 2. Interest Rates on Farm Production Loans by Type-of-Farming Areas, Eight Minnesota State Banks, 1948-1949

Type-of-farming area	Per cent of notes	Interest Rate					Total
		4%	5%	6%	7%	8%	
per cent of notes							
Southwestern livestock	31.6	.....	9.4	25.2	64.5	0.9	100
Central dairy	40.4	4.8	1.6	22.9	57.4	13.3	100
Northeast dairy	14.4	.....	.....	36.4	22.6	39.0	100
Red River Valley	13.6	.....	8.8	50.9	10.5	29.8	100
Totals	100.0	1.5	3.0	33.5	37.6	24.4	100

Minnesota Farm Prices for January-February, 1951

Prepared by ARNOLD B. LARSON

The index number of Minnesota farm prices for January, 1951, is 268.4. For February the index is 276.6. This index represents the average of the increases and decreases in farm product prices in the given month of 1951 over the corresponding month 1935-1939, weighted according to their relative importance.

Average Farm Prices Used in Computing the Minnesota Farm Price Index, January-February, 1951, with Comparisons*

	Jan. 15, 1951	Feb. 15, 1951	Feb. 15, 1950		Jan. 15, 1951	Feb. 15, 1951	Feb. 15, 1950
Wheat	\$ 2.15	\$ 2.28	1.99	Hogs	\$19.90	\$22.20	\$16.20
Corn	1.43	1.48	1.04	Cattle	26.60	28.50	20.40
Oats .....	.83	.87	.64	Calves	31.20	33.20	26.00
Barley	1.44	1.47	1.24	Lambs-sheep	29.72	32.64	21.52
Rye	1.54	1.65	1.16	Chickens .....	.179	.214	.167
Flax	4.31	4.56	3.63	Eggs .....	.317	.348	.25
Potatoes .....	.85	.90	1.20	Butterfat .....	.75	.75	.68
Hay	15.40	15.70	14.80	Milk	3.55	3.60	3.00
				Wool† .....	.80	.95	.42

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

† Not included in the price index number.

Large increases in livestock prices coupled with somewhat smaller increases for most other commodities raised the U. S. farm price index, (1910-1914 = 100) to a record level of 313 in February. The February index is 2 per cent above the previous record set in January, 1948. The index of prices paid by farmers set a new record in February for the fourth consecutive month. The parity ratio, which is the ratio of the U. S. farm price index to the index of prices paid by farmers, is, however, 9 points below the record level of 122 set in October, 1946.

Indexes and Ratios for Minnesota Agriculture*

	Jan. 15, 1951	Average 1935-39	Feb. 15, 1951	Average 1935-39
U. S. farm price index	276.2	100	286.6	100
Minnesota farm price index	268.4	100	276.6	100
Minn. crop price index	218.0	100	211.5	100
Minn. livestock price index	323.8	100	354.0	100
Minn. livestock product price index	208.9	100	214.1	100
U. S. purchasing power of farm products	127.2	100	130.0	100
Minn. purchasing power of farm products	123.6	100	125.5	100
Minn. farmers' share of consumers' food dollar	59.7‡	48.4	59.0‡	48.0
U. S. hog-corn ratio	13.0	12.7	13.8	13.1
Minnesota hog-corn ratio	13.9	14.9	15.0	15.5
Minnesota beef-corn ratio	18.9	11.7	19.3	12.1
Minnesota egg-grain ratio	10.6	15.0	11.1	14.4
Minnesota butterfat-farm-grain ratio	27.9	33.9	26.9	34.2

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

† Figure for October, 1950.

‡ Figure for November, 1950.

UNIVERSITY FARM, ST. PAUL 1, MINNESOTA

Cooperative Extension Work in Agriculture and Home Economics, University of Minnesota, Agricultural Extension Service 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.

Sale of Eggs in Minneapolis Retail Stores

ARNOLD B. LARSON

A study of egg sales in Minneapolis retail food stores was conducted in conjunction with the study of butter and margarine sales made during May and June, 1950, by the Division of Agricultural Economics. A 15 per cent sample, consisting of 219 stores, was drawn. The sample was stratified with respect to type-of-food store and rental value of dwellings in the vicinity of the store.

Total weekly sales of eggs by stores in the sample was 21,206 dozen. From this figure, assuming that the sample is representative and that sales at this time of the year are at the seasonal average, one would estimate per capita yearly sales at 14 dozen. The USDA estimates per capita consumption of eggs in 1949 to be 30 dozen. It is apparent that a large percentage of the eggs used in Minneapolis do not pass through the retail stores.

The bulk of the eggs sold in Minneapolis during this period were graded A-Large or A-Medium. A-Large accounts for 69 per cent and A-Medium for 21 per cent of the sales. The next most important grade, Unclassified, accounted for 4 per cent of the sales. Grade A-Large eggs were sold in 199 stores; A-Medium were sold in 82 stores; and only 21 stores sold any of the other grades. Four stores sold no eggs.

Most stores have eggs delivered twice a week. Eggs are usually candled one day before delivery, or on the day of delivery. Only 40 per cent of the stores stored their eggs in coolers of any sort. One-half of the stores sold eggs in cartons; the other half used paper bags exclusively. Stores in the high-income areas used cartons much more extensively.

Store operators were asked if, in their opinion, advertising, lower markups, or better quality would increase sales of eggs. Grocers in the low-income areas stressed advertising and lower markup, whereas operators in the high-income areas considered quality to be most important.

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