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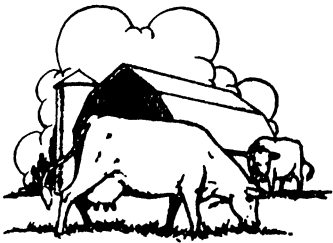
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MINNESOTA farm business NOTES



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What Is the Outlook for Farm Price Policy?

Willard W. Cochrane

Since the 90 per cent price support feature of farm price legislation expires at the end of 1954, farmers and city people alike may well be wondering what the Congress will do in its next session.

This interest is heightened by the well known view of Secretary of Agriculture Ezra T. Benson that "present rigid price support programs must be improved." The Secretary has not as yet presented any formal recommendations, but he has been canvassing the major farm organizations and industry groups, the state colleges of agriculture and his own Department for ideas and opinions.

It is believed that he will make some specific recommendations on price policy before or during the next session of the Congress. Thus, this may be an appropriate time to speculate on the farm price policy outlook.

The Agriculture Picture

Before we practice the black art of forecasting it would seem wise to consider some of the key factors in the picture.

First and foremost is the decline in farm prices which began early in 1951 and became more pronounced in the latter part of 1952. The index of prices received by farmers fell from 313 in February 1951 to 259 in July 1953. But prices paid by farmers for supplies and other items rose during the first half of this period and held steady during the latter part. Thus, many farmers have been caught in a familiar cost-price squeeze.

Second, agriculture is a highly unstable industry, price and income wise, and many contend that it is the responsibility of government to help stabilize farm prices and incomes. Further, expressions and actions of farm

congressmen indicate a belief that the best way to stabilize farm prices and incomes is *through the support of farm prices at some per cent of parity.*

Third, rigid supports are pricing several agricultural commodities out of the market. This is taking place in both foreign and domestic markets. Price supports at 90 per cent of parity on cotton and wheat are pricing those commodities out of the world markets. The support of butterfat prices at 90 per cent of parity is surely, and not so slowly, pricing butter off the domestic dining room table.

Fourth and last, Secretary Benson entered upon his duties with a profound belief that (1) we should have less rather than more government in agriculture and (2) farmers should try to work out more of their problems through individual and cooperative efforts.

Everyone knows that the supporting of prices at higher than equilibrium levels means active government intervention and that price making in free markets requires no governmental intervention. This suggests that the Secretary prefers, in principle, programs with lower price guarantees as a means of minimizing governmental intervention in agriculture.

What Price Policy Next?

The question now arises—what type of price policy recommendation will Secretary Benson make to Congress in 1954? If only the Secretary's personal views were to be considered the answer seems obvious—some sort of a market price guarantee to protect farmers against the most serious of price declines.

But, the situation is complex, as indicated by the four points just outlined. The record of the Benson Administration in the first half of 1953 points toward fixed price supports.

Operating under tremendous pressure, the Administration has extended price support for butterfat at 90 per cent of parity for one year, purchased a sizable quantity of beef in an effort to improve cattle prices, and proclaimed marketing quotas for the 1954 wheat crop.

And by reiterating President Eisenhower's pledge at Kasson, Minnesota in 1952 "... to continue through 1954 price supports on basic commodities at 90 per cent of parity ..." Secretary Benson in his recent address at the National Plowing Contest indicated a greater willingness to accept fixed price supports than ever before.

Policy Prediction

Bearing these considerations in mind, this writer would hazard the guess that the Benson administration will make a price policy recommendation which says essentially: *continue for another year at least supports on basic commodities at 90 per cent of parity, and where support on perishable commodities is made mandatory, permit the use of income payments in the support of those commodities.*

In light of this prediction and taking into consideration the preconceptions of congressmen, it may be anticipated that legislation will be enacted in 1954 extending price support on basic commodities at 90 per cent of parity for two years.

In light also of the considerable price decline in most farm commodities over the past two years (this in spite of unprecedented high-level activity in the domestic economy), it would not be surprising if Congress extended price support to some of the important perishable commodities not now covered—possibly beef cattle, potatoes, poultry products, and pork.

But the level at which price support

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Costs of Operating Farm Machines

S. A. Engene and Niels Rorholm

The annual cost of farm machinery is usually about 20 per cent of the original cost. This is the total of depreciation, interest on the investment, shelter, repairs, and servicing.

You will find that this is a helpful rule whenever you are deciding whether or not to buy some machine. It is useful for crop machinery but it will not apply for tractors, trucks, and other machines where fuel is a big item of cost.

Stating it in another way, if a machine costs \$100, it somehow must earn \$20 a year. A \$1,000 machine must earn \$200.

With this you just break even; you need more in order to make a profit. The machine, of course, can bring this only if it will help you to save on other costs, as labor, or if it enables you to get more income.

Machinery Costs Studied

This rule has been drawn from studying machinery cost records kept by farmers. Farm records have been gathered and analyzed for many years as a part of the research program of the Minnesota Agricultural Experiment Station.

In the following table are actual costs for some of the common farm machines. These costs were obtained from detailed records kept in 1952 by 29 farmers who were members of the Southwest and Southeast Minnesota Farm Management Services.

**Average Cost for Common Farm Machinery
Southern Minnesota Farm Management Services—1952**

Machine	Number report ing	Original cost	Cost per farm reporting					Percent- age annual cost is of original cost
			Annual cost					
			Depre- ciation	Interest	Shelter	Repair and service	Total	
Tillage machinery	29	\$ 812	\$ 66	\$26	\$14	\$63	\$169	21
Hauling equipment	29	562	47	15	12	46	120	21
Grain seeding equipment..	21	356	28	6	7	8	49	14
Corn planters	24	197	15	6	3	8	32	16
Corn cultivators	26	249	22	8	4	15	49	20
Hay mowers and rakes.....	27	359	30	11	8	38	87	24
Field choppers	13	1,586	173	58	45	68	344	22
Swathers	10	349	25	11	6	13	55	16
Combines—4-6 feet	7	1,115	104	37	14	56	211	19
Combines—12 feet	4	1,863	202	66	14	67	349	19
Corn pickers—1 row	10	699	87	23	18	28	156	22
Corn pickers—2 row	8	1,062	107	28	13	83	231	22
Portable elevators	20	422	35	14	8	6	63	15
Manure spreaders	27	317	30	10	6	6	52	16
Manure loaders	18	256	27	9	7	4	47	18

For all of these machines taken together the cost for 1952 was 20 per cent of the original cost. Individual machines were higher or lower. In general costs were highest for the complex machines and for recently developed machines.

Costs Vary with Individual Machines

The costs also vary from one farm to another for the individual kinds of machines. The costs generally are lower when the farmers handle the machines carefully, lubricate adequately, and keep the machine in good adjustment and repair.

The annual cost will also be somewhat higher on farms with a large amount of use, although the difference will not be extremely large.

Since costs do vary from farm to farm and machine to machine, it will be wise for you to estimate the cost of a new machine you are considering for your farm. The 20 per cent rule can be used as a starting point.

Then estimate the return you will get from the machine. It may save labor or other costs. In many cases production will be increased by better or more timely work. You may be able to be custom work for extra income.

Before you buy the machine, be sure the machine will pay for itself and give some profit besides. Check to see how much it would cost to hire the work done. You may be able to save money by doing that. The money you would have invested in the machine might bring higher return if invested in some other way.

MINNESOTA farm business NOTES

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might be made mandatory for such commodities is more than can be perceived in this writer's crystal ball.

What Would Be the Consequences of This Policy?

Assuming that the world grows more peaceful, world supplies become more plentiful, and domestic economic activity is maintained at a high level, the consequences of two more years (1955-56) of rigid price supports at or near 90 per cent of parity would most likely be mixed.

Some extremely difficulty commodity situations might be expected to develop on one hand and a beneficial effect in the form of income protection on the other. Should a recession develop both the desirable and undesirable consequences of rigid price supports would certainly be intensified.

The beneficial income effect could take two forms:

1. The maintenance of individual farm incomes in a period of falling commodity prices.

2. The maintenance of farm spending power in a period of declining business activity.

The commodity problems would seem to take three basic forms:

1. The production of unwanted supplies—supplies for which there is no market—and this in turn must lead to production controls and/or burdensome stocks.

2. The loss of markets to lower-priced competing products at home and abroad.

3. The opposition of urban consumers to price supports arising out of relatively high food prices.

The conflicts here are basic—actions designed to raise levels of support produce income benefits from the point of view of farmers affected but intensify the commodity problems in-

Can Price Instability Be Reduced?

O. B. Jesness

Prices for many farm products lack stability. That is, they may show marked changes in relatively short periods of time. This creates uncertainty for farmers and is one of the reasons advanced for government programs to deal with farm prices.

Why are farm prices unstable? One reason is that the demand for most farm products is relatively inelastic. It takes a considerable drop in prices to increase consumption moderately. Because of this a moderate production surplus or fall in demand may lead to a considerable drop in price.

Man can not live without food. If it is scarce he will pay a high price for it. But man's capacity for food is far from unlimited.

Many families, however, can make good use of more than one car, radio, or other equipment. That is why it is easier to expand the outlet for some other goods than for farm products.

Different foods are in competition for the limited space in the human stomach. In a well-fed population the total food intake remains remarkably stable.

What may change with changing incomes and prices is the make-up of the diet. Rising levels of living in the United States have increased the per

capita consumption of fruits, some vegetables, and dairy products while the consumption of wheat and potatoes has gone down.

Output and Demand

Agricultural output does not adapt itself quickly to changes in demand. While over-all production is remarkably stable from year to year, the output of a given product may vary decidedly because of weather or other conditions resulting in marked price changes.

Total production adjusts upward more quickly than it does downward. The farmer goes on producing in spite of a depressed market as long as he does not have better alternatives and gets more than his out-of-pocket costs.

Moreover, the farmer works with living, growing things. Once a crop is in the ground the decision has been made for that season. A dairy herd once built up is not dispersed because of a temporary market situation.

In addition, the farmer must reckon with the vagaries of weather. Too much or too little rain, too much or too little heat, wheat rust, the corn borer, diseases, and a host of other uncertainties affect the agricultural outturn.

In periods of decided changes, many agricultural prices tend to respond more quickly than prices in general. When a major war adds to demand and an inflationary situation develops, some agricultural prices respond quickly.

Prices to farmers then tend to go up faster than costs. If the parity ratio is relied on as an indicator it goes above the par of 100 in such periods.

As the upward pressure becomes more general, farm costs gain on prices received and the ratio drops. Later when production has increased and caught up with demand or the latter has slackened, farm prices may be among the leaders in the procession downward.

Changes in Parity Ratio

In 1939, the index of prices received by farmers was 95 (1910-14=100), while that of prices paid was 122, giving a parity ratio of 77. The ratio in 1941 had improved to 93 due to a considerably faster rise in prices received than in prices paid.

The ratio was 100 or better from 1942 to 1952. In November 1952 it dropped to 99 and continued to fall to 93 in April 1953, because prices received came down faster than prices paid.

Individual commodities show even more marked swings. The price index for meat animals (1910-14=100) was 428 in April 1951 while two years later, April 1953, it was down to 299.

Can Instability Be Reduced?

How can we reduce instability? There is no single solution. Appropriate price supports or income payments may help in some cases but are not the general answer. The wrong kind of measure may distort rather than adjust the situation over a period of time.

Price cycles such as those in hogs and cattle can be moderated by farmers themselves by longer-term production programs which reduce ups and downs in volume.

Business fluctuations affect farm prices. Programs which maintain economic stability and productive employment at a high level therefore reduce instability in farm prices.

In case of serious depression various steps may be taken to temper the effects. The real remedy, however, lies in restoring productive activity to a high level.

Farmers clearly have an interest in the general economic situation. Agricultural instability is not merely a problem of farmers—it is one of general concern.

involved. Of course, actions to lower support levels produce opposite results.

In short there is no easy, perfect solution to the farm price problem. We must depend on the democratic process to produce a compromise solution tolerable to all interests.

Recommendations for Farm Price Policy

Thus this article will conclude with three recommendations for farm price policy. And here it should be pointed out that the three points made below do not represent for this writer a state of perfection; they are suggestions which would make price and income support for agriculture more workable.

First, apply the "new" parity formula for all cases, and reduce the period for which the average price of a commodity is computed from the 10 preceding years to the three preceding years. This modification would reflect changes in demand and costs more quickly and thus help to establish a

relationship among parity prices more nearly consistent with the forces at work in the market.

Second, rely on income payments as a means of supporting farm income rather than price support, and employ income payments for perishable and storable commodities alike.

The principal advantages of this method are: (1) the job of pricing would be left entirely to the market, (2) commodities would not be priced out of the market, (3) consumers would gain from lower prices, and (4) the accumulation by government of burdensome stocks would be avoided.

Third, establish an agency which might be called a "Surplus Disposal Administration." Its primary objective would be that of expanding the demand for farm products. To this end it might develop programs at home to expand the food consumption of low income and aged people and develop programs abroad to increase the takings of import nations.

Minnesota Farm Prices July-August 1953

Prepared by Jerry M. Law

Average Farm Prices for Minnesota, July and August, 1953, With Comparisons*

	July 1953	July 1952	August 1953	August 1952
Wheat	\$ 2.07	\$ 2.11	\$ 1.98	\$ 2.12
Corn	1.30	1.56	1.34	1.57
Oats .....	.67	.70	.66	.74
Barley	1.09	1.21	1.04	1.41
Rye	1.13	1.81	1.01	1.78
Flax	3.21	3.73	3.26	3.83
Potatoes	1.00	3.65	1.30	2.80
Hay	14.20	14.00	14.40	16.10
Hogs	22.30	18.80	23.00	20.10
Cattle	18.50	26.40	17.10	25.40
Calves	19.00	29.20	19.00	28.90
Lambs-sheep	20.13	23.88	19.38	25.08
Chickens .....	.203	.170	.198	.189
Eggs .....	.425	.390	.455	.440
Butterfat .....	.71	.79	.71	.81
Milk	3.35	3.80	3.45	4.00
Wool† .....	.48	.48	.48	.48

* Average prices as reported by the USDA.

† Not included in the price index numbers given below for Minnesota.

The indexes of Minnesota farm prices represents the average of the increases and decreases in farm product prices in the given month of 1953 over the average of the five corresponding months of the period 1935-39.

Weights for the Minnesota indexes are the average sales in the five corresponding months of 1935-39. Weights for the United States indexes are the average sales of 60 months in 1935-39.

Minnesota farm prices in August averaged higher than a month earlier but substantially below August of last year. Price changes from July to August included increases for corn, hogs, eggs, milk, and potatoes, and decreases for beef cattle, sheep, lambs, and rye.

Indexes and Ratios for Minnesota Agriculture

	July 1953	Average July 1935-39	August 1953	Average August 1935-39
U. S. farm price index	242.5	100	244.3	100
Minnesota farm price index	246.0	100	232.9	100
Minnesota crop price index	220.7	100	220.1	100
Minnesota livestock price index	261.4	100	252.2	100
Minnesota livestock products price index	242.6	100	237.0	100
Purchasing power of farm products				
United States	110.4	100	109.9	100
Minnesota	111.1	100	104.7	100
Minnesota farmers' share of consumers' food dollar	57.5*	47.0	56.4†	48.4
U. S. hog-corn ratio	16.5	11.9	15.9	12.3
Minn. hog-corn ratio	17.2	14.3	17.2	14.6
Minn. beef-corn ratio	14.2	12.0	12.8	12.0
Minn. egg-grain ratio	15.8	14.4	16.9	15.9
Minn. butterfat-farm-grain ratio	32.5	29.8	32.7	33.5

* Figure for May

† Figure for June

The Outlook Corner - Hog Outlook for 1954

The pig crop was small this spring. It probably will be small this fall. Pork supplies will be small, at least until next summer. That adds strength to hog prices.

Table 1. Pigs Saved—United States

	Average 1942-51	1952	1953
Spring	50	56	51
Fall	37	35	33*
	94	91	84

* Based on farmers' intentions in June 1953 and average pigs saved.

An unusual factor affects the hog outlook. Corn supplies are very large this fall. This usually would lead to late marketing, heavy hogs, and large supplies of pork. However, hogs are coming on the market lighter than usual. With high support prices, farmers apparently prefer to seal rather than feed their corn.

Large supplies of beef hold pork prices down. Consumers substitute beef for at least part of their pork when beef prices are low.

The supply of beef probably will continue to be large for the next year or two. This could change fairly quickly as beef producers change plans for increasing or decreasing their herds.

Table 2. Meat Consumption per Person
United States

	Beef	Veal, lamb, and mutton	Pork	Total
	pounds	pounds	pounds	pounds
1942-51	60	15	70	145
1952	61	12	71	144
1953*	73	12	60	145

* Expected.

The best forecasts indicate that the general level of business activity will be fairly constant. There may be some sagging of prices, particularly for farm commodities; no sharp downward drop is expected. Consumers' demand for pork should stay about the same.

Taken together, these factors indicate that hog prices up to late summer in 1954 will probably be as favorable as during the past year.

What about breeding plans for next year? The 1954 spring pig crop is likely to be larger than in 1953, but not so large as present prices and feed supplies would justify.

Many farmers prefer to seal their corn rather than take a chance on hog prices next year. Many are afraid that liquidation of beef herds will force meat prices down. Others think a business recession may bring prices down. Pork supplies then are likely to be moderate for all of 1954.

As usual, good management is an important part of profitable production; It is more important than getting in or out of production at the right time.

Among 204 swine producers in southern Minnesota in 1952 the one-fifth who were highest in return over feed cost averaged only 388 pounds of feed per 100 pounds hogs produced, as compared to an average of 501 pounds for all farms. That is a difference of \$3.00 in costs.

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