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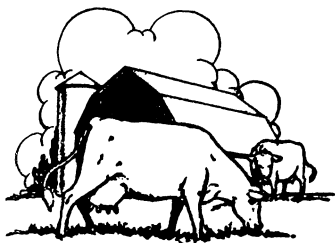
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MINNESOTA farm business NOTES



NO. 377

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DISPOSING OF SURPLUS PRODUCTS IS DIFFICULT

O. B. Jesness and L. J. Pickrel

Production of some farm products has outrun available markets. This has focused attention on surplus disposal as a means of overcoming sizable accumulations. One view of today's farm problem is that it is one of "underconsumption rather than overproduction." This implies that the answer lies in demand expansion rather than in production adjustment.

It is said that even in a well fed nation such as the United States, there are still a considerable number who are "ill fed." Still more importance usually is attached to the opportunities afforded by inadequate food supplies in some other parts of the world.

Some basic points should be kept in mind in reviewing the opportunities for surplus disposal. One is that need by itself does not create effective demand in the market place unless it is coupled with means of payment. If surpluses are to be donated or sold below cost, the taxpayers or someone else must foot the bill. If gifts or bargain sales are to reduce stocks, they must represent added disposal. If they replace sales, which otherwise would be made through usual market channels, they become self-defeating.

Part of the surplus capacity of agriculture is carryover of expansion for war and early postwar needs. After the war rapid restoration of agriculture in Western Europe and expansion elsewhere soon lessened the need for food supplies from the United States and aid shifted more to armaments and other nonagricultural goods.

Surplus Disposal Programs

Various programs to aid surplus disposal have been instituted. Public Law 480, 83rd Congress, the agricultural trade development and assistance act of 1954, provided some of these. Title I permits certain sales of surplus farm commodities in exchange for foreign currencies. This is intended to help

countries, which lack dollar exchange, buy such products from us. The foreign currencies received as payment may be used for purchases or for meeting obligations of the United States in the issuing country.

Shipments under this title during 1955-56, totaled about \$425 million—about 12 percent of the total agricultural exports. This program has been especially important for cotton seed and soybean oil, wheat, and cotton.

Title II of Public Law 480 authorizes gifts of surplus farm commodities to friendly nations "to meet famine or other urgent relief requirements." Shipments during 1955-56 under this provision were \$90 million (CCC cost). Such supplies are distributed to needy persons by the government of the receiving nation. Grants of food for disposal through voluntary relief agencies also are authorized and these are estimated at \$175 million for 1955-56.

The International Cooperation Administration (ICA) is authorized to accept payment in foreign currencies for agricultural products it supplies other nations. Dollar costs for these shipments for 1955-56 were estimated at \$300 million, about 9 percent of total agricultural exports.

Title II of the soil bank act, approved last May, directs the Commodity Credit Corporation (CCC) to "dispose of all stocks of agricultural commodities held by it" as rapidly as possible and the Secretary of Agriculture to submit a detailed program for so doing.

This act also directs the CCC to offer cotton for export at prices in line with those of other countries in quantities to "reestablish and maintain the fair historical market for United States cotton, said volume to be determined by the Secretary of Agriculture." In effect, this provides a two-price program for cotton. Title V of the act authorizes a certificate program for rice, in effect a two-price arrangement for that product.

The act provided for the appointment of an "agricultural surplus disposal administrator" in the Department of Agriculture. Authorization was given for donating "food commodities acquired through price support operations to federal penal and correctional institutions, and to state correctional institutions for minors . . ."

Section 32, Public Law 320, 74th Congress (1935), sets aside 30 percent of the receipts from import duties for domestic and export disposal of surplus commodities. The soil bank act added \$500 million to the sum available for such use during the current year. In recent years, the funds under this section have been employed mainly for nonbasic commodities having troublesome surpluses. Although the International Wheat Agreement does not deal directly with surplus disposal, its provisions for import and export quotas among the participating countries and maximum and minimum prices may have facilitated the sale of quota wheat for export at lower prices than domestic levels.

Domestic Disposal

The school lunch program represents one of the leading avenues for domestic disposal of surplus foods outside customary market channels. Milk is the major item in such distribution because of its importance in children's diets and relative simplicity of handling.

Other foods such as meats are included to some extent. School lunches improve many children's diets. However, not all of the disposal through this channel is clear gain because of some replacement of other consumption.

From time to time we also hear suggestions that a "food stamp plan" be used to dispose of surpluses. The intent of such a plan is to subsidize food consumption of low income groups in order to improve their diets and levels of health as well as to dispose of certain surplus foods.

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Rising Land Prices vs. Declining Farm Incomes

H. W. Baumgartner and P. M. Raup

The buyer of a farm who intends to operate it for profit buys, in effect, an infinite series of future incomes. When this is the motive, prospects of rising farm incomes should lead to rising land prices. When farm incomes drop, land prices should follow. Why then have farm land prices risen in the last few years, in the face of a declining net farm income?

To obtain a partial explanation, see the indexes of Minnesota land values and farm incomes, and national income between 1910 and 1956 in figure 1.

World War I caused land price indexes to exceed both farm income and national income. The decline of farm income after 1918 and the short-run decline in national income after 1920 made land values tumble. Temporary increases in farm income between 1921 and 1925, and a rise in national income, slowed the decline in land values but did not stop it.

Throughout the thirties land values were depressed. They rose as war approached and from 1941 to 1951, Minnesota land values followed the increases in national income and farm income very closely. Since 1951 the trend in Minnesota farm income has been downward while agricultural land values and national income have risen

steadily. This suggests that the generally favorable national income position may have been an important factor in maintaining land values. In recent years operating farmers have made up about 85 percent of the buyers of Minnesota farms. Had they lost confidence in the future of agriculture, agricultural land values would not have risen in the face of declining farm income.

The demand for farmland has also been heavily influenced by farmers seeking land to enlarge their present farms. In southwestern Minnesota and the Red River Valley, from one-third to one-half of all farm sales in the past five years have been accounted for in this way.

In addition, investment demand for commercial and part-time farms and a keen demand for land for residential, recreational, and industrial development have helped maintain land values.

The Role of Agricultural Credit

The availability of farm mortgage credit may also have helped support land prices in recent years. Farmers have sought credit readily and lenders have been only too obliging. As a result there has been a recent increase in farm indebtedness. Is this increase a cause for concern?

As Table 1 shows, in 1955 there was roughly one dollar of farm mortgage

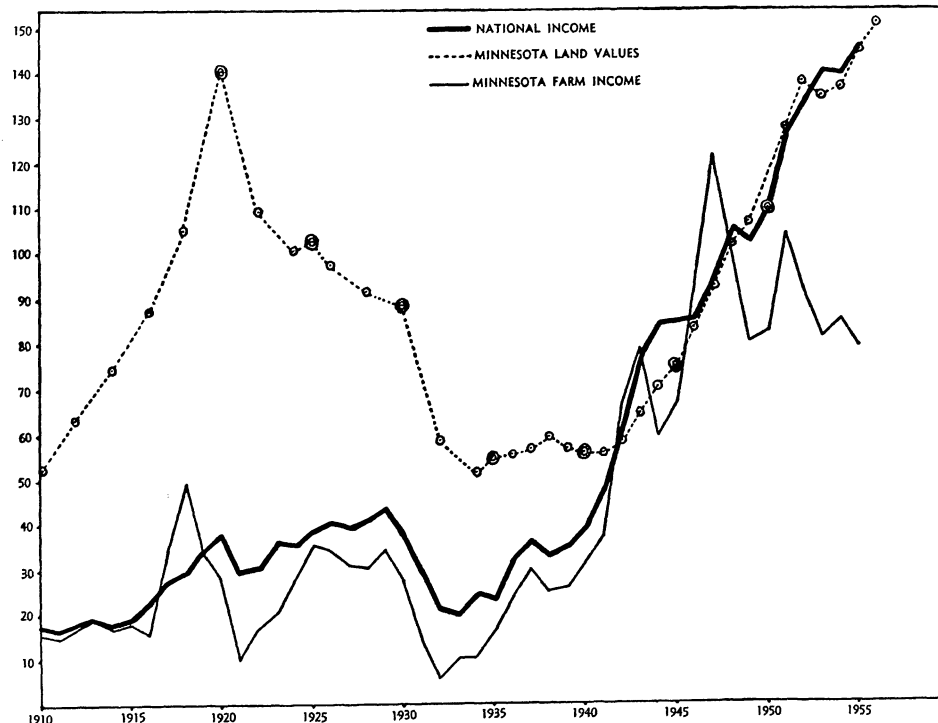


Fig. 1. Minnesota net farm incomes, land values, and national income, 1910-1956.

MINNESOTA farm business

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debt in Minnesota for each ten dollars of real estate value. During the twenties and thirties, there was one dollar of mortgage debt for each four to five dollars of real estate value. If one year's net income were available for debt payment, the 1955 net income of Minnesota's farmers would cover all the present farm debt, both real estate and non-real estate.

We can conclude that the financial position of Minnesota's agriculture is quite sound at present. We should not forget, however, that land values and farm incomes are closely tied to the over-all level of economic activity and income position of agriculture. A continuing decline in net farm income could change the presently favorable debt position quite substantially.

Table 1. Trends in Net Farm Incomes, Land Values, and Farm Debts in Minnesota, 1910-1955

Year	Total net farm income*	Real estate value	Real estate mortgage debt	Non-real estate debt
millions				
1910	\$126	\$1,262	\$145	\$ 63
1915	135	1,538	304	93
1920	214	3,301	486	223
1925	256	2,393	576	137
1930	206	2,125	476	120
1935	178	1,383	397	47
1940	226	1,443	376	88
1945	461	1,834	305	82
1950	516	2,809	245	121
1955	497	3,545	337	181

Year	Proprietors' equity	Ratio income: farm value	Ratio income: mortgage debt	Ratio income: total debt
percent				
1910	88.6	.10	.87	.61
1915	80.2	.09	.44	.34
1920	85.3	.07	.44	.30
1925	75.9	.11	.44	.35
1930	77.6	.10	.43	.35
1935	71.3	.13	.45	.40
1940	74.0	.16	.60	.49
1945	83.4	.25	1.51	1.19
1950	91.3	.18	2.11	1.41
1955	91.5	.14	1.47	.96

* Net farm income includes the rental value of the farm home, the value of home consumption of farm produce, and the net change in farm inventories.

Factors Affecting Supply

What about the supply of farms for sale? As figure 2 shows, at the 1956 annual rate of transfer of about 4 percent, each farm is transferred, on the average, only once in 25 years. This suggests that the present supply of farms is largely dictated by the farm operator's life cycle.

Again, the influence of factors other than income expectations must be considered. As the farmer approaches retirement age, he may rent out his land instead of selling, or he may want to continue farming in order to qualify for social security benefits. The present high cost of a house in town may discourage many elderly farm couples from selling out and retiring. The relatively low rates of returns on alternative investments have also undoubtedly led many farm couples to choose to "retire on the farm."

Another factor may be the capital gains tax which tends to encourage transfer by inheritance instead of by sale. These considerations reduce the

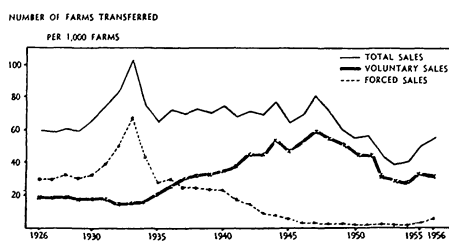


Fig. 2. Voluntary, forced, and total sales, Minnesota, 1926-1956.

number of farms for sale, and thus contribute to a stronger land market than would be justified by current farm income expectations, taken alone. In the search for a suitable explanation of rising land values in spite of declining net farm incomes, we can draw the argument together in these points:

1. Continued national economic prosperity.
2. A relatively favorable net asset and income position in agriculture. (This is not to deny the financial difficulties of individual farmers or regions.)
3. Technological progress and agricultural programs designed to cut costs

SURPLUS—

(Continued from page 1)

Under some conditions such a plan may have considerable merit. Under present high income levels and general prosperity, however, it is probable that the replacement of normal sales would be encountered rather quickly. Such a plan may be more helpful in improving some diets than in surplus disposal under existing conditions.

Some Limitations

A few reasons for the limitations of consumption expansion to reduce surpluses may be noted. Domestic food consumption per capita in a country with a relatively high level of living, such as the United States, is remarkably stable in terms of physical quantity.

Per capita consumption of some products such as meats, some dairy products, poultry and eggs, and some fruits and vegetables have shown an upward trend. But this has been offset by decreases in grain products and potatoes. Efforts to expand the consumption of some foods may lead to a decrease elsewhere. The most difficult surplus situation is in wheat for which per capita food consumption has been declining.

One over-all aspect of dietary changes should be noted. More resources (land, labor, etc.) are required to produce a pound of food in the form of animal products than of crops. Greater reliance

on animal products in the American diet hence will increase the market for farm resources. This should mean an enlarged outlet for wheat for animal feeding or permit a shift of resources from wheat to feed grains and forage.

Cost considerations limit expansion in the use of farm products as industrial raw material. It is not enough that farm products can be used for this purpose. Their use must represent good economy. Many products would need to be priced at levels unattractive to farmers to make them available as industrial raw material. Expansion in such use would require public subsidy or higher prices to consumers of the end products. New uses should be sought, but these need to be uses which can stand on their own feet if public interest is to be served.

In the case of foreign disposal, it is well to remember that imports pay for exports and vice versa. Aside from gifts, we must buy from other nations if they are to buy from us. It is also true that world markets are not short of the commodities we have in surplus. Thus, other wheat exporting nations are afflicted with surpluses. We are not an important exporter of dairy products but countries which are, such as Denmark and New Zealand, are concerned immediately at any suggestion that we undertake sizeable exports.

Bargain sales are not always welcomed. Competing exporters view them as encroachments on their markets.

and maintain price and income stability.

4. A 20-year history of slow inflation which makes land appear to be a good investment for the farmer and non-farmer alike, resulting in a keen demand for and short supply of farm land.

5. The reluctance of farmers to retire and move to town, or to sell out and be liable for a capital gains tax.

6. The development of commercial farming into a highly skilled and intricate business operation. Farm operators take pride in their profession and are not willing to quit for temporary "gains" in other trades. This supports both demand and supply in the land market.

One final conclusion is that there is no single determinant of land values. The level of farm incomes and income expectations will continue to exert a major influence. Other factors may become more or less important at times. We are apparently in a position today in which these "other factors" are a major part of the explanation of current levels of Minnesota farmland prices.

Producers in importing countries see them as unfair competition. Sales abroad at prices below levels in the domestic market constitute "dumping" in international trade. But, countries, including the United States, have means of counteracting such sales in their markets when they so desire.

Sales for foreign currencies will yield no gain in total exports if the proceeds are used for expenditures for which we otherwise would employ dollars. If such currencies are used wastefully, or not at all, the costs to American taxpayers will mount.

Exchange of farm surpluses for strategic materials we need is being carried on to a moderate extent. However, the supplying country may not always want our farm supplies and they know that if our need for the materials is real they can expect to sell them to us for dollars.

Disposal of surplus products by sales abroad has been stepped up considerably in recent months. For example, an agreement with India involves a total of \$360 million over a three-year period under Public Law 480.

While these sales are easing the surplus problem they will not by themselves solve the difficulty. The major solution lies in adjusting capacity to produce to fit the available markets. There is no miracle in surplus disposal which will provide an escape from making such adjustments.

Minnesota Farm Prices, Sept. and Oct., 1956

Prepared by R. A. Andrews

Average Farm Prices for Minnesota,
September 1956, October 1954, 1955, 1956*

	Sept. 1956	Oct. 1956	Oct. 1955	Oct. 1954
Wheat	\$ 2.03	\$ 2.03	\$ 2.15	\$ 2.26
Corn	1.33	1.12	1.03	1.36
Oats .....	.63	.63	.54	.67
Barley .....	.89	.88	.89	1.11
Rye	1.16	1.16	.84	1.11
Flax	2.95	2.98	2.81	3.10
Potatoes	1.35	1.10	.80	.70
Hay	16.00	16.50	14.50	15.50
Soybeans†	2.02	2.01	1.99	2.45
Hogs	15.40	15.30	14.20	18.20
Cattle	15.60	13.80	14.60	15.30
Calves	17.80	16.40	16.30	15.30
Sheep-lambs	17.38	17.00	16.33	16.74
Chickens .....	.114	.100	.163	.105
Eggs .....	.330	.330	.370	.220
Butterfat .....	.630	.640	.620	.620
Milk	3.35	3.45	3.30	3.35
Wool† .....	.38	.42	.36	.49

* Average prices as reported by the USDA.

† Not included in Minnesota farm price index.

The October Minnesota farm price index increased 4 points or 2 percent above the October 1955 level. The crop price index increased 7 percent and the livestock price index 2 percent.

The livestock products price index declined 4 percent from a year ago primarily due to chicken prices dropping to the lowest point since 1940.

Comparison of September and October Prices

Commodity class	Average October prices as a percentage of average September prices
Crops	96
Livestock	94
Livestock products	101
All commodities	96

Indexes for Minnesota Agriculture*

	Average Oct. 1935-39	Oct. 1956	Oct. 1955	Oct. 1954
U. S. farm price index	100	220.3	216.6	227.9
Minnesota farm price index	100	192.1	188.4	203.1
Minnesota crop price index	100	210.5	195.4	221.9
Minnesota livestock price index	100	191.8	187.6	215.5
Minnesota livestock product price index	100	177.1	183.6	167.0
Purchasing power of farm products				
United States	100	95.8	96.5	101.9
Minnesota	100	83.5	84.0	90.9
U. S. hog-corn ratio	14.1	13.0	12.7	12.7
Minnesota hog-corn ratio	17.8	13.7	13.8	13.4
Minnesota beef-corn ratio	14.7	12.3	14.2	11.2
Minnesota egg-grain ratio	20.9	12.9	14.7	7.6
Minnesota butterfat-farm-grain ratio	36.4	32.9	35.1	27.8

* Minnesota index weights are the average of sales of the five corresponding months of 1935-39. U. S. index weights are the average sales for 60 months of 1935-39.

The Outlook Corner—Agricultural Exports

Exports of agricultural products by United States farmers fell steadily from 1915 to the World War II period. Since the war the volume of exports increased almost to the level of the twenties (table 1).

Table 1. United States Exports Yearly Averages for 5 Year Periods—Value at 1954 Prices*

	Agri- cultural products	Raw ma- terials†	Finished manuf- actures all‡	Total
			billion dollars	
1915-19	3.8	.7	2.6	7.1
1920-24	3.7	.3	2.0	5.9
1925-29	3.5	.8	3.0	7.3
1930-34	2.6	.4	2.0	5.0
1935-39	2.0	1.0	2.8	5.9
1940-44	1.8	2.5	8.6	12.8
1945-49	3.3	2.3	7.5	13.1
1950-54	3.2	2.0	9.0	14.2

* Quantity indexes applied to 1954 value.

† Includes semi-manufactures.

‡ Finished manufactures, includes military.

Source: Foreign Agricultural Situation, USDA, 1955.

The downward phase of agricultural exports for this 40-year period paralleled Europe's efforts to rebuild her war ravaged agricultural and industrial production facilities. Also, effective trade barriers, stringent credit arrangements, and desires of countries to become self-sufficient worsened all forms of trade.

By the mid-thirties many serious efforts to aid economic recovery were undertaken. With these efforts, war, and other developments, total volume of exports rose rapidly and maintained new "highs." However, agricultural exports did not share in this growth. They continued a downward trend into the early forties, then improved enough to approach earlier levels.

For more than a decade foreign buyers have shown a preference for industrial rather than agricultural commodities. But exports are exceedingly important to U. S. Agriculture, especially wheat and wheat products, soybeans, fats and oils, and some other agricultural products (table 2). Failure to ex-

Table 2. United States Exports of Selected Commodities as Percentage of Production, Averages—5 Year Periods*

	Wheat and flour	Soybeans and soybean oil	Tallow— edible and inedible	Barley
			percent	
1920-24	31	†	37	22
1925-29	19	8	33	16
1930-34	7	8	24	12
1935-39	6	7	10	2
1940-44	6	4	22	1
1945-49	34	13	21	6
1950-54	31	20	20	32

* Source: Foreign Agricultural Situation, USDA, 1955, page 40.

† Less than one percent.

port substantial quantities of these would (1) necessitate drastic readjustments in production, (2) cause lower prices, or (3) both.

The current export challenge is to foster a climate in which private trade can compete fairly and freely in foreign markets in an effort to expand present outlets and develop new ones. An aggressive agricultural export policy will probably be necessary for many years.

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