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farm business NOTES

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Minnesota Agriculture and the European Common Market

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Slightly more than 1 year ago the six member nations of the European Common Market agreed on a Common Agricultural Policy (CAP).[1] It was a difficult decision to take and came only after long and heated negotiating sessions. Yet when viewed in terms of the history of agricultural policy in Western Europe it is a credit to the "European" movement that any such decision was possible.

American farmers are, or should be, concerned about the Common Market's policies both as farmers and as citizens. Of course, there are presently far more questions than answers. And it may be several years before all details of the CAP are worked out. Even for those policies now known, it is impossible to accurately forsee effects in light of the vast changes taking place in the European economy.

Nevertheless, enough is known to allow some judgments regarding likely effects of the CAP on U.S. agricultural trade. In this article we focus attention primarily on commodities of greatest importance to Minnesota agriculture.

Common Market and U.S. Policies

The broad economic forces affecting farmers are much the same in Common Market countries as in the United States. Agricultural incomes per person are low relative to nonfarm incomes and both European and American farmers are caught in a cost-price squeeze. But in Europe as in the United States, low incomes and the cost-price squeeze are only symptoms or results of more basic economic trends. Three of these general trends are:

1. Rapid changes in farm technologies are making agriculture more productive in Common Market countries as well as in the United States. In Common Market countries grain yields increased almost 11 percent in the last half of the 1950's. Milk yields per cow increased 14 percent during the same period. Similar changes are occurring in virtually all phases of agricultural production.

2. The demand for food in the Common Market is increasing more rapidly than in the United States. This is primarily a result of shifts from low resource-using foods (potatoes and cereal products) to high resource-using foods (meat and dairy products). But these changes in total food needs are taking place at a decreasing rate.

Common Market countries are rapidly approaching the U.S. position where further increases in food requirements will be based largely upon population growth. The projected rate of population growth in Common Market countries is 0.7 of 1 percent per year—this is less than half the U.S. rate of about 1.7 percent.

Even in the past decade food production in the Common Market expanded more rapidly than needs. Trends cited here suggest that the difference between the two rates of growth will become greater.

3. Labor is shifting rapidly from farm to nonfarm employment. In the United States manhours of labor employed in farming in 1961 were 35 percent less than in 1950. In Germany, for example, the total labor input in farming decreased by almost 40 percent during the same period. Yet in both the Common Market and the United States, labor must migrate from agriculture if per capita farm incomes are to improve.

All European countries have programs to help alleviate the income consequences of these and related trends. These programs vary greatly among countries, both in terms of methods employed and level of income protection provided. Naturally, integration of the economies of Common Market member nations required a unified farm policy. Formulation of a unified policy, the CAP, was complicated by the need to provide for gradual replacement of varied individual policies.

As in the United States, the basic approach in supporting farm incomes will be to support farm prices. So consumers will pay the cost of farm income protection through higher food prices. And the quantity of farm products sold must somehow be restricted to those levels that will clear the market at desired price levels.

As an exporting nation the United States restricts agricultural marketings by storage and disposal programs, by production controls, and by restricting imports. The Common Market proposes to limit marketings on its most important price supported commodities, grains, simply by limiting imports. As an importing area it does not require expensive storage and disposal programs or politically sensitive production controls.

Grain imports will be limited by a variable import levy. Simply stated this is a charge placed on all grain imports that is large enough to insure that no imported grain can sell for less than the price goals established for domestic grain. Thus, grain producers in the Common Market will be effectively protected from price competition from the United States and other nonmember countries.

Space does not permit discussion of policies adopted for other commodities. In general, the level of protection provided will be related to that employed for grains.

[1] The members are France, Germany, Italy, the Netherlands, Belgium, and Luxembourg. For a general discussion of the Common Market get the leaflet *The European Common Market* from your county agent or Bulletin Room, Institute of Agriculture, St. Paul 1.

The ultimate level of price support for grains is still to be determined. For wheat it probably will lie between the recent French support level of $2.17 per bushel and the German level of $2.92. If set near the German level the price of grain would stimulate further increases in grain production in France, the most important grain producer in the Common Market. This, in turn, would reduce the amount imported from the United States and other non-member countries.

Possible Effects on Products Important to Minnesota

Trade with Common Market countries is extremely important for American agriculture. In 1961 we sold $1.2 billion of agricultural products to them. This represented about one-third of all our exports outside special Government programs. The most important commodities were cotton ($238 million), feed grains ($195 million), wheat and flour ($186 million), soybeans ($122 million), and tobacco ($96 million).

The following discussion relates to effects on trade by around 1970—after the end of the so-called transition period. Because the change from individual country policies to the common policy likely will be gradual for most commodities, the full effect of the CAP on imports will not be felt immediately.

Wheat and feed grains—Common Market imports of wheat and flour probably will fall substantially. Some decline was likely even without a Common Market. However, the price preference established for domestic wheat may result in even smaller proportions of imported hard wheat from the United States and Canada being used in flour milling. Since Common Market countries produce little hard wheat some imports will be required under any price policy.

Imports of feed grains, which increased in recent years, greatly depend on the level of grain prices ultimately decided upon. At moderate grain price levels, livestock production and consumption will increase sufficiently to utilize most or all of the anticipated gains in Common Market grain production. But if grain prices are set much above the present French level, the stimulus for increased production in France could result in a reduction of feed grain imports.[2]

[2] For a more detailed discussion see "Long Term Effects of Common Market Grain Policies," *Foreign Agricultural Trade*, U.S. Dept. of Agr., January 1963.

Soybeans—The outlook for soybean exports is the brightest part of the Common Market picture. Oilseeds are produced in relatively small quantities in the Common Market, so soybeans and soybean meal currently are admitted without duty. With an expansion in livestock production and improved methods of livestock feeding, total sales of soybeans and soybean meal to the Common Market could double by 1970.

Poultry—Imposition of the CAP required a large increase in the tariff on U.S. broilers imported into West Germany—the principal market for U.S. exports. Changes in poultry production and consumption occur so rapidly that it is difficult to make reliable long-range projections. For example, U.S. sales to the Common Market countries jumped from practically zero in 1956 to $48 million in 1961. However, the European poultry industry probably will expand eventually to meet domestic needs even if it depends upon large amounts of imported feeds.

Dairy—The United States exports negligible amounts of dairy products to Europe. The Common Market itself faces serious surplus problems, especially with butter. Its dairy policy has not been decided. In any case, any effects of the Common Market on the U.S. dairy industry will be indirect.

Pressure of Common Market surpluses could lead to greater insistence that the United States modify its policy and allow more imports of dairy products. This could be especially important if the United Kingdom finally is accepted as a Common Market member and the Commonwealth countries are forced to find new markets for their dairy product exports.

Conclusion

The Common Market, by promising a strong and united Europe, represents a bright hope for the free world. Problems have been met and will continue to be met as necessary political and economic changes are brought about.

One difficult problem area is agriculture. It will require tough bargaining by American negotiators to retain our present level of agricultural exports to the Common Market. In the final analysis it may be impossible to achieve this goal. American agriculture may have to pay a part of the price for the greater overall economic and political benefits that are almost certain to result from the Common Market development.

THE MINNESOTA LAND MARKET

Philip M. Raup and Dale O. Solum

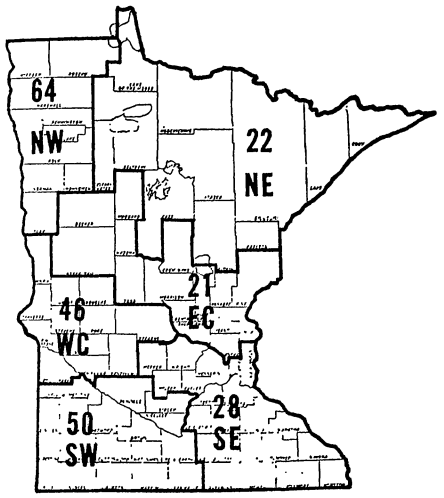
Minnesota farmland prices resumed an upward trend in 1962 after 2 years of relatively little change. However, the 2-percent increase, from $156 per acre in 1961 to $159 in 1962, was a relatively small increase in the state's average land value compared with changes during the 6 years prior to 1960. From 1953 through 1959 land values increased an estimated 8 percent per year. This was shown by annual land market surveys conducted by the University's Department of Agricultural Economics.

The state was divided into six districts for these studies (see figure). Estimated 1962 land prices in each of the six districts increased over the 1961 levels, but with substantial variation in terms of percentage changes (see table). In five of the six districts the average estimated price level is at an all time high. The exception is the Southwest district which is still $5 below its high of $255 per acre in 1959.

The largest dollar increase came in the West-central and the Northeast districts, both increasing an estimated $5 per acre. The Northeast showed the greatest percentage increase of approximately 8 percent over the 1961 level.

Regional Shifts in Land Prices

A comparison of yearly land price changes among districts reveals a significant change in patterns of land prices. If Minnesota farmlands are ranked according to value, the high values occur in the southern and southwestern regions of the state. Previous studies support the expectation that better farmlands would increase in value relative to the poor lands from year to year. This was the case for most



Percentage of farms purchased by expansion buyers, 1962.

years prior to the mid-1950's. During that time lands in eastern districts increased less than in the western districts; lands in the northeast increased less than those in more southernly districts.

The poorer farmlands of northern, northeastern, and east-central Minnesota enjoy fewer benefits from technological advances. Productivity is limited by inherent natural land characteristics that man cannot readily alter. In more productive agricultural areas, more and better fertilizers, hybrid seeds, agricultural chemicals, cultural practices, and improvements in mechanization have made good farmland even more productive.

Up to about 1956 the structure of farmland values reflected these predominantly agricultural considerations. The last 5 years witnessed a major change, with relative increases in land values greatest in the Northeast and East-central districts.

The average land value of the East-central district did not decline during 1960 as did that of most of the other districts. Instead it actually showed a significant increase. The Northeast also showed substantial gains over the last 7 or 8 years.

Traditional determinants of farmland value have lost some importance in the Northeast and East-central districts. Urban expansion, recreational and retirement farms, part-time farmers, and city workers seeking a rural residence are important influences upon the demand for farmland in these regions.

Farm Transfers

Turnover in the land market remains at a low level, although activity in 1962 was slightly greater than in 1961. In 1962 a total of 41.6 per 1,000 farms were transferred in Minnesota, as estimated by USDA. In 1961 the comparable figure was 39.3 farms per 1,000.

Farms transferred by voluntary sale accounted for 29.3 of the total of 41.6 transfers per 1,000 in 1962, compared with 29.0 per 1,000 in 1961. The number of farms transferred through inheritance and gifts showed the largest increase, with 10.4 transfers per 1,000 farms in 1962 compared with 7.7 in 1961. Forced sales (foreclosures, tax sales, etc.), made up the remaining transfers. These were at the lowest level since 1954, with only 1.9 farms transferred per 1,000.

Who Were the Buyers

Farmland buyers are grouped into three classes in this annual survey.

- Operating farmers are those who buy farms for their own operation as complete units.
- Farm expansion buyers are either ongoing operating farmers or investors who combine purchased land with existing holdings.
- Investor buyers buy tracts to be operated as separate units by a tenant or manager.

Operating farmers bought 49 percent of the farms sold in Minnesota during 1962. Farm expansion buyers accounted for 41 percent of the sales, and investor buyers 10 percent—the lowest percentage reported over the last 9 years.

This analysis of sales by buyer began in 1954. In the past 9 years important changes occurred in the composition of buyers who collectively form the demand side of the land market. In 1954-55 operating farmers accounted for over 60 percent of all sales, farm expansion buyers 25 percent, and investor buyers 15 percent.

Farm expansion buyers provided the most dramatic change in composition—especially since 1958. They accounted for roughly one-third or more of all farmland purchases in Minnesota for the past 5 years. In both 1960 and 1962 they accounted for 41 percent of total sales. Most of this increase took place at the expense of operating farmers. In the past few years decreases also appeared in the number of farms purchased by investor buyers.

Trends vary significantly from district to district and between eastern and western Minnesota. Operating farmers are the principal buyers in the eastern part of the state. In 1962 they purchased 58 percent of the farms sold in the Southeast and 72 percent in the East-central districts.

In the western districts farm expansion buyers form the dominant group of buyers (see figure). Expansion buyers in 1962 purchased 64 percent of the farms in the Northwest, 46 percent in the West-central, and 50 percent in the Southwest districts. In contrast, in the eastern districts from north to south, expansion buyers accounted for only 22, 21, and 28 percent of the sales.

It is in the western districts, where farms already are largest, that land market activity is having the greatest impact on farm size increases. In the eastern districts, where farms are the smallest, fewer farms are purchased for expansion purposes.

Estimated average price per acre of Minnesota farmland, 1954-62

District	1962	1961	1960	1959	1958	1957	1956	1955	1954
	dollars per acre								
Southeast	192	189	188	191	179	165	156	150	139
Southwest	250	247	248	255	242	230	214	205	187
West central	138	133	133	134	123	122	107	103	99
East central	99	95	94	89	84	77	70	68	66
Northwest	104	103	99	103	90	86	76	73	72
Northeast	69	64	64	58	65	49	42	45	40
Minnesota	159	156	155	157	147	138	126	121	113

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THE OUTLOOK CORNER

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Who will determine the outcome of the 1963 wheat referendum in Minnesota? The "small allotment" wheat growers (those with 15 acres or less) may well be the determiners.

Growers in southern Minnesota can have as much influence on the final vote as growers in the heavier wheat-producing area in the northwest. At present only about one-half of all Minnesota wheat growers are in the northwest and west-central areas of the state.

Recent Shifts in Wheat Acreage

Wheat acreage was at its peak in Minnesota at around the turn of the century. At that time close to 5 million acres were grown. Harvested acreage declined steadily after 1900 to 634,000 acres in 1955.

Since 1955 improved wheat varieties and lower corn prices have reversed this long downtrend in Minnesota wheat acreage. With wheat becoming more profitable relative to corn, greater use has been made of the 15-acre exemption clause in recent years (see table 1).

In 1961 small allotment farmers accounted for about 80 percent of all farms with allotments in Minnesota. They had only 17 percent of the total state allotment but planted over 40 percent of the acreage.

The outline map of Minnesota (see figure) shows where the large increase in growers took place. The number of growers in Districts 7 and 8 more than tripled. The number more than doubled in Districts 5 and 9. In all four of these districts the average acres in wheat per farm reporting was only 14 in 1961. This indicates that most of these producers were small allotment growers.

This increase in the number of wheat growers resulted in a 46-percent increase in total wheat acreage in Minnesota from 1957 to 1961. During this 5-year period the acreage of wheat harvested doubled or tripled in the southern part of the state (table 2). On the other hand, the acreage harvested increased only 6 percent in the traditional wheat-producing region of northwestern Minnesota.

Table 1. Small allotment wheat farms: number, allotment acres, and actual planted acres, 1956 and 1961

Item	1956	1961
Number of farms	30,000	48,900
Allotment	148,000	125,700
Planted acreage	146,100	485,400

Future Shifts in Wheat Acreage

Future changes in the pattern of wheat production in Minnesota depend partly upon the outcome of the coming referendum and subsequent legislation concerning wheat and feed grains.

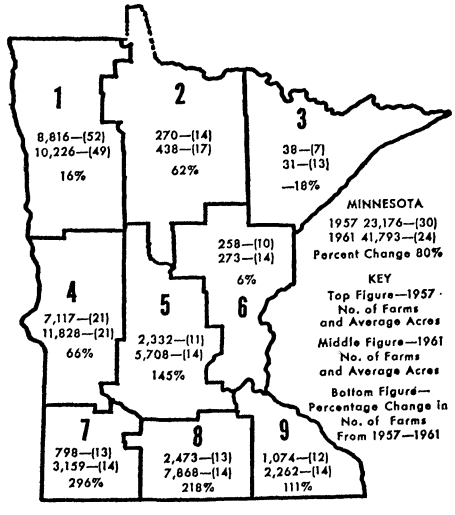
If a "No" vote prevails and no subsequent legislation prohibits acreage expansion on individual farm units, wheat acreage will decrease in southern Minnesota and increase in the northwest and west-central districts. This can be expected because lower priced wheat could no longer compete successfully with corn and soybeans in the cornbelt area. However, depending on final price relationships, wheat would probably still compete favorably with other grain crops in northwestern Minnesota.

If a "Yes" vote prevails, further shifts in wheat acreage will be minor. A mandatory reduction of about 10 percent will occur in all areas. In either case present legislation dictates that the 15-acre exemption clause will be dropped in 1964. This will discourage any further increase in the number of Minnesota wheat growers.

All growers should carefully study alternatives involved in the referendum. To be eligible to vote in the 1963 wheat referendum, all small allotment wheat growers must declare their intentions to do so prior to the referendum day.

Table 2. All wheat: acres harvested, 1957-61

Crop reporting district	1957	1959	1961	Percent change 1957-61
	thousands of acres			
1	461	500	490	6
2	4	8	8	104
3	0.3	0.6	0.4	43
4	151	244	254	69
5	26	55	78	198
6	3	2	4	45
7	10	40	45	339
8	32	103	111	253
9	13	24	33	153
Minnesota	699	976	1,022	46
United States (millions)	43.8	51.8	51.6	18



Minnesota crop reporting districts: number of farms reporting wheat, average acres per farm, and percent change in number of farms reporting wheat, 1957-61.

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