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THE COST OF MISTAKES in management decisions has gone up. Similarly, the returns to superior management probably are greater than in any earlier period. At the same time, the effects on net farm income of adverse weather or price changes probably are greater than ever. The changing capital structure and the relationship between cash receipts and expenses largely account for these changes.

Receipts per dollar of expenses for a group of Iowa farms have been reduced by over 15 per cent since 1940. With a narrower margin, a bad crop or lower prices can more easily cause a loss, while a few extra bushels per acre or a nickel price advantage may be so much gravy.

The speed-up of capital turnover is another noticeable change. Data from farm records in both Indiana and Illinois attest to this faster pace. The number of years required for gross receipts to equal farm capital has been reduced from nine to five during the past 25-30 years. Likewise it now takes only about 10 years for net cash income to equal farm investment, compared with 15 years in 1925-30. In periods of favorable profit margins farm capital may be accumulated more rapidly and, conversely, in unfavorable periods farm capital may be depleted more rapidly.

Because of these changes, a ratio of debt to capital investment considered safe 25 years ago may be hazardous under today's capital and cost structures. And, wisely, most farmers are now carrying a higher equity in their business than formerly.

ACHIEVING A BALANCE between risk and income potential is one of the biggest problems in running a farm business today. Often commodities which yield high average returns also have a highly variable income and, vice versa, those with small annual fluctuations in returns frequently have a low average net income. A farmer can always find some combination of livestock and crop enterprises which will lower variability of income, but this is usually achieved by receiving lower income over the years.

Established farmers with high equities can go farther with a "high risk--high return" enterprise without increasing the risk of debt distress if returns in a particular year are adverse. By drawing on their accumulated resources, they can continue production another year.

For beginning farmers and those with low equities a year or two of low income or losses under today's conditions of narrow profit margins, heavy cash outlays and faster turnover of capital may spell disaster. Operators in these circumstances may do better by selecting enterprises which appear to be a sure bet even though average annual income may be lower.

EACH AREA has enterprises which are more risky than others. An indication of risk and income levels of selected livestock enterprises under Corn Belt conditions is provided by the following data from an Iowa study.

	Average return above each $100 in feed and labor costs, 1917-1948	Largest return per $100 of cost in 31 years	Largest loss per $100 of cost in 31 years
Hogs	$42	$109	$26
Choice fed yearling steers	31	121	70
Choice fed 2-year olds	29	127	82
Choice fed calves	22	96	57
Dairy cows	20	56	12
Laying hens	6	75	31

Because of marked differences in soil and weather between areas, location is a more important factor affecting variability of income from crops than it is for livestock. Studies in Iowa indicate how levels of income and variability of crop income differ in two locations for varying combinations of corn and soybeans on 60 acres.

Per cent of land in corn	Sheridan Township Scott County		Reading Township Sioux County	
	Net Income	Variability	Net Income	Variability
100	$2,282	71	$1,145	103
80	2,072	72	1,078	99
40	1,651	77	943	92
20	1,441	82	876	91

Considering only a combination of corn and soybeans, the highest income and lowest variability of income occur with 100 per cent of the land planted to corn in Sheridan Township. In Reading Township income variability can be reduced by planting more of the land to soybeans but at the sacrifice of higher average income.

While these relationships do not, of course, apply to other localities, they illustrate some of the types of considerations which farm operators must make in selecting enterprises to minimize risk but at the same time achieve adequate levels of income.

FOUR SAFETY PRECAUTIONS which farmers can use in reducing risks are suggested by Iowa State farm economists: (1) Select a safe enterprise. Hogs aren't as risky as cattle feeding. (2) Maintain a high equity in the farm business or a high cash reserve. (3) Adopt flexible plans or enterprises. And (4) diversify the farm organization so if one enterprise should go bad another may provide satisfactory returns.

Research Department