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UNIVERSITY OF MINNESOTA
Department of Agriculture

THE FINANCIAL POSITION OF BEGINNING FARMERS

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THE FINANCIAL POSITION OF BEGINNING FARMERS

R. R. Bencke and T. R. Nodland

Relatively little is known about the financial position and the amount of capital employed by beginning farmers. The purpose of this report is to show (1) the amount of capital used by beginning farmers under various tenure arrangements, and (2) to present information regarding their net worth and ratio of assets to liabilities. This type of information should be of interest to the various agricultural instructors and others who are interested in comparing the capital required to begin farming under various tenure arrangements and to those who are interested in veteran's financial resources.

The data used in this report were secured from farm operators receiving vocational training in the public schools under the G.I. Bill of Rights and who are enrolled in a farm accounting project in cooperation with the University of Minnesota. A questionnaire was sent to the veteran's agricultural instructors which called for a statement of the farm assets supplied by both operators and landlords and the personal assets and liabilities of the operator as of January 1, 1947. This information was secured from the veteran's own farm record book.

A total of 306 survey schedules have been included in this summary. The inventory statements were grouped according to type-of-farming areas and further subdivided into tenure classes. The five tenure classes used were owner-operator, cash tenant, crop share tenant, crop and livestock share tenant and partner. The number of cases by type-of-farming areas and by tenure classes are presented in table 1. A map of the state showing the various type-of-farming areas is presented in figure 1. (1)

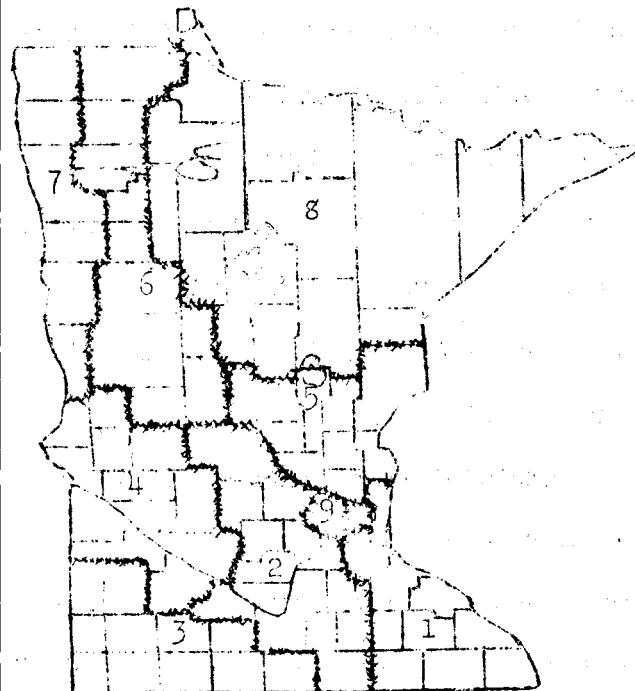
Crop share farms include both the farms which rent for a share of the crop alone and also those which pay some cash in addition to a share of the crop. Crop and livestock share leases for the most part are 50-50 leases under which the operator furnishes the active management and the labor. The partnership class includes a variety of arrangements. The trainees in this class typically furnish a limited

(1) For a more complete description of the type-of-farming areas in Minnesota see Engene, S.A. and Pond, G.A., "Agricultural Production and Types of Farming in Minnesota," Minn. Agr. Expt. Sta. Bul. 347, May, 1940.

amount of farm capital. Their chief contribution is labor for which they receive a share of the income from the farm.(2)

Table 1. Number of Veteran Beginning Farmers Included in the Summary by Areas and Tenure Classes

Type-of-farming area	Owner Operators	Tenants				Total
		Cash Rent	Crop Share	Crop & Livestock Share	Partners	
Area I-II	34	29	13	31	46	153
Area III-IV	8	4	37	5	5	59
Area V-VIII	12	x	x	5	x	17
Area VI	26	13	12	x	16	67
Area VII	10	x	x	x	x	10
Total	90	46	32	41	67	306



Legend

1. Southeast dairy and livestock.
2. South Central dairy.
3. Southwest livestock and cash grain.
4. West Central cash grain and livestock.
5. East Central dairy and potatoes.
6. Northwest dairy, livestock, and clover seed.
7. Red River Valley small grain, potatoes and livestock.
8. Northern, cut over, dairy, potatoes and clover seed.
9. Twin Cities suburban truck, dairy and fruit.

Figure 1. Type of Farming Areas in Minnesota

(2) There was a group of farms which did not logically lend themselves to the classification which was set up. For the most part these included farms which were operating several units under different tenure arrangements. For instance, a considerable number of trainees owned some land and rented some additional. These cases which could not be definitely classified as tenure status were eliminated from the study.

Months Trainees Have Been Established in Farming Since their Return from Service

The group had been engaged in farming for a period which averaged approximately eight months as of January 1, 1947. Some had been farming for several years, and a few were only starting, but the majority actually began in February, March, and April of 1946. A summary of the months trainees have been established in farming since their return from the service is given in table 2. It appears that the partnership and livestock share group had, on the average, been established in farming for a shorter length of time than the other groups. The differences between tenure classes are all comparatively small, the variation between the highest and the lowest being only three months.

Table 2. Average Period in Months Veterans had been Established in Farming
January 1, 1947

Type-of-Farming Area	Owner Operators	Tenants				Partners
		Cash rent	Crop share	Crop and Livestock share		
Area I-II	8.4	10.5	10.6	7.3		5.2
Area III-IV	7.6	6.5	9.1	9.8		9.5
Area V-VIII	9.6	xxx	xxx	7.6		xxx
Area VI	8.6	6.9	9.3	xxx		7.8
Area VII	7.0	xxx	xxx	xxx		xxx

Amount and Source of Farm Capital

The veterans included in this study had essentially three sources of farm capital. They had accumulated some funds of their own before starting to farm, a portion of which they invested in their farm business. They borrowed some capital and in the case of tenant operated farms the landlord or partner furnished a considerable amount. The amount of capital supplied from the operator's own savings, the amount borrowed and the capital furnished by landlords and partners is shown by type-of-farming areas in tables 3 to 8.

The data indicates that there was considerable variation in the amount of capital furnished by the operator among the five different types of tenure groups.

Table 3. Farm Capital Employed by Beginning Farmers, Type-of-Farming Areas I and II

	Owner operators	Tenants			Partners
		Cash	Crop share	Crop and Livestock share	
Acres per farm	136	142	173	166	205
Working capital:					
Supplied by operator's equity	\$2587	\$2267	\$2569	\$1868	\$ 888
Borrowed by operator	1305	2413	1647	2215	363
Supplied by landlord	0	0	101	3340	9106
Total working capital	\$3892	\$4680	\$4317	\$7423	\$10357
Land and buildings:					
Supplied by operator	7133	0	0	0	0
Supplied by landlord	0	9552	10968	14206	14869
Total farm capital:					
Supplied from operator's equity	4733	2267	2569	1868	888
Supplied by operator's creditors	6292	2413	1647	2215	363
Supplied by landlords	0	9552	11069	17546	23975
Total	\$11025	\$14232	\$15285	\$21629	\$25226

Table 4. Farm Capital Employed by Beginning Farmers Type-of-Farming Areas III and IV

	Owner Operators	Tenants			Partners
		Cash	Crop share	Crop and Livestock share	
Acres per farm	133	147	152	145	187
Working Capital:					
Supplied by operator's equity	\$1967	\$3787	\$2626	\$2094	\$1886
Borrowed by operator	2340	1736	1745	1929	10
Supplied by landlord	0	47	40	3226	5109
Total working capital	4307	5570	4411	7249	7005
Land and buildings:					
Supplied by operator	10080	0	0	0	0
Supplied by landlord	0	16739	14964	22220	22205
Total farm capital:					
Supplied from operator's equity	5340	3787	2626	2094	1886
Supplied by operator's creditors	9047	1736	1745	1929	10
Supplied by landlord	0	16786	15004	25446	27314
Total	\$14387	\$22309	\$19375	\$29469	\$29210

Table 5. Farm Capital Employed by Beginning Farmers, Type-of-Farming Area VI

	Owner Operators	Cash	Crop share	Partners
Acres per farm	119	147	197	206
Working capital:				
Supplied by operator's equity	\$2139	\$1626	\$1643	\$1382
Borrowed by operator	1164	1650	1799	252
Supplied by landlord	0	20	154	637
Total working capital	<u>3303</u>	<u>3296</u>	<u>3596</u>	<u>8271</u>
Land and buildings:				
Supplied by operator	4809	0	0	0
Supplied by landlord	0	6997	9567	13890
Total farm capital:				
Supplied from operator's equity	4318	1626	1643	1382
Supplied by operator's creditors	3794	1650	1799	252
Supplied by landlords	0	7017	9721	20527
Total	\$8112	\$10293	\$13163	\$22161

Table 6. Farm Capital Employed by Beginning Owner-Operators in Type-of-Farming Area VII

Acres per farm	196
Working capital:	
Supplied by operator's equity	\$2720
Borrowed by operator	1412
Total working capital	<u>4132</u>
Land and buildings	4381
Total farm capital:	
Supplied from operator's equity	4274
Supplied from operator's creditors	4239
Total	<u>8513</u>

For instance in southeastern Minnesota the partnership operators furnished an average of \$888 from their savings while the owner operator supplied \$4733. A similar variation is evident in the other areas of the state included in the summary. A somewhat greater amount of farm capital was supplied by the beginning operator under the livestock share and the cash and crop share leasing arrangements than under partnership arrangements.

The flexibility in the amount of capital required under the various tenure arrangements offers one of the principal means by which the beginning operator can best fit his limited amount of working capital into an effective farm unit.

Table 7. Farm Capital Employed by Beginning Farmers, Type-of-Farming Areas V and VIII

	Owner Operators	Crop and livestock share tenants
Acres per farm	145	168
Working capital:		
Supplied by operator's equity	\$2330	\$ 984
Borrowed by operator	1240	264
Supplied by landlord	0	5132
Total working capital	3570	6380
Land and buildings:		
Supplied by operator	6355	0
Supplied by landlord	0	12033
Total farm capital:		
Supplied by operator's equity	6089	984
Supplied by operator's creditors	3836	264
Supplied by landlord	0	17165
Total	9925	18413

Under all rental agreements the landlord furnishes the real estate. In the case of the livestock share or partnership arrangements he also furnishes some of the working capital. These two types of tenure arrangements offer a means by which the operator with only a small amount of capital can combine that which he has with that furnished by the landlord or partner. In this manner he can form a more efficient operating unit. The veterans operating as partners in southeastern Minnesota employed their labor, their management and \$688 capital in units which used an average farm capital of \$25,226. They were working with farms which were larger in size and which were equipped with more working capital than any other tenure group. As is indicated in table 8, the partnership units were well equipped with livestock and machinery. The partnership arrangement thus offers an opportunity for the beginning operator with limited capital to share some of the advantages which go with large scale operations.

What is true of the partnership arrangement in this respect also is true of crop and livestock share farms. While the beginning operator furnished somewhat more capital himself, he likewise was employing it in a larger and probably more efficient unit than if he had rented on a crop share or cash basis or if he had attempted ownership.

Table 8.3 Operator's and Landlord's Investment in Working Capital

	Owner Operators	Cash share	Crop share	Crop and livestock share	Partners share
Type-of-Farming Areas I and II					
Milk cows	\$ 933	\$ 1044	\$ 765	\$ 1955	\$ 1727
Other dairy cattle	320	415	190	614	300
Other productive livestock	334	641	814	1005	1896
Crops, seed and feed	578	841	855	1525	2400
Mechanical power and horses	865	954	1116	1155	1586
Machinery and equipment	862	785	577	1169	1948
Total	3892	4680	4317	7423	10357
Type-of-Farming Areas III and IV					
Milk cows	492	449	329	919	776
Other dairy cattle	109	299	110	554	241
Other productive livestock	666	447	734	943	854
Crop, seed and feed	740	855	903	1650	2296
Mechanical power and horses	1238	1967	1282	1735	1449
Machinery and equipment	1062	1553	1053	1448	1389
Total	4307	5570	4411	7249	7005
Type-of-Farming Area VI					
Milk cows	656	837	904	*	2075
Other dairy cattle	265	179	284	*	622
Other productive livestock	284	233	242	*	748
Crop, seed and feed	599	689	527	*	2152
Mechanical power and horses	838	758	881	*	1203
Machinery and equipment	661	600	758	*	1471
Total	3303	3296	3596		8271
Type-of-Farming Area V and VIII					
Milk cows	755	*	*	1816	*
Other dairy cattle	497	*	*	431	*
Other productive livestock	157	*	*	169	*
Crop, seed and feed	514	*	*	1157	*
Mechanical power and horses	918	*	*	1393	*
Machinery and equipment	729	*	*	1414	*
Total	3570			6380	
Type-of-Farming Area VII					
Milk cows	641	*	*	*	*
Other dairy cattle	183	*	*	*	*
Other productive livestock	882	*	*	*	*
Crop, seed and feed	916	*	*	*	*
Mechanical power and horses	919	*	*	*	*
Machinery and equipment	591	*	*	*	*
Total	4132				

*Data not available

While those renting under the cash or crop share method did furnish a somewhat greater amount of capital than the livestock share renters, they did not establish themselves on as large farms or with units as well equipped with livestock and machinery as the partnership or crop and livestock share farms. Table 8 indicates that in Areas I and II for instance, the investment in dairy cows was \$1044 and \$765 on cash and crop share farms respectively and \$1955 and \$1727 on the crop and live-stock share and partnership farms. Much the same relationship exists between the tenure groups in southeastern Minnesota in the amount invested in farm machinery.

The owner operator group furnished considerably more of their farm capital than any other group. Since they received no capital from landlords or partners, their total amount of farm capital employed was smaller than for any other group. They were operating smaller farms which were supplied with less livestock and machinery. The owner operators were also farming land with the lowest value per acre of any of the group. It is probable that many owner operators achieved farm ownership at the cost of farming on units which were less efficient due to their smaller size. They have to weigh this sacrifice in efficiency against the noneconomic advantages such as independence and the prospect of more definite tenure which go with farm ownership.

In interpreting these averages, it should be remembered that there is considerable variation concealed within each average. Within each of the groups of farms discussed above, for instance, the amount of farm capital varies considerably from farm to farm.

Financial Position

The two factors considered in summarizing the financial position of the beginning farmers included in this study were (1) their net worth on January 1, 1947, and (2) the per cent equity which they possess in their assets. The first is an indication of the financial resources of the group and the second gives some indication of their ability to withstand adverse economic conditions which might arise in the future.

The assets, liabilities and net worth by tenure groups and type-of-farming areas is shown in table 9. The assets include the operator's share of the farm capital,

Table 9. Assets, Liabilities and Net Worth of Beginning Farmers

	Owner Operators	Cash	Crop share	Crop and livestock share	Partners share
Type-of-Farming Areas I and II					
Total farm capital	\$11025	\$4680	\$4216	\$4083	\$1251
Outside investments & acct's. rec.	689	296	725	264	641
Cash on hand and in the bank	163	217	239	274	520
Household and personal assets	887	897	852	1019	350
Total assets	<u>12764</u>	<u>6090</u>	<u>6032</u>	<u>5640</u>	<u>2762</u>
Real estate mortgages	5085	-	1647	2215	363
Other liabilities	1207	2413	1647	2215	363
Total liabilities	<u>6292</u>	<u>2413</u>	<u>1647</u>	<u>2215</u>	<u>363</u>
Net worth	6472	3677	4385	3425	2399
Type-of-Farming Areas III and IV					
Total farm capital	14387	5523	4371	4023	1896
Outside investment & acct's rec.	451	516	535	1032	1061
Cash on hand and in the bank	495	480	586	254	1229
Household and personal assets	699	793	878	980	830
Total assets	<u>16032</u>	<u>7312</u>	<u>6370</u>	<u>6239</u>	<u>5016</u>
Real estate mortgages	4707	-	160	-	-
Other liabilities	4340	1736	1585	1929	10
Total liabilities	<u>9047</u>	<u>1736</u>	<u>1745</u>	<u>1929</u>	<u>10</u>
Net worth	6985	5576	4625	4360	5006
Type-of-Farming Area VI					
Total farm capital	8112	3276	3442	*	1634
Outside investment & acct's rec.	246	520	184	*	728
Cash on hand and in bank	148	335	112	*	430
Household and personal assets	612	576	794	*	704
Total assets	<u>9118</u>	<u>4707</u>	<u>4532</u>	<u>3496</u>	
Real estate mortgages	2630	567	593	*	140
Other liabilities	1164	1083	1206	*	112
Total liabilities	<u>3794</u>	<u>1650</u>	<u>1799</u>	<u>252</u>	
Net worth	5324	3057	2733	*	3244
Type-of-Farming Areas V and VIII					
Total farm capital	9925	*	*	1248	*
Outside investment & acct's rec.	356	*	*	515	*
Cash on hand & in bank	334	*	*	315	*
Household & personal assets	1103	*	*	678	*
Total assets	<u>11718</u>			<u>2756</u>	
Real estate mortgages	2596	*	*	100	*
Other liabilities	1241	*	*	164	*
Total liabilities	<u>3837</u>			<u>264</u>	
Net worth	7881	*	*	2492	*
Type-of-Farming Area VII					
Total farm capital	8513	*	*	*	*
Outside investment & acct's rec.	50	*	*	*	*
Cash on hand & in bank	209	*	*	*	*
Household & personal assets	397	*	*	*	*
Total assets	<u>9169</u>				
Real estate mortgages	2827	*	*	*	*
Other liabilities	1412	*	*	*	*
Total liabilities	<u>4239</u>				
Net worth	4930	*	*	*	*

*Information not available

outside investments, cash on hand and household and personal assets. The outside investments are principally bonds and the cash surrender value of life insurance. The liabilities include his real estate and chattel mortgages plus notes and accounts payable.

The owner-operators in all areas had the greatest net worth. The difference between the other tenure classes was not large. The order in which the cash, crop share and the crop and livestock share farmers ranked in respect to net worth was not the same in the different areas. Because of the real estate mortgages the owner-operators had the largest indebtedness. In most instances the farmers operating on a partnership basis had very little in the way of liabilities.

Table 10 gives the per cent equity in all assets. As might be expected, the owner-operators had the lowest equity in their assets and the partnership operators the greatest equity. In northeastern Minnesota where land values are the lowest and the size of business is generally small, the per cent equity owned was the largest.

Table 10. Per cent of Operator's Equity in all Assets

Type-of-farming area	Owner		Tenants		
	Operators	Cash	Crop share	Crop and livestock share	Partners share
I and II	50.7	60.4	72.7	60.7	86.9
III and IV	43.6	76.3	72.6	69.3	99.8
VI	58.4	64.9	60.3	*	92.8
VII	53.8	*	*	*	*
V and VIII	67.3	*	*	90.4	*

The financial position of owner-operators is set forth in greater detail by type-of-farming areas in table 11. The farm mortgage indebtedness per farm varies considerably among the areas of the state and is related to the total investment in real estate. The owners equity in real estate was low in two areas of the state. Indebtedness of 75 per cent or more has generally proven in the past to be too high for good farmers and good farms to carry. The beginning farmers in two areas of the state included in this report come very close to averaging 75 per cent indebtedness on their real estate. Some adverse economic conditions might result in difficulties for many of these veterans.

Table 11. Owner-Operator's Equity in Real Estate

	136	133	119	196	145
Acres per farm					
Value of land and buildings	\$7133	\$10080	4809	\$4381	\$6355
Average value of land and buildings per acre	52	76	40	22	44
Total farm mortgage indebtedness	5085	4707	2630	2827	2596
Average farm mortgage indebtedness per acre	37	35	22	14	18
Per cent owner equity in land and buildings	29	53	45	35	59

Summary

There is considerable variation in the financial resources of the veteran beginning farmers included in this report. On the average the owner-operators appear to be operating smaller farms than the renter group. They also are limited in the amount of working capital employed. The per cent equity in their farms is low and may result in distress unless economic conditions continue to be favorable to farmers.

Veterans operating under a partnership arrangement on the other hand have a very small average indebtedness. The total investment in productive livestock and other forms of working capital is large. Veterans beginning as partners are supplying less capital and are assuming less risk, but they are sacrificing some of the non monetary gains which go with other types of tenure arrangements. The crop and livestock share renters also have a favorable ratio of liabilities to assets and are operating farms that are well equipped with capital and are large enough to be effective limits. The other types of renters occupy a position between the owner operators and the partner and crop and livestock share renters, but operate farms less well supplied with capital. Their equity in their farm capital on the average is sufficiently high as to put them in a fairly sound financial position.