

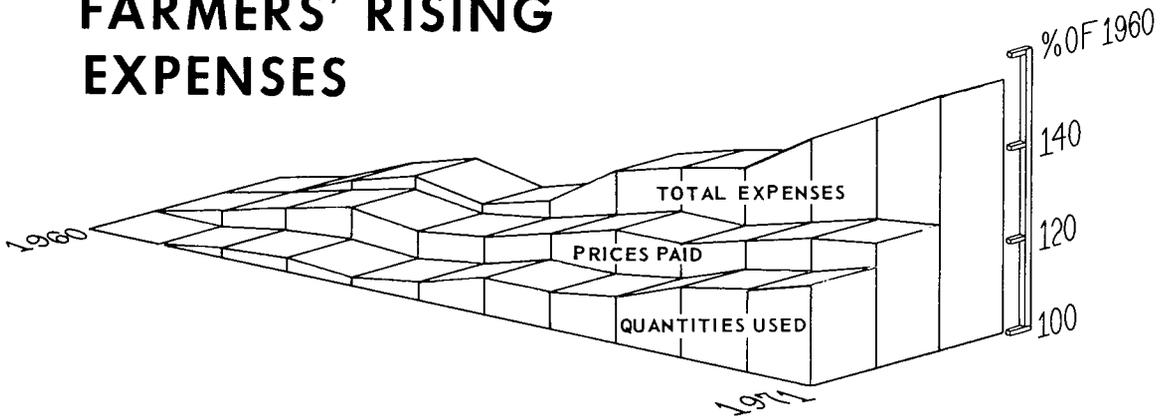
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FARM COST Situation

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MAR 15 1972

A DECADE OF FARMERS' RISING EXPENSES



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SUMMARY

Farm production expenses rose about 5 percent last year to \$42.9 billion. They are expected to rise about 3.5 percent this year. Price restraints have been imposed on many inputs of nonfarm origin under Phase II of the program to reduce inflation, prospects are for more acreage to be held out of production, and larger feed supplies will hold feed prices down.

Expenditures for purchased feed, seed, pesticides, fertilizer, and insurance premiums and Social Security taxes rose more sharply last year than the average annual rise from 1966 to 1970. In contrast, expenditures rose less than the average for feeder and replacement livestock, hired labor, petroleum, interest on debt, and property taxes.

Purchased Feed

Expenditures for purchased feed rose 7 percent in 1971, over twice the average annual rise from 1966 to 1970. The sharp rise in 1971 resulted from tight feed supplies during early 1971 due to blight damage and dry weather reducing the 1970 corn crop. A bumper feed grain crop in 1971 has dropped feed prices and increased feed use.

Feeder and Replacement Livestock

Farmers boosted spending for purchased livestock by about 5 percent in 1971--about 1 percentage point less than the average annual rise from 1966 to 1970. The smaller rise was associated with fewer animal purchases because of higher feed prices. Greater supplies of feed in 1972 at lower prices are resulting in greater demand for feeder and replacement animals. Accordingly, prices of most of these animals will stay high. Total expenditures will probably increase more in 1972 than they did in 1971.

Seed

Seed prices rose more than usual in 1971 mainly because of a substantial rise in seed corn prices. Seed prices are expected to stabilize in 1972 because stocks of most seeds are adequate.

Hired Farm Labor

The total wage bill for farmworkers rose only about 2 percent in 1971--less than half the average annual rate of 4.4 percent between 1966 and 1970. Farm wage rates rose only 6 cents an hour since unemployment in the general economy was relatively high and no new legislation or amendments to present legislation affecting farm wage rates was passed. The number of hired workers declined slightly. Total expenditures for hired farm labor will probably increase more this year. Important factors bearing on the increase in the farm wage bill in 1972 are the levels of unemployment in the general economy, the outcome of proposals to increase the minimum wage of covered agricultural workers and the speed at which mechanization continues.

Pesticides

Pesticide expenditures rose about 6 percent in 1971, more sharply than the average annual increase between 1966 and 1970. This reflected greater use of new high-priced pesticides. Expenditures in 1972 will depend on the crop mix and the acreage of crops on which larger amounts of pesticides are used. Less corn and more soybeans may be planted. This may lead to a reduction in sales of pre-emergence corn herbicides and soil insecticides but an increase in pesticides used on soybeans.

Fertilizer

Total expenditures for fertilizer rose 8 percent in 1971, more than 4 times the average annual increase between 1966 and 1970. Fertilizer use rose because of increased crop acreage, and fertilizer prices rose because of higher prices at production points, higher transportation costs, and increases in other marketing costs. Expenditures for fertilizer are expected to rise more slowly this year because nitrogen and potash supplies are abundant, fertilizer prices are limited by Phase II restrictions, and farmers plan to seed less acreage to corn this year.

Petroleum Fuel and Oils

Expenditures for petroleum products increased by a little less in 1971 than the average annual change from 1966 to 1970. Increased expenditures resulted from higher petroleum product prices and greater consumption. The rise in expenditures is expected to continue, but at a modest rate because of a continued shift from gasoline to cheaper products such as diesel fuel and L.P. gas.

Insurance

Farmers boosted expenditures 9 percent for insurance premiums and Social Security tax payments last year. Larger coverages and higher premiums were evident. Expenditures for insurance are expected to rise less sharply in 1972, because State regulatory agencies are showing more resistance to hikes in automobile and truck premiums and because there is less fear of corn blight and less demand for all-risk crop insurance.

Debt Interest Payments

Expenditures for interest on non-real estate farm debt rose only 0.6 percent in 1971. In contrast, the average annual increase between 1966 and 1970 was much higher--16.3 percent. Lower interest rates in 1971 offset the 10 percent rise in farmers' use of short and intermediate term credit. Farmers will continue to expand their use of this kind of credit in 1972 because of lower interest rates, price increases for some inputs, and greater use of some inputs.

Interest charges on real estate debt rose 7.7 percent in 1971, less than the average annual increase from 1966 to 1970. Interest rates on new farm mortgage loans fell 1.0 to 1.5 percentage points beginning in late 1970 from the previous high levels. In 1972, real estate debt will probably expand as farm operators take advantage of lower interest rates and a greater availability of funds to make real estate purchases and refinance existing debt.

Farm Property Taxes

Farm property tax payments rose less sharply in 1971 than the average annual increase from 1966 to 1970. These payments will likely rise again in 1972 as revenue needs of State and local governments expand. However, future funding of these services may eventually be shifted more to income and sales taxes and away from property taxes.

Farm Power and Machinery

Gross capital expenditures for motor vehicles and other farm machinery remained about the same in 1971 as in 1970. Retail prices rose 3.5 percent; sales volume declined. These expenditures may rise this year because of higher farm income, easier credit, and some pent-up demand. Retail prices are expected to rise less than 4 percent.

Farm Real Estate

Average market values of farm real estate increased 5 percent to \$205 an acre during the year ending November 1, 1971. Land prices rose somewhat more rapidly in the Northeast, Southeast, and Southern Plains than elsewhere because of a strong demand for land for urban use, recreation, and rural residences. Market values of farmland are expected to increase again in 1972 because of higher farm incomes in prospect and because of increased economic activity that will help bolster demand for land for urban and recreational uses.

INTRODUCTION

General Economic Factors

Several new developments in the general economy affected farm costs in 1971. A wage-price freeze from mid-August to mid-November had a dampening effect on prices of most inputs of nonfarm origin. Prices of inputs of farm origin were not directly affected, nor were interest rates--but interest rates did not increase from mid-August levels.

Phase II of the program to reduce the rate of inflation also sets limits on the amount that prices of inputs of nonfarm origin can rise.

A 10 percent surcharge was imposed on many imports on August 15, 1971. The surcharge was lifted near the end of the year, but the U.S. dollar was devalued, effectively increasing the price of imports. Prices of imported inputs such as fertilizer will rise as a result of devaluation. Devaluation of the dollar makes American goods more competitive in foreign markets. A more competitive U.S. position eventually may mean greater production of some commodities. This in turn would result in more inputs and larger expenditures for inputs used in production of commodities in which greater supply is necessary to meet the needs of expanded markets.

Steps to bolster economic activity resulted in a larger money supply and lower interest rates in 1971. A 7 percent income tax credit on purchase of new machinery took effect the latter part of 1971. These two steps helped slow the rise in farmers' costs in 1971 and will continue to help slow the rise in costs in 1972.

Production Expenses - An Overview

Farm production expenses are expected to rise about 3.5 percent to \$44.5 billion in 1972. They had risen almost 5 percent in 1971 (table 1). The slower rise in 1972 is based on larger feed supplies at lower prices, more acreage held out of production, and Phase II controls that hold down price rises of most inputs of nonfarm origin.

The components of total farm production expenses are shown in table 1. These include current operating expenditures and recurring expenditures such as taxes on farm property, interest on farm mortgage debt, and net rent to nonfarm landlords. These expenditures represent annual cash flows. Depreciation and other consumption of farm capital are not actual annual cash flows, but represent an approximation of expenditures for current replacement cost of equipment and buildings. Gross capital expenditures for farm machinery and equipment and expenditures for the purchase of real estate are discussed in the report under the heading of "Capital Investments."

Higher prices of feed were a principal factor in the increase in farm production expenses in 1971. Expenditures for feed rose sharply. In contrast, expenditures for interest on non-real estate debt and for farm labor increased only slightly because of lower interest rates, and a slowing of wage rate increases.

Prices of inputs of nonfarm origin are more volatile. (Figs. 1 and 2). Supply fluctuations in farm-origin inputs often result in large year-to-year changes in prices and total expenditures. The total quantities of inputs of farm origin have increased steadily since 1964 while total quantities of nonfarm inputs have remained about the same. There has been more substitution among inputs of nonfarm than among inputs of farm origin. Most noteworthy has been the substitution of machinery and equipment for labor.

CURRENT OPERATING EXPENDITURES

Purchased Feed

Expenditures for purchased livestock feed, 1970	\$7.1 billion
Change, 1970 to 1971	+ 7 percent
Average annual change, 1966-70	+ 2.9 percent
Percentage of all farm production expenditures, 1970	17.3 percent

Corn prices were higher in early 1971 because blight infestation and dry weather reduced yields and supply in 1970. Expenditures for feed increased by about 7 percent, even though feeding rates of all concentrates were lower.

Large supplies and low prices as a result of the bumper crop of corn and other feed grains in 1971 are likely to encourage increased feeding of all concentrates in 1971/72 to 187 million tons--7 or 8 million tons more than fed in the 1970/71 feeding year. 1/

1/ The feeding year is defined as the year ending September 30.

Table 1.--Farm production expenses, United States, 1960, 1965, 1969, and 1970 ^{1/}

Item	Expenses					Share of all expenses			
	1960	1965	1969	1970	1971	1960	1965	1969	1970
	-----Million dollars-----					-----Percent-----			
Feed purchased.....	4,923	5,749	6,477	7,068		18.7	18.5	16.7	17.3
Livestock purchased.....	2,502	2,913	4,201	4,291		9.5	9.4	10.9	10.5
Seed purchased.....	510	637	703	736		1.9	2.1	1.8	1.8
Hired labor, total wages.....	2,923	2,849	3,196	3,394		11.1	9.2	8.3	8.3
Fertilizer and lime.....	1,315	1,754	2,023	2,097		5.0	5.7	5.2	5.1
Pesticides.....	288	528	729	758		1.1	1.7	1.9	1.9
Petroleum fuel and oil.....	1,486	1,538	1,713	1,747		5.6	5.0	4.4	4.3
Other operating costs and repairs for motor vehicles and machinery.....	1,777	1,880	2,511	2,674		6.7	6.1	6.5	6.5
Building repairs and maintenance..	703	655	746	703		2.7	2.1	1.9	1.7
Insurance ^{2/}	187	181	205	223		.7	.6	.5	.5
Interest on non-real estate debt..	725	1,099	1,776	2,055		2.8	3.6	4.6	5.0
Depreciation and other consump- tion on farm capital.....	4,244	4,982	6,676	6,918		16.1	16.0	17.4	17.0
Taxes on farm property.....	1,502	1,943	2,761	2,994		5.7	6.3	7.1	7.3
Interest on farm mortgage debt...	628	1,077	1,599	1,717		2.4	3.5	4.1	4.2
Net rent to nonfarm landlords....	1,010	1,328	1,317	1,341		3.8	4.3	3.4	3.3
Other ^{3/}	1,629	1,820	2,053	2,151		6.2	5.9	5.3	5.3
Total expenses.....	26,352	30,933	38,686	40,867	42,900	100.0	100.0	100.0	100.0

^{1/} Farm Income Situation, FIS-218, Econ. Res. Serv., USDA, July 1971, plus unpublished estimates for pesticides and insurance.

^{2/} Includes net premium (premium minus payments for losses) for crop, fire and wind insurance.

^{3/} Includes such things as livestock marketing charges, containers, milk hauling, irrigation, grazing, binding materials, veterinary services and medicines, electricity and telephone (business share) and net insurance premiums (crop, fire, wind, and hail).

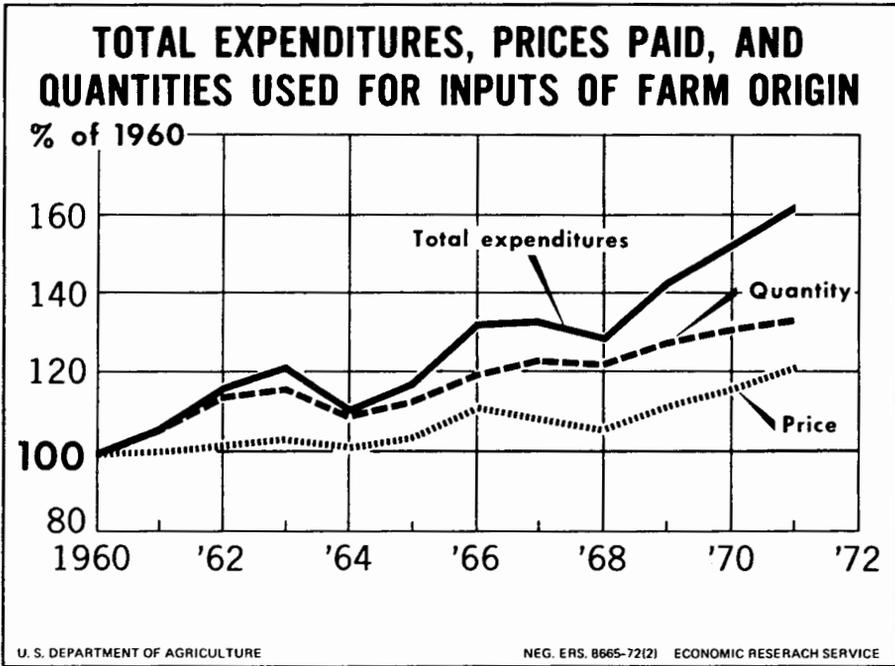


Figure 1

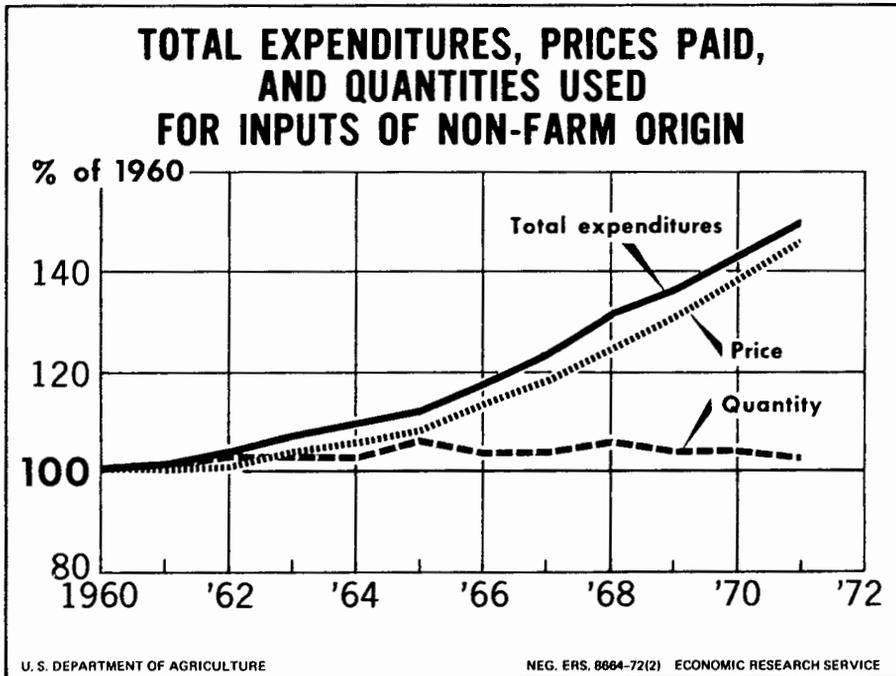


Figure 2

High livestock and poultry feed-price ratios are stimulating increased feeding in 1971/72. Feeding was curtailed in 1970/71 by short feed supplies and less favorable livestock-feed price ratios, especially for hogs and poultry. Feeding of concentrates will increase in 1971/72 and the feed mix will include more corn than last year.

Demand for protein feed will most likely be strong in 1971/72 because of more grain being fed. Soybean meal, the traditional protein feed, is not expected to fulfill protein feed needs because of strong demand for soybeans and little, if any, increase in soybean meal production. Other oilseed meals, fish meal, and urea are likely to be used to supply more of the protein feed. There is a strong export demand for soybeans and soybean meal so livestock producers may need to draw more heavily on other sources for protein feed needs.

Feeder and Replacement Livestock

Expenditures for purchased livestock, 1970	\$4.3 billion
Change, 1970 to 1971	+5 percent
Average annual change, 1966-70	+5.7 percent
Percentage of all farm production expenditures, 1970	10.5 percent

Prices of feeder and replacement livestock exhibited different trends in 1971 than in 1970. Beef and dairy prices were higher; hogs, poultry, and sheep prices lower (table 2).

Feeder cattle and beef herd replacement prices are expected to remain strong in 1972. Favorable beef-grain price ratios will encourage a strong demand for feeder cattle. Expansion of the beef cow inventory is expected to continue during 1972 in line with the higher beef prices in recent months.

Feeder pig prices rose during the last part of 1971, and should remain strong, at least during the first 3 quarters of 1972, because of a reduction in the number of sows farrowing and favorable hog-corn price ratios.

Demand for replacement livestock of all types will be strong during 1972 because of abundant feed supplies and lower feed prices. By late 1972, supplies of replacement livestock may be large enough to reduce prices somewhat.

Seed

Expenditures for seed, 1970	\$0.7 billion
Change, 1970 to 1971	+6 percent
Average annual change, 1966-70	+4.4 percent
Percentage of all farm production expenditures, 1970	1.8 percent

Seed expenditures rose by 6 percent in 1971. Hybrid seed corn prices increased substantially because of limited supplies and increased labor costs associated with the production of seed resistant to Southern corn leaf blight. Corn acreage also rose. Production costs of other seeds also rose, and stocks of some seeds were at low levels.

Table 2.--Prices received by farmers for selected types of livestock and livestock products, mid-quarter reports, 1970 and 1971

Product	Unit	February 15		May 15		August 15		November 15	
		1970	1971	1970	1971	1970	1971	1970	1971
-----Dollars-----									
All beef cattle.....	Cwt.	27.40	28.50	27.90	29.40	27.10	29.20	25.10	29.50
Calves.....	do.	35.10	35.70	35.80	36.00	34.00	36.30	33.20	37.60
Hogs.....	do.	27.50	19.20	23.00	17.00	21.60	18.60	15.40	18.90
Lambs.....	do.	27.90	23.80	26.80	26.90	26.70	27.00	25.20	24.90
All milk.....	do.	5.76	5.91	5.44	5.60	5.58	5.74	6.09	6.17
Broilers.....	Lbs.	.14	.14	.14	.14	.13	.14	.13	.13
Eggs.....	Doz.	.47	.33	.30	.30	.33	.31	.36	.30
Turkeys.....	Lbs.	.25	.21	.24	.21	.22	.22	.22	.22

Seed prices are expected to stabilize in 1972 because stocks are generally more plentiful.

Hired Farm Labor

Expenditures for hired farm labor, 1970	\$3.4 billion
Change, 1970 to 1971	+2 percent
Average annual change, 1966-70	+4.4 percent
Percentage of all farm production expenditures, 1970	8.3 percent

The rise in hired farm labor expenditures last year was small. Farm wage rates increased less than they did in 1970 and the number of hired workers declined slightly. The 1971 average composite wage rate of workers employed on other than a piece rate basis was \$1.48 an hour, a gain of 6 cents from 1970. This compares with increases of 9 cents an hour in 1970 and 12 cents in 1969.

Farm wage rates rose less rapidly in 1971 mainly because: (1) unemployment in the total economy was near 6 percent throughout 1971 and labor for farmwork was generally adequate, and (2) the minimum wage rate under the Fair Labor Standards Act did not increase further in 1971.

Wage rates will rise again in 1972 because farm employers compete with nonfarm businesses for the highly skilled workers needed to handle the complicated equipment used in modern farming. Wage rates of urban production workers are rising, so it will take higher farm wage rates, more fringe benefits, or both, to attract workers having off-farm employment alternatives.

Numerous bills have been introduced to raise the minimum wage of farmworkers covered under the Fair Labor Standards Act. Passage would cause an upward pressure on farm wage rates in those regions where the average rate is lower than the new minimum wage rate.

The magnitude of wage rate increases in 1972 also depends largely on the unemployment level in the economy which is expected to average above 5 percent and depending on when, if, and how much the minimum wage is increased.

Within the next few years a national program of unemployment insurance (see pages 17-22 for more information) and workmen's compensation is likely to be adopted, and more widespread unionization of farmworkers will likely occur. These represent potential added labor costs.

Pesticides

Expenditures for pesticides, 1970	\$0.8 billion
Change, 1970 to 1971	+6 percent
Average annual change, 1966-70	+5.0 percent
Percentage of all farm production expenditures, 1970	1.9 percent

Farm expenditures for pesticides rose again in 1971. However, use of pesticides in agriculture is being closely scrutinized by environmentalists and public agencies. Controls have been imposed on the use of some pesticides and others are likely to follow. A voluntary program

(scout program) which makes recommendations to farmers on when to spray has been initiated for cotton and probably will be expanded to other crops. Also, research on nonchemical means of pest control is being stepped up.

Pesticide prices have changed unevenly over the last few years. For example, fungicide material prices remained about the same from 1966 to 1970, herbicide prices increased by about 26 percent, and insecticide prices rose by about 37 percent.

Prices of insecticides and herbicides are expected to continue to rise. Herbicide and insecticide price increases are associated with greater proportions of newer high-price items and an increase in the price of 2,4-D.

Pesticide use and expenditures in 1972 will depend, to a large degree, on the crop mix and the acreages of crops on which large amounts of pesticides are applied. For example, less corn and more soybeans may be planted. This may lead to a reduction in sales of pre-emergence corn herbicides and soil insecticides but an increase in pesticides used on soybeans.

Fertilizer

Expenditures for fertilizer, 1970	\$2.1 billion
Change, 1970 to 1971	+8 percent
Average annual change, 1966-70	+1.9 percent
Percentage of all farm production expenditures, 1970	4.8 percent

Fertilizer prices have been increasing since early 1970. The average price paid by farmers for all fertilizer rose about 7 percent in 1971. Price increases were primarily the result of higher transportation costs and increases in other marketing costs.

The general outlook is for the prices of nitrogen and potash materials at the farm level to stabilize in 1972. Phosphate fertilizer prices on the other hand are expected to rise, perhaps to ceilings authorized by the Price Commission.

Plentiful nitrogen supplies are likely to prevent much change in nitrogen prices. Also, corn acreage is expected to be lower, probably reducing demand for nitrogen fertilizer.

Potash fertilizer prices are likely to change little. Competitive forces lowered prices late in 1971 for selected grades (coarse and granular) f.o.b. refinery--Carlsbad and Saskatchewan. However, farmers may pay higher seasonal prices for potash as demand rises in the spring, especially if the value of the U.S. dollar in relation to Canadian currency should raise U.S. prices of Canadian potash.

Phosphate fertilizer prices are expected to rise because of strong demand--domestic and foreign--for high-analysis phosphate fertilizers. These phosphates are a key commodity in world trade and prices are high enough to encourage U.S. producers to seek overseas sales. Export prices are not subject to control by the Price Commission and dollar devaluation can make U.S. products more competitive in world markets.

Petroleum Fuel and Oils

Expenditures for petroleum fuel and oils	\$1.7 billion
Change, 1970 to 1971	+2 percent
Average annual change, 1966-70	+2.8 percent
Percentage of all farm production expenditures, 1970	6.2 percent

Prices of gasoline and diesel fuel both increased by about 1 cent a gallon in 1971. In September 1971, bulk farm delivered gasoline prices were about 31 cents a gallon and bulk farm delivered diesel fuel prices were about 19 cents a gallon. Both prices include Federal and State taxes.

Farmers' expenditures for petroleum products are expected to continue to rise modestly as more farmers acquire larger tractors and specialized self-propelled equipment. Also, continued shifts toward diesel fuel and L.P. gas are likely to occur; these fuels are less expensive and more equipment is being designed to use them. Changing practices such as reduced tillage may also limit increases in fuel expenditures. Increasing demands for heating livestock shelters used in modern poultry and hog production are likely to increase use of heating fuels.

Insurance

Expenditures for insurance	\$1.0 billion
Change, 1970 to 1971	+9 percent
Average annual change, 1966-70	+6.1 percent

Social Security taxes and insurance premiums related to property used in farm production and farm income totaled \$995 million in 1971, about 9 percent more than in 1970.

Insurance costs continue to rise because of larger coverages and higher premium rates. Under Phase II guidelines, insurance company rates are generally allowed to rise if greater losses occur. But increases are not allowed to cover higher operating costs or profits.

Premiums on automobile and truck insurance have risen more rapidly than most types of insurance in recent years. But State regulatory agencies are showing more resistance to premium rate hikes.

Legislative proposals in Congress and in many States to modify automobile and truck insurance from a liability to a "no-fault" basis may eventually affect insurance costs. By curtailing litigation costs, premium rates for "no-fault" insurance are expected to decline. However, some farmers may want more protection at a higher cost.

Total expenditures by farmers for insurance are expected to rise about 5 percent in 1972. Automobile and truck insurance expenditures are expected to rise about 8 percent because of higher premiums. Premiums for insurance on growing crops are expected to remain stable. There is less fear of corn blight which caused farmers to increase their insurance with the Federal Crop Insurance Corporation in 1971. But heavy hail damage in 1971 is likely to cause farmers to increase insurance for this purpose.

Expenditures for workmens' compensation are expected to increase from the 1971 level because of larger farm payrolls and increased benefits in some States. Social Security taxes are expected to increase slightly because of a higher wage bill. The tax rate is expected to remain the same.

Interest Paid on Non-real Estate Debt

Expenditures for farm use, 1970	\$2.1 billion
Change, 1970 to 1971	+1 percent
Average annual change, 1966-70	+16.3 percent
Percentage of all farm production expenditures, 1970	5.0 percent

Interest rates declined in 1971 from the highs of 1970. For example, bank interest rates on new short and intermediate term farm loans had ranged from 8.25 to 8.5 percent in early 1970. But by mid-1971 these rates typically ranged from 7.5 to 8 percent. They stabilized at the latter rates for the remainder of the year.

Interest paid on non-real estate debt rose about 1 percent in 1971. However, farmers' use of short and intermediate term credit rose sharply by 10 percent.

Little change in interest rates is expected in the first half of 1972. Afterwards, conditions in the economy that affect central money markets will have some influence on farm loan rates. But interest rates are not expected to change much in the last half of 1972.

Farmers will continue to expand their use of short and intermediate term credit in 1972 because of lower interest rates, price increases in some inputs and greater use of some inputs. Some short-term debt for capital expenditures will probably be shifted to longer term loans because interest rates on long-term loans are lower than in most of 1969 and 1970.

RECURRING EXPENDITURES

Interest Paid on Real Estate Debt

Expenditures for farm use, 1970	\$1.7 billion
Change, 1970 to 1971	+8 percent
Average annual change, 1966-70	+10.6 percent
Percentage of all farm production expenditures, 1970	4.2 percent

Interest rates on new farm mortgages fell by 1 to 1.5 percentage points beginning in late 1970 from the previous high levels as a consequence of the general drop in interest rates. Institutional lenders, particularly life insurance companies, who had turned to alternative investment opportunities in 1970, re-entered the farm mortgage market in 1971. Farmer demand for these loans also rose.

Total interest charges on long-term debt were up almost 8 percent from a year earlier. This increase resulted from an increased volume of loans which more than offset the drop in interest rates. In 1972, real estate debt will probably expand because of lower interest rates and a

greater availability of funds. Then too, some borrowing was postponed during 1970 and early 1971 because of high interest rates, so lower interest rates in 1972 may be an inducement to long-term borrowing.

Farm Property Taxes

Expenditures for farm property taxes, 1970	\$3.0 billion
Change, 1970 to 1971	+5 percent
Average annual change, 1966-70	+10.5 percent
Percentage of all farm production expenditures, 1970	4.2 percent

Tax levies on farm real estate averaged \$2.47 an acre in 1970 (latest data available) compared with \$2.27 in 1969. The highest rates were in New Jersey--\$20.78 an acre; and the lowest rates were in New Mexico--20 cents an acre. Levies differ substantially among States because of differences in the productivity of farmland, value of buildings and improvements, role of the property tax in State-local tax systems, and the level of public services provided by State and local governments.

Market value of privately owned farm real estate rose somewhat more slowly than taxes in 1970. The effective rate of tax rose from \$1.12 per \$100 of full value in 1969 to \$1.18 in 1970.

Revenue needs of State and local governments are growing steadily because of greater demands for local services and the rising costs of salaries and materials. However, increased funding may eventually shift more to taxes on income and sales and away from property taxes. Several court cases on school district funding are pending and the outcome is uncertain.

CAPITAL INVESTMENTS

Farm Power and Machinery

Retail prices of farm machinery rose 3.5 percent in 1971, but sales volume declined, leaving gross capital expenditures for motor vehicles and other farm machinery about the same as in 1970 (\$5.2 billion). Purchases fell primarily because of higher prices, and perhaps because of fear of another outbreak of corn blight and its effect on farm income.

Despite a reduction in demand for farm machinery generally, purchases of large tractors continue to rise. Purchases of tractors of 110 or more horsepower more than doubled in 1971 over a year earlier.

Retail prices of farm machinery will probably increase by around 4 percent in 1972. A precedent under Phase II for machinery price increases was probably established when the Price Commission permitted a major company to raise prices by 3.93 percent in November 1971.

Within the next 5 years, safety and antipollution regulations may cause farm machinery prices to rise. However, some of the added charge for safety features may represent greater comfort, and protection from weather, sprays, and noise.

The outlook for a stronger economy, higher farm incomes, easier credit, and possibly some pent-up demand, should result in an increase in the volume of machinery purchases in 1972.

Farm Real Estate

Average market values of farm real estate increased 5 percent to \$205 an acre in the year ending November 1, 1971. Land prices rose somewhat more rapidly in the Northeast, Southeast, and Southern Plains than elsewhere. Increases in these areas generally reflected a strong demand for land for urban use, recreation, and rural residences.

The farm real estate market was more active (as measured by number of inquiries for farmland) in 1971 than in 1970 because long-term interest rates were lower and loans were easier to obtain. However, the number of properties sold changed very little in the year ending March 1, 1971, from a year earlier. A total of 82,600 voluntary and estate sales of 10 acres or more occurred. About 2 percent of the land in farms changed ownership. This land was valued at \$4.8 billion.

Gross cash rents of whole farms were about \$10 to \$11 an acre--a little more than 5 percent of the market value of farmland. But land ownership costs rose more rapidly than gross rents, and the percentage return on the market value of real estate decreased a little last year.

Market values of farmland are expected to increase again in 1972--perhaps 3 to 5 percent. Economic activity is expected to increase and this will help bolster the demand for land for urban and recreational uses. Farmers income prospects have brightened this year. Then too, there is a continuing drive by farmers to expand their operations. Lower interest rates and a greater availability of funds, at least during the early part of 1972, may be inducements to farm expansion.

LIST OF REFERENCES

Additional information about farm costs can be obtained from the following publications printed by the U.S. Department of Agriculture:

- Agricultural Finance Review
- Agricultural Prices
- Balance Sheet of Agriculture
- Changes in Farm Production and Efficiency
- Demand and Price Situation
- Farm Costs and Returns
- Farm Income Situation
- Farm Labor
- Farm Real Estate Market Developments
- Feed Situation
- Fertilizer Situation
- Livestock and Meat Situation
- Marketing and Transportation Situation
- Statistical Supplement to the Agricultural
Finance Review

THE FARM EMPLOYER AND UNEMPLOYMENT INSURANCE

by

Roger A. Rossi 1/

ABSTRACT

Unemployment insurance protection became effective for many workers in 1935. The covered employer now pays a net Federal tax of 0.5 percent (\$21) of the first \$4,200 of the wages paid to a worker in his employ. Agricultural workers are not protected. The question of potential benefits to farm employers from coverage of unemployment insurance is examined. Potential benefits to farm employers include: (1) more effective competition for qualified workers, (2) better worker productivity, (3) more efficient use of workers, and (4) better access to the supply of farmworkers.

Keywords: Unemployment insurance, farm employers, farmworkers.

What would the extension of unemployment insurance protection to farmworkers mean for farm employers? There are many different ways to answer this question depending on the vantage point of the person answering the question. For example, one person might respond: "It would mean higher production costs for farm employers due to the increase in total taxes paid;" a second person might respond "another farm subsidy because farm employers will not pay their full share of the increased costs of benefits;" a third might respond, "increased taxes will motivate a farm employer to use his labor more efficiently to lower his individual tax rate;" and so on. All of these answers are valid to one degree or another. A whole volume can be written to answer what seems to be a very simple question.

Today, few people would argue that farmworkers do not deserve the same protection under the unemployment insurance program as do other workers. Nor would many people question the administrative feasibility of extending unemployment insurance protection to this group of workers. This article describes the origins of the unemployment insurance program, its present status, and some results of research studies on farm labor, and explores some aspects--not usually treated in discussions of this subject--of extending coverage to farm employers.

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Establishment of Unemployment Insurance - 1935

The Social Security Act of 1935 levied a 3 percent Federal unemployment tax on the wages of workers who worked in covered employment for an employer subject to the tax. An employer was subject to the tax if he employed 8 or more workers in 20 or more weeks in a calendar year in employment, as defined. Certain types of employment and organizations were excluded from the definition of covered employment; for example, agricultural employment, employment performed for most nonprofit organizations, domestic employment in private households, and State and local governments.

Federal law also provided a strong incentive for States to establish unemployment insurance programs that would pay benefits to qualified unemployed workers. States establishing such programs and collecting payroll taxes from employers could credit the State tax paid by employers against their Federal tax liability up to 2.7 percentage points of the 3 percent Federal tax if the State law was certified to be in conformity with Federal law. State legislatures quickly took advantage of this incentive and established unemployment insurance programs in all States.

States soon introduced a program of varying tax rates (experience rating), also permitted by Federal law. In most States, an employer who was newly covered paid an annual 2.7 percent State tax for an initial period (now 1 to 3 years, depending on the State involved). After that, the State tax rate of an employer, in most States, depended on two main factors: (1) the overall reserve in the insurance fund and (2) the employer's experience with unemployment measured by the dollars of benefits charged to his individual account. The Federal portion of the tax never varied but the State portion varied considerably. In 1971 the minimum tax rate could be zero in some States and maximum tax rates ranged from 2.7 to 6.0 percent.

Experience-rated employers with little or no unemployment paid no taxes or a minimal amount of each worker's wages, as opposed to employers who laid off a great many workers and might be subject to the maximum tax rate.

As in many other insurance programs, the pooled fund concept underlies the States' unemployment insurance system of financing the benefit payments made to unemployed workers. Those employers who have negligible experience with unemployment of their workers usually pay some tax and help to pay for those whose experience is severe. To illustrate, in insuring a person against the risk of an automobile accident a yearly premium is paid whether or not he has an accident. Premiums are based on the experience of all insured persons. What makes such a scheme financially possible is that all persons are insured against incurring the risk but not all do incur it and therefore all persons pay part of the burden for that portion of the insured who do have accidents. In general, unemployment insurance operates in a similar fashion with some exceptions, notably that employers in some States may have a zero payment.

Unemployment Insurance Today

Through the years certain provisions in the Federal law have been amended so that today, a subject employer generally is one who has employed 1 or more workers in 20 or more weeks in a calendar year or who has paid wages of \$1,500 or more in a calendar quarter to workers in covered employment.

Also, the definition of employment has been expanded to include some additional kinds of employment, such as employment performed for most nonprofit organizations. The "covered" employer now pays a net Federal tax of 0.5 percent (\$21) of the first \$4,200 of the wages paid to each worker in his employ. These changes, legislated by the 91st Congress, became Public Law 91-373, The Employment Security Amendments of 1970, on August 10, 1971. Agricultural employment is, of course, still excluded.

In signing this bill into law, President Nixon expressed his disappointment that Congress did not include his proposal to extend unemployment insurance protection to farmworkers and stated that he would resubmit a proposal for consideration. Under the research provisions of the Act, the Secretary of Labor is required to conduct studies of excluded workers with first attention to agricultural employment, and report to Congress on the impact of including the employment of these workers under the Federal Unemployment Tax Act.

Research Results

In carrying out this mandate, studies were made in 18 States. As of this writing, results are available from 17 of these States. The studies were designed to provide answers to a number of questions, including the cost of extending unemployment insurance to farm employees. Below are the results of these studies. Estimated benefit payments are expressed as a percentage of taxable wages rather than as a percentage of contributions (taxes) so that comparisons may be made with other industries within a State and among States (table 1).

The considerable variation in cost rates among States is due, in large part, to the differing agricultural economies of the States. States whose agricultural economies are highly labor intensive such as California and New Jersey will generally experience higher cost rates than States like Vermont where dairying is predominant. Of course, other major factors are important in determining the benefit cost rate, such as the structure of the particular State's unemployment insurance law, the type of seasonal worker hired for seasonal farm activities, and the balance between labor-intensive and labor-extensive farm enterprises.

Benefits to Farm Employers

Returning to our original question: What would extension of the unemployment insurance program to farmworkers mean for farm employers? Some of the important benefits are obvious but others are not.

The farm employer will be able to compete more effectively with other employers for more and better qualified workers. By including farm employment under the unemployment insurance program, he provides workers with a fringe benefit now provided most other workers. In view of the declining number of people willing to do farm work and the increased need of farm employers for a more highly skilled working force, this fringe benefit helps to equalize competition for the services of workers among all employers.

Farmworkers, if coverage were extended, would be treated on the same basis as other covered workers, providing a greater sense of dignity to the person in his "covered" farm job. The psychological aspects of "equal treatment" cannot be ignored. The greater the feeling of dignity the worker has, the happier he is, and the higher his productivity is likely to be.

Table 1.--Estimated farm worker benefits as a percentage of estimated taxable farm payroll 1/ under alternative provisions and the maximum unemployment insurance tax rate, 1969

State	Coverage provision		Maximum unemployment insurance tax rate
	1 or more workers in 20 weeks or \$1,500 in a calendar quarter	4 or more workers in 20 weeks	
	-----Percent-----		
California.....	8.5	6.5	3.7
Connecticut.....	6.6	7.1	2.7
Delaware.....	5.4	4.3	4.5
Florida.....	3.1	3.0	4.5
Maine.....	2.0	2.3	3.7
Maryland.....	1.6	1.9	4.2
Minnesota <u>1/</u> , <u>2/</u>	<u>4/</u> 2.5	1.8	4.5
New Hampshire.....	2.5	3.2	4.3
New Jersey.....	5.9	7.1	4.2
New York.....	1.6	1.9	4.2
Ohio.....	4.1	3.1	4.7
Pennsylvania.....	1.7	2.1	4.0
Rhode Island.....	6.8	8.6	4.0
Texas <u>2/</u>	<u>5/</u> 2.0	<u>5/</u> 2.0	2.7
Vermont.....	.6	1.0	4.4
Washington <u>1/</u> , <u>3/</u>	3.5	3.3	2.7
West Virginia.....	1.6	1.1	3.3

1/ Estimates are based on a \$4,200 tax base except for \$4,800 in Minnesota and Washington.

2/ Impacts of interstate benefit charges due to wage combining are not reflected. States not noted reflect such charges for all 15 NE-58 States except Massachusetts and Texas.

3/ Data are for calendar year 1968.

4/ Estimates are for 1 or more workers at any time; no estimate is available for 1 or more workers in 20 weeks or \$1,500 in a calendar quarter.

5/ Preliminary.

Source: Special studies conducted by State agencies of California, Minnesota, and Washington, and a 15-State study conducted by 12 universities (NE-58 project).

Many farm employers now provide "year-round" workers with prerequisites such as housing and maybe a "side of beef" even though the worker's services may be required less than year-round. To the extent that these costs may be reduced by providing unemployment insurance protection during periods of involuntary unemployment, the "net" increase in taxes is reduced.

The unemployment tax will result in higher production costs in the short-run, but will tend to motivate employers to use their workers more efficiently in the long-run. By taking another look at his work force, production techniques, supervisory practices and patterns of seasonal employment, the employer may change his operation to maximize the retention of his workers for as long a period as possible each year. This is advantageous to both the worker, who can enjoy a higher standard of living through increased income, and the employer whose tax rate may be lowered, and whose operation may become more profitable. These efforts may also help to reduce the increasing welfare costs which farm employers now help to finance.

To receive benefits a worker must be unemployed through no fault of his own; he must have a substantial attachment to the labor force (measured by the State's qualifying requirement, e.g., 20 weeks of work); for each week benefits are paid he must be available for work and able to work; and, in many States, the worker must demonstrate his availability by actively seeking work. He is subject to a disqualification if he refuses a job which the agency determines is suitable. In filing his claim for benefits, he must also register for work with the State Employment Service in one of the over 2,000 local employment offices nationwide. This registration requirement has a number of "hidden" benefits for farm employers but requires their cooperation.

The fact that an unemployed farmworker would be required to register would increase the accessibility of labor supply to farm employers who place job orders with the Employment Service. Not only would this accessibility be increased, but the unemployed farmworker would have available to him the State and Federal training and placement programs designed to match farmworkers with farm jobs or upgrade their skills. Some of these programs are described below.

Annual Worker Plan

Many farm employers use migratory workers to help fill their seasonal labor needs. The Annual Worker Plan, administered by the U.S. Department of Labor's Rural Manpower Service, has as its objectives (1) to provide employers with a dependable seasonal labor supply, and (2) to provide as much continuous employment to the migratory worker as possible. The registration requirement for "covered" unemployed farmworkers would provide local representatives of the Rural Manpower Service with a new vehicle for meeting the two objectives stated above by matching unemployed farmworkers with job orders. Part of the success in using this tool depends on the next point which involves the cooperation of farm employers.

Job Banks

Presently, farm labor supply and demand encounter many difficulties "meeting each other" due to the unorganized structure of job vacancy information and the delivery systems which transmit this information to job seekers. To match jobs with workers, many local offices of State

employment security agencies have instituted "job banks". A computer listing of available jobs is provided daily within the geographic area covered by this program. A number of States have adopted this approach on a statewide basis. Farm employers, by having specific job vacancies placed on this listing, would have a more easily accessible supply of farmworkers who might qualify for the specific job vacancy. Such a system would help farm employers and farmworkers meet their needs more adequately. This system would help farmworkers return to work sooner, and therefore tend to lower benefit disbursements.

Training Programs

Continuing mechanization and improved production techniques in agriculture dictate the need for an increasingly skilled farm work force. With the extension of unemployment insurance protection, farmworkers would have greater accessibility to State and Federally sponsored programs designed to upgrade their skills. Farm employers, by identifying their needed manpower skills, may have training programs established under the Manpower Development and Training Act and such programs as the Concerted Services in Training and Education, administered by the Department of Labor's Rural Manpower Service, to fill these needs with more highly trained workers. Graduates of these programs not only would meet the increasing demand of farm employers for a more highly skilled labor force, but would also help assure that farmworkers are placed in more stable employment. In this sense, farm employers and workers can make valuable use of the processes for the payment of unemployment insurance benefits to meet their employment needs both quantitatively and qualitatively.

It is the opinion of this writer that the economic benefits attributable to the factors mentioned above would offset to a considerable degree the total dollars that would be paid in unemployment taxes. Both farm employers and farmworkers can make the system work to their mutual advantage, benefiting the whole community.

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