

# Farm Talk

Jerry Webb

BY JERRY WEBB

There is a strong feeling among some farm management experts that many farmers are going broke. And worse than that, they don't even know it.

Obviously, farmers have had some good years and some bad ones over the past decade, and maybe they think on the average they've done all right. But some of the financial wizards of agriculture are urging farmers to take a closer look at their financial situation and decide whether they're really making it in farming or just living off of the inflated value of their farmland.

Mike Kelsey, a Michigan State University economist, is one of those experts who believes farmers are borrowing money on highly inflated land and aren't really seeing that their earnings aren't keeping up.

Kelsey sees a lot of farmers that he describes as being "mortgaged to the hilt and on the brink of bankruptcy." In this opinion, those rising land values are all that are keeping them afloat.

When you look at some average figures for farming enterprises, it's easy to see why some farmers aren't getting ahead. A summary of farm management

records from several midwestern states gives an indication of profitability in many farm enterprises. And the picture this analysis paints is pretty grim, especially when you consider that these record-keepers for the most part are better-than-average farmers.

They're being supplied with valuable analytical data that lots of farmers don't even bother with. In other words, they know how well they're doing on a year-to-year basis.

Here are some examples of their returns. Corn farmers in the study made money seven out of ten years with an average income, or profit if you prefer that term, of 29 cents a bushel. In 1970 they lost 15 cents a bushel; in 1975 they made a dollar.

But on the average they at least showed a profit, and they had more good years than bad ones.

Beef men, on the other hand, lost an average of slightly more than a dollar a hundred over the 10-year period, with minus income figures five out of ten years. Their returns ranged from a high of \$16 a hundred in 1978, to a low of minus \$24 in 1974.

While beef men were losing their shirts most years, hog producers lost

money only three out of the ten years, and showed an average profit of \$4.11 a hundred.

The midwestern records show that soybeans truly are the magic crop. Growers made money every year from as little as three cents a bushel in 1970, to \$3 12 in 1973.

Without careful record keeping and detailed analysis, chances are a farmer might not even know he's losing money.

Some enterprises do well each year and his revolving operating account is still in the black, and so he assumes he is doing all right. But Kelsey thinks farmers should monitor the situation more closely by putting together an operating statement to evaluate each year's profitability.

They need a monthly cash flow statement to determine exactly how much money is coming in and how much is going out and where it comes from and where it goes.

He also thinks farmers should have a net worth statement to reveal whether the business is really making progress from year to year.

The Michigan State economist believes that if a farmer can't see an annual three or four percent increase in earned net worth, that means excluding increases in land values, then he should consider getting out of the farming business.

A five-year look at net worth should show a farmer whether his business is making progress, holding its own, or actually losing ground. But that net worth must be arrived at without benefit of increasing land values.

So first off, that must be subtracted out. Then it's a simple matter of adding up everything the business owes and subtracting it from everything the business owns.

Kelsey admits a farmer who is using rising land values as a source of capital may be living quite well and give the illusion of success. But, in truth, he's not really making it as a farmer.

If that's not important and his land values will keep him afloat long enough, then don't worry about it. Or, if he's a land speculator who buys and sells farmland and simply farms it as he has time, then his main interest isn't farming and it really doesn't matter how profitable that part of the business is.

Some farmers who have inherited land or acquired it through some other non-paying means have used that land to get started in business. It's like money in the bank. But after a while they need to look back to see what they've done with that bank account.

If they're living on the spiraling land values and their ability to borrow against that, then their eventual failure seems inevitable. But if they're making solid progress in accumulating capital and are earning more than they spend, perhaps they're off and running in a difficult business that requires good managers, accurate records, and whatever toehold a farmer can gain.

There's nothing wrong with using land to get started. The difficulty comes when it hides other shortcomings and creates an illusion of success.

## Schuylkill sets potato program

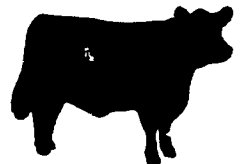
RINGTOWN — The Schuylkill County Potato and Vegetable meeting will be held on Monday, February 18, 1980 from 10 a.m. to 3 p.m. at the Ringtown Banquet Hall, Ringtown.

Richard Cole, Peter Ferretti and Robert Tetrault, extension specialist from the Penn State, growers and agriculture industry people will present the program.

Topics to be covered will include: soil management, potato and vegetable insects, varieties, blightcasting and what's the future of the potato industry.

All vegetable and potato growers are welcome to attend this meeting sponsored by the Schuylkill County Cooperative Extension Service.

If you'd like further information contact Dale D. Moyer, County Agent - Agriculture, P.O. Box 250, Schuylkill Haven, Pa. 17972, 717-385-3431.



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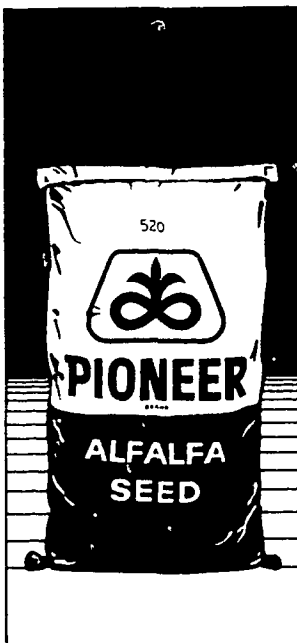
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