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CHAPTER 5

Financial Assets of Farmers

BESIDES the physical assets used in farming, farmers own various types of property, including nonfarm real estate and a miscellaneous lot generally bracketed together and known as "financial assets." Among these the more prominent types are currency, bank deposits, surrender value of life insurance, government bonds, and investments in cooperatives (Table 10). Such assets are accumulated and held by farmers for a variety of purposes; hence the holdings represent provision for widely different needs, not all of which, as we shall see, are essential to, or even associated with, the operation of a farm.

Financial assets of farmers may be separated into three fairly well defined classes (Table 11). The first consists of assets that are obviously necessary to farm operation. Currency holdings and demand deposits in banks fall naturally into this class. They are needed to meet current operating expenses and current expenses of the farm home, and they are likely to vary in amount somewhat in the manner of these demands for them. A second class consists of assets that farmers hold as reserves of one kind or another and as a source of off-farm income. Probably the most prominent item in this class today is government bonds, but time deposits as well as the surrender value of life insurance and other reserves also belong in this category. The third class consists of holdings of shares in farmers' cooperatives. These warrant separate classification, as they represent investments in special types of business—not farming, although they are closely identified with it—and they often exercise considerable influence on farm income. The cooperative enterprises in which farmers have invested in largest numbers are concerned with the marketing and processing of farm products, the provision of public utility services, and even with financing farm operations and facilities. These cooperatives are engaged in economic activities usually identified with nonfarm sectors of the national economy rather than with agriculture, even though their members are mainly farmers.

As is true of most classifications, the distinction among the groups is not clear-cut in every particular. Government bonds and time deposits rival demand deposits in liquidity; dividends on the shares of many cooperatives compare favorably with returns from time deposits and bonds. Despite such overlapping, the distinction is real enough so that there is little difficulty in singling out those that generally

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TABLE 10
Financial Assets of Farmers, Selected Years, 1900-1950
(millions of dollars)

YEAR	TOTAL FINANCIAL ASSETS (1)	CURRENCY (2)	BANK DEPOSITS DEMAND (3)	TIME (4)	LIFE INSURANCE RESERVES (5)	UNITED STATES BONDS (6)	EQUITY IN COOPERA- TIVES (7)	MORTGAGE DEBT HELD BY FARMERS (8)	EQUITY IN VETERANS' FUNDS (9)
1900	1,058	358		331	157		75	137	
1905	1,495	395		608	231		107	154	
1910	2,055	448		968	330		140	169	
1915	2,518	402		1,211	455		200	250	
1920	7,466	934		2,876	647	1,900	320	789	
1925	5,810	678	1,400	1,600	947	150	470	540	25
1930	6,036	608	1,300	1,700	1,420	0	600	318	90
1935	5,442	772	1,000	1,100	1,707	0	640	186	37
1940	7,509	1,000	1,500	1,400	2,296	249	826	145	93
1945	18,679	3,300	5,000	2,300	3,064	3,400	1,200	120	295
1950	25,360	3,300	6,800	3,200	4,112	4,800	2,100	149	899

Column
2, 5-9

Source

From Raymond W. Goldsmith, *A Study of Savings in the United States, 1897-1949* (Princeton University Press 1954) except data in cols. 2, 6, and 7 for the years 1945 and 1950, which are from *Balance Sheet of Agriculture*, Dept. of Agriculture, 1953.

For 1900-20 same source as col. 2; for 1925-35, from *Impact of the War on the Financial Structure of Agriculture*, Dept. of Agriculture, 1945, Table 22; for 1940-50 from *Balance Sheet of Agriculture*, 1953, Table 12.

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TABLE 11
Percentage of Total Financial Assets Held by Farmers for Specified Purposes,
United States, Selected Years, 1900-1950
(dollars in millions)

YEAR	TOTAL FINANCIAL ASSETS	CASH WORKING BALANCES ^a		INVESTMENT IN COOPERATIVES		MISCELLANEOUS RESERVES ^b	
		Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage of Total
1900	\$ 1,058	\$ 524	49.5	\$ 75	7.1	\$ 459	43.4
1905	1,495	699	46.7	107	7.2	689	46.1
1910	2,055	932	45.4	140	6.8	983	47.8
1915	2,518	1,008	40.0	200	8.0	1,310	52.0
1920	7,466	2,372	31.8	320	4.3	4,774	63.9
1925	5,810	2,078	35.8	470	8.1	3,262	56.1
1930	6,036	1,908	31.6	600	9.9	3,528	58.5
1935	5,442	1,772	32.6	640	11.7	3,030	55.7
1940	7,509	2,500	33.3	826	11.0	4,183	55.7
1945	18,679	5,445	29.2	1,200	6.4	12,034	64.4
1950	25,360	7,883	31.1	2,100	8.3	15,377	60.6

^a Includes currency holdings and demand deposits. For 1945 and 1950 amounts adjusted (see text page 78) for probable excess. Demand deposits for 1900-20 are one-half of total deposits shown in Table 10. This rough allocation is suggested by tentative estimates for 1924 and immediately ensuing years published in *Impact of the War on the Financial Structure of Agriculture*, Dept. of Agriculture, 1945, Table 22.

^b Includes time deposits, which for 1900-20 are assumed to be one-half of total deposits (see footnote a); United States bonds; mortgage debt held by farmers; life insurance reserves; equity in veterans' funds; and, for 1945 and 1950, \$2,855 and \$2,217 million respectively transferred from currency and deposit holdings.

Source: Table 10.

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are considered by farmers themselves as essential to the operation of farms and those that are held for other purposes.

Financial Assets Necessary for Farm Operation

Currency and demand deposits held by farmers generally represent working balances necessary to carry on the farming business and to take care of current family needs. In part, of course, they also include balances not needed by their owners for these purposes. A considerable part of the demand deposit and currency holdings of farmers in 1945 and 1950 probably was not needed to meet operating expenses, but was retained because farmers had not yet found suitable investments for the excess either in physical assets used in farming or in other income-producing property. What part of the balances was surplus may be roughly estimated (Table 12) by

TABLE 12

Relation of Currency and Bank Deposits Owned by Farmers on January 1,
to Current Farm Operating Expenses, United States, 1936-1940^a

(dollars in millions)

Year	Currency and Demand Deposits (1)	Current Farm Operating Expenses (2)	Column 1 as a Percentage of Column 2 (3)
1936	\$2,042	\$3,408	59.92
1937	2,304	3,856	59.75
1939	2,298	3,904	58.86
1940	2,500	4,367	57.25

^a The year 1938 was omitted from this five-year span because it seems probable that farmers had larger working balances than they needed in that year. The relevant figures for 1938 are: currency and demand deposits, \$2,326 million, farm operating expenses \$3,630 million.

Column

Source

- 1 The sum of currency holdings from Raymond W. Goldsmith, *A Study of Savings in the United States 1897-1949*, Princeton University Press, 1954, plus demand deposits from *Impact of the War on the Financial Structure of Agriculture*, Dept. of Agriculture, 1945, Table 22, p. 69.
- 2 From *The Farm Income Situation*, BAE, August-September 1952, Table 14, p. 40.

relating the balances in years when no excess is likely (1936-37, 1939-40) to current operating expenses, and applying the average percentage (58.95) to the current operating expenses of 1945 and 1950; which were estimated by the Bureau of Agricultural Economics at \$9,237 and \$3,372 million respectively. These calculations yield amounts that may be regarded as necessary holdings for

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current spending, and the difference between these amounts and the actual cash balances may be regarded as surplus. On this basis it appears that some \$2,855 million of farmers' holdings of currency and demand deposits were not required for current operating purposes in 1945 and that some \$2,217 million were not needed in 1950. Hence, in relating the cash holdings to the entire capital used in farming, the balances for 1945 and 1950 were respectively reduced by these amounts which, because of their nature, were included with miscellaneous reserves.¹

The proportion of total assets used in farm operations held in the form of currency and demand deposits increased decisively and with high consistency during the five decades for which estimates are available (Table 13). The upward trend has persisted through major

TABLE 13
Percentage of Total Assets Used in Farming Held for Current
Spending, United States, Census Years, 1900-1950
(dollars in millions)

<i>Year</i>	<i>Currency and Demand Deposits</i>	<i>Physical Assets plus Currency and Demand Deposits</i>	<i>Percentage Held for Current Spending</i>
1900	\$ 524	\$ 22,290	2.4
1910	932	44,225	2.1
1920	2,372	86,218	2.8
1925	2,078	62,789	3.3
1930	1,908	62,402	3.1
1935	1,772	42,164	4.2
1940	2,500	46,382	5.4
1945	5,445 ^a	80,137	6.8
1950	7,883 ^a	114,860	6.9

^a Adjusted.

Source: Based on Tables 7, 11, and 12.

changes in the prosperity of farm operations and through wide movements of prices of farm assets as well as of products. Thus the trend seems to be influenced by forces that are more basic than changes in prices and profits. Chief among these is the steady increase in specialization. Increasingly, farmers have become dependent on other sectors, and on other units in the farm sector, for their supplies. The

¹ A similar examination of the 1920 balance, which was suspected of containing some excess holdings because of high farm income in the World War I period, showed no surplus. Two factors may have been responsible for this. Unlike the situation in World War II, goods wanted by farmers were usually available during World War I. Also the social pressure to buy bonds was considerably greater during the first conflict than in the 1940's.

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progressive adoption of mechanical power has made farmers dependent on the petroleum industry for the "fuel" that they once provided by raising hay and grain for their work animals. Similarly, increased use of commercial feeds and fertilizers has made farmers more dependent on other sectors for items once produced largely at home, just as the increasing use by farm families of food obtained from sources off the farm has done.

That the increase in specialization created a need for larger cash operating balances with which farmers could acquire the greatly expanded volume of physical goods used in production is clearly revealed by comparisons of price and expenditure data published by BAE. Although the index of prices paid by farmers for commodities bought for use in production was only 26 per cent higher in 1950 than in 1920, current operating expenses, excluding hired labor, were estimated to be 176 per cent higher. The price index and the current operating expenses do not cover identical items, but the variation in coverage is not sufficient greatly to impair the comparison, which reveals a sharp increase in the physical volume of goods purchased for use in production. The large increase in the physical volume of goods purchased by farmers may be further illustrated by reference to price and expenditure changes of particular items. The index of prices paid for feed was about the same in 1920 and 1950, namely 208 and 210 (1910-14 = 100), but the amount spent by farmers for feed is estimated to have been 172 per cent greater in the latter year. The index of prices paid for motor supplies is only 15 per cent higher for 1950 than for 1924, the first year for which the index is available, yet the expenses of operation of motor vehicles is estimated to have been 523 per cent higher in 1950 than in 1924. The comprehensive estimates by Atkinson and Jones indicate that the constant-price value of intermediate products (fertilizer, [purchased] feed, motor fuel, etc.) purchased by farmers for use in farm operation has risen twice as fast as the gross value of farm output since 1910.² The ratio of intermediate products other than rents to the gross value of farm output (other than rental value of farm homes), both in current prices, moved as follows: 1910, 16 per cent; 1920, 21 per cent; 1930, 25 per cent; 1940, 31 per cent; and 1950, 32 per cent.

² L. Jay Atkinson and Carl Jones, "Farm Income and Gross National Product," *Survey of Current Business*, Dept. of Commerce, August 1954, Table 1, pp. 22-23.

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Miscellaneous Reserves

This group of financial assets—the largest in the present classification—is composed of time deposits, United States bonds, life insurance reserves, equities in veterans' funds, farm mortgages, and for 1945 and 1950 it includes also demand deposits and currency that appear to be in excess of the operating needs of those years. If estimates were available, this class would also include farmers' holdings of corporate and municipal securities. Though differing widely in some respects, the items that make up this miscellaneous group have this in common: they represent accumulations that are held either for the income that they provide from nonfarm (or at least from other farm) sources, and/or they are held mainly as reserves for one purpose or another. They may have been accumulated as reserves to replace machinery or buildings, to maintain level life insurance premiums, or as a source from which to supplement or to replace current income if it became insufficient for current needs.

The foregoing list of purposes for which miscellaneous reserves are accumulated, though incomplete, is sufficient to show that here we are dealing with accumulations that are neither "business assets" in a strict sense nor assets that are entirely identified with nonbusiness uses. Probably for the most part accumulation of these reserves has been inspired by considerations not concerned directly with the business needs of farmers. Hence in this study these miscellaneous financial reserves are regarded not as capital used in farming, but as a convenient source which, along with income and credit, may provide additions to capital that is actively employed in farming.

The amounts accumulated in life insurance reserves and veterans' funds show a remarkably steady growth regardless of the volume or trend of net farm income. These reserves are perhaps rarely thought of as accumulations which might be withdrawn, or even as a part of farmers' assets. In a sense they are a by-product of the purchase of life insurance—a transaction that usually recommends itself for reasons other than that savings may accumulate for the benefit of the insured. Their steady growth even through years of depression indicates the importance that farmers attach to keeping their life insurance in force.

On the other hand, the volume of holdings of United States bonds seems to have been highly responsive to changes in the level of net farm income. The accumulation of bonds worth nearly \$2 billion occurred in the three or four years preceding 1920, when net farm income was extraordinarily high. Most of these holdings disappeared

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as quickly as they grew when unfavorable price relations developed in the early 1920's and net farm income fell. In the prosperous 1940's farmers' holdings of these bonds again quickly expanded. At the beginning of 1950 they amounted to \$4.8 billion, or 2.7 times the former peak value reached in 1920. By 1955 the value of such bonds held by farmers had mounted to \$5.4 billion.

The rapid expansion of the volume of bonds held by farmers during World War I and again during the 1940's reflects not only the expansion of net farm income, but also the selling efforts of the United States Treasury and farmers' reaction to national crises. In the absence of a large volume of new bonds issued to finance the federal government in these national emergencies, offered persuasively by the Treasury, there is no doubt that other assets held by farmers would have grown much more than they did, and government bonds much less, if at all. The circumstances under which the bonds were purchased may go far to explain why in the 1920's bond holdings were reduced while other reserves were augmented.

The volume of time deposits owned by farmers has responded more readily to pronounced changes in the level of net farm income than life insurance reserves, but far less readily than the farmers' holdings of United States bonds. Like life insurance reserves, time deposits continued to grow throughout the 1920's even though agriculture was not generally prosperous and bonds appear to have been generally liquidated. But when the depression in agriculture deepened in the early 1930's time deposits declined rapidly in contrast to the steady growth of life insurance reserves.

Equities in Farm Cooperatives

As already indicated, the equities in farm cooperatives for which we have estimates represent investments of capital on the part of farmers in auxiliary businesses that are usually identified with non-farm sectors of the national economy. Farmers invest in cooperatives mainly to gain membership in the associations and to participate in whatever benefits accrue from the cooperative efforts to buy supplies and services, sell products, or finance facilities or operations. The equities included in our estimates are those of marketing and purchasing associations; of farmers' mutual telephone, irrigation, and fire insurance companies; rural electrification cooperatives; and the federal land bank and production credit systems.

In view of the rough nature of the estimates, particularly before 1940, the analysis is limited to a few observations. It is safe to conclude that farmer-held equities in cooperatives were a minor item

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throughout the entire period—even among the financial assets. Hence their acquisition or retention has not greatly affected the financing of agriculture. Second, the experience of the 1920's and the 1930's makes it appear that these equities are not easily reduced by depression. Third, there is no convincing evidence of a secular change in the proportion that this investment was of total financial assets. In 1950 the farmer-owned investment in cooperatives was little more than one-sixth of the amount held liquid for current purchasing needs. There is little in the estimates or in discernible relevant developments to suggest a radical departure from this relation in the foreseeable future.