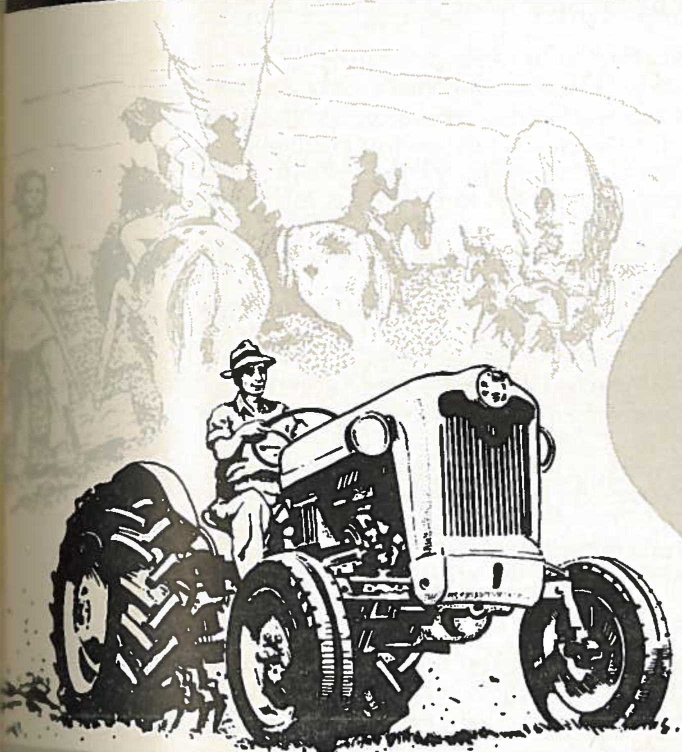
Station Bulletin 428
April 1955

starting FARMING today . . . can it be done what does it take



George A. Pond
Henning W. Swan
William L. Cavert

Agricultural Experiment Station
UNIVERSITY OF MINNESOTA

CONTENTS

Submitted December 1, 1954

7,500—3-55

Starting Farming Today

Can it be done? *What does it take?*

G. A. POND,[1] H. W. SWANSON,[1] AND W. L. CAVERT[2]

Starting Farming Was Never Easy

STARTING FARMING was never easy. It is not easy today. Obtaining the capital to start farming and especially acquiring ownership of a farm may seem to many a young couple today an almost unattainable goal. Perhaps such young people would do well to question their fathers or grandfathers or some elderly farmer in their neighborhood as to just how they got their start.

Getting a farm was no easy proposition for the pioneer homesteader who acquired 160 acres for a small filing fee and then journeyed by horse and wagon or perhaps by ox cart some 40 to 60 miles from the railroad or river port. Certainly the prospect did not appear rosy as he struggled on in the face of summer heat, winter blizzards, drouth, and grasshoppers. Prairie or forest fires that endanged not only his property but the lives of himself and his family were just another of the perils he faced. The life of the starting farmer was no "bed of roses" in those days.

A Rising Price Level Favors the Starting Farmer

With the passing of time some of the hazards that the pioneer farmer faced have disappeared, but new ones have arisen. As one looks back it is apparent that there were certain periods when the opportunities for a successful start in farming were far brighter than were others.

The late 1930's and early 1940's was one of these periods. The backward look makes it clear that the steadily rising price level made it an opportune time to go in debt for a good farm, but this was not so apparent to the young farmer who was considering the purchase of a farm in 1940.

From 1940 to 1950 the acreage of land owned by the operators in Minnesota increased by nearly one-third. This may be accounted for in part by the fact that a number of farmers who had lost their farms through foreclosure or quit claim deed in the 1930's were able to buy them back as the result of favorable incomes in the 1940's. These more favorable incomes in the 1940's enabled many tenants to achieve farm ownership.

During this same period the average size of farm increased 11 per cent. This influx of new owners was, on the average, composed of younger men. In 1950, 45.6 per cent of the owners were

[1] Department of Agricultural Economics, Institute of Agriculture, University of Minnesota.

[2] St. Paul Farm Credit District. This study was made in cooperation with the Farm Credit Administration.

under 45 as compared with 43.0 per cent in 1940. Few young men who began farming during this period did so with any definite expectation of a rising price level that would enhance their chances of a successful start, and today the beginner is in the same situation. An approximate forecast of the price level for the next 5 or 10 years is still not available.

New Techniques Increase Capital Needs

There have been rapid and radical changes in farm techniques in recent years. These include a revolutionary mechanization of farms and a bewildering array of new applications of science to crop and livestock production. The day when a young man could start farming with a wagon, a plow, and a team of horses has gone forever. Mechanical power and mechanized equipment have not only vastly increased the investment the farmer must have but also have tended to give a marked advantage to the larger farm in order to permit this power and equipment to be used most effectively.

Although more credit has been available to farmers in recent years, from more sources, and at more favorable terms, getting capital is still a major hurdle for the beginning farmer to surmount.

More Technical Knowledge and Skills Required

Perhaps an even more important asset for the beginning farmer today is "know how." To use mechanical power and equipment effectively and more especially to utilize all the new techniques in crop and livestock production he must possess a wealth of skills and knowledge of which the farmer of a quarter century ago never even dreamed. With increasing size of farm we need fewer beginning farmers, but these must have far more knowledge and skill than the farming of the past required.

It is highly important that the young farmer keep abreast of new developments in agricultural techniques by attending short courses and extension meetings, reading farm papers and agricultural bulletins, and keeping in touch with what good farmers in his community are doing. If he has had the advantage of a vocational agricultural course in high school or of the G.I. farm training course, he is likely to find it much easier to keep abreast of current developments.

It seems reasonable to expect that in the future an increasing proportion of our beginning farmers will have the advantage of vocational training in our colleges and schools of agriculture. The technical knowledge gained in this way, together with the cardinal virtues of honesty, industry, and frugality, may be more important in opening the door of opportunity to the young man wishing to start farming today than the possession of capital. If he has these essentials it is frequently possible for him to find an individual with the necessary capital who will be willing to finance his operations on some kind of a rental or partnership basis.

Fewer Farmers Needed Today

In appraising the opportunities for the starting farmer today we must face the fact that we need fewer starting farmers today than formerly. The average size of farm in Minnesota increased from 160 acres in 1925 to 184 acres in 1950. Land in farms increased only 9 per cent so that we have 5 per cent fewer farmers today than we had 25 years ago.

The United States census of 1950 reported that 2.1 million farms or 39 per cent of the total farms in the United

States supplied approximately 80 per cent of the products sold from farms. These 2.1 million farmers included all that reported gross sales of $2,500 or more. However, since in most areas cash expenses are 50 per cent or more of gross sales it may be reasonable to assume that gross sales of $5,000 would be necessary to attract an industrious, capable young man. If we consider only farms with gross sales of farm products totaling at least $5,000 or more, only 1.2 million farms or 22 per cent of the census total come within this classification. They produced 73.5 per cent of all products sold from farms in this country.

Thus mechanization and new techniques have reduced sharply the number of farmers needed to man our farms and also the number of starting farmers we need each year. Not only has the number of farm operators decreased, but since the years 1935 to 1939, the number of family workers on farms has decreased 27.3 per cent and the number of hired workers 32.5 per cent. The typical farm today is still a family farm but is larger in acres and involves a much larger investment, especially in machinery, power, and livestock. It is more commercialized and the opportunities both for profit and loss have increased. Greater management skills are required to operate commercial farms today than ever before.

Sources of Information

The data upon which this study is based were obtained from two sources. The first and third parts are based on a survey covering the experiences of a group of young men who have started farming largely during the past five or six years. The second part is based on the replies from established farmers to a questionnaire on the capital needs and the personal qualifications required for a successful start in farming today.

Part I. The Experiences of Beginning Farmers

THE STUDY of beginning farmers covered 350[3] young men who started farming between 1948 and 1953. These included 246 men who were receiving vocational on-farm training under the G.I. Bill of Rights and 104 who were starting "on their own" without the vocational training and the subsistence payments received by the veterans. Information on the veterans was obtained in part from their farm account records kept as a part of their training and in part from a group survey and a personal interview in the classroom. The nonveterans were visited individually on their farms and the information obtained by the survey method.

Some information covering the age, schooling, experience, and marital status of these men is shown in table 1. Their geographic location in the state is indicated in figure 1. Dairy and hog farming predominate in the eastern part of this area and corn and meat production in the western part.

[3] Only 317 records were sufficiently complete to be used in all tabulations. It is recognized that the method of selecting the beginning farmers would not meet all the tests for a random sample from southern Minnesota and that the situation might be different in portions of the state not included in the sample.

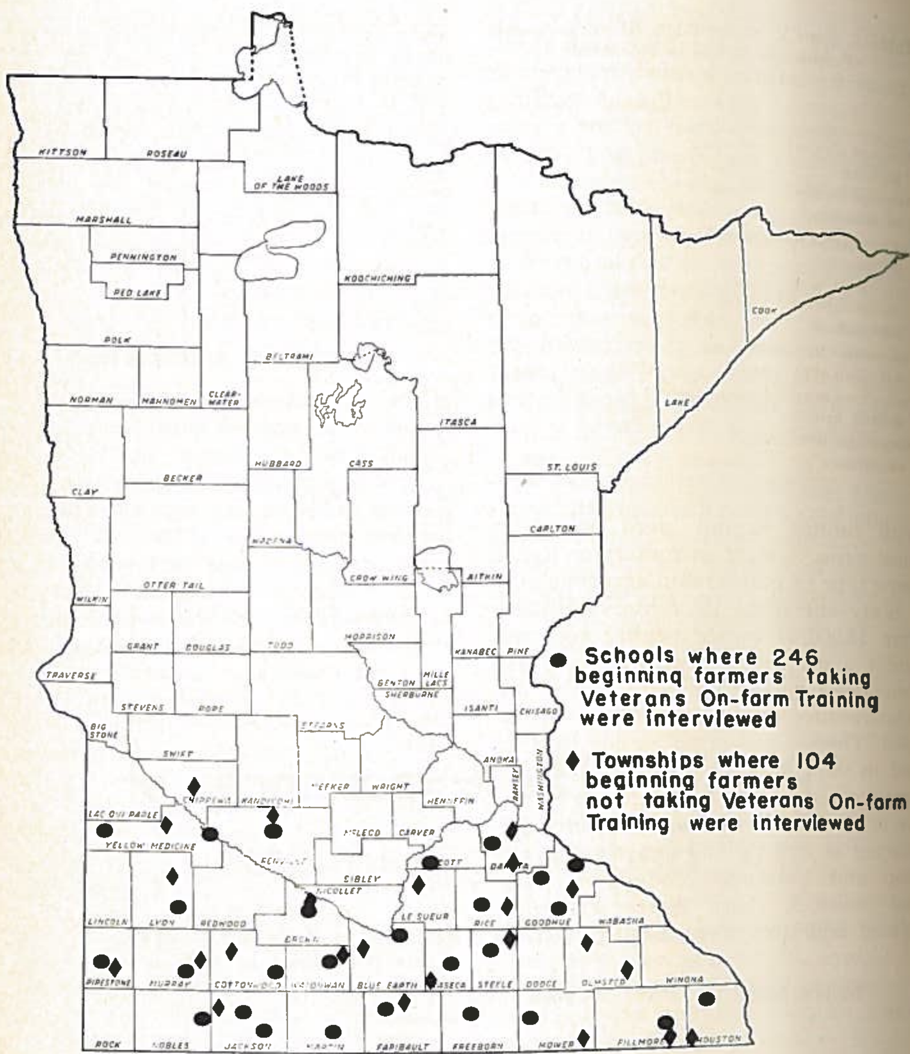


Fig. 1. Location of schools and townships where data were collected.

Amount of Initial Capital Owned

The average amount of capital owned by the 317 beginning farmers for whom this information is available was $4,700 when they started as farm operators. It varied from nothing to more than $40,000. Ten veterans had no net worth at all at the start and one nonveteran had debts more than $700 in excess of the value of his assets. More than half of them owned less than $3,000 in net assets. Their initial net worth by types of tenure is shown in table 2.

As might be expected most of those starting as owner-operators had more than average capital resources. Those with limited capital were forced in most cases to start as renters or under some type of partnership agreements.

Sixty-one of the 151 renters with less than $3,000 of owned capital operated under a crop and livestock share arrangement with relatives whereby the relative furnished most of the capital used. These were often rather flexible and in some cases, somewhat indefinite arrangements. The agreements were for the most part oral and provided for sharing of income and expense in both crop and livestock production. Crop and livestock share leases with unrelated landlords were usually written and in general followed the usual terms prevailing for such leases in the neighborhood.

Less than one in four of these beginning farmers had crop share–cash leases when they started and only 12 per cent rented for cash.

Less than 20 per cent of these men started as owner-operators. Three methods were used to achieve ownership with the limited capital available. Some bought low priced farms that could be purchased with a small down payment. Others acquired their parents' farm by assuming any debt already on it and giving the parents a note for the price agreed on. Still others acquired farms with a small down payment under a contract for deed.

Table 1. Some Pertinent Facts About Beginning Farmers Included in This Study

	Veterans	Non-veterans
Average age when starting farming	29.0	25.7
Average number of years of schooling	9.9	11.0
Percentage of high school graduates	36	59
Percentage with vocational agriculture training in high school	27	34
Percentage that had been 4-H Club members	33	62
Percentage married when they started farming	90	67
Percentage with farm experience	99	99

Sources of Initial Capital Owned

Capital owned by these beginning farmers when they started to farm was obtained from a variety of sources (table 3). Some was obtained from wages or a share in the earnings of the home farm in earlier years or from FFA or 4-H Club projects. This was a minor source of income for the veterans, but highly important for the nonveterans. This work on the home farm

Table 2. Initial Net Worth and Type of Tenure of 317 Beginning Farmers, 1949-52

Initial net worth	Types of tenure *					
				Crop and livestock share renter		
	Owner-operator	Cash renter	Crop share–cash renter	Nonrelated landlord	Related landlord	Total cases
Less than $3,000	10	24	39	27	61	161
$3,000-8,000	17	9	33	11	34	104
Over $8,000	32	5	3	1	11	52
Total	59	38	75	39	106	317

* Of the 59 owner-operators, 39 owned all of the land they operated and 20 only a part of it. The cash renters paid cash rent for all of the land they operated. Crop share–cash renters gave the landlord a share of the grain crops but paid cash rent for pasture or hayland. The crop and livestock share renters shared both crops and livestock production with the landlord. The landlords furnished all or part of the livestock and in some cases of the machinery as well. Most of the crop and livestock share leases were father-son operating agreements, although in some cases the senior partner was a relative other than a father.

Table 3. Principal Sources of Initial Funds as Indicated by Frequency of Report as Most Important Source of Capital

Source	Percentage of men reporting source as most important: Veterans	Nonveterans
Earned from farm work	17	68
Earned from nonfarm work	30	21
Saved while in military service	25	....
On hand before entering military service	9	....
Bonuses, disability payments, insurance, etc.	5	....
Wife's contribution	5	2
Inheritance	5	1
Gifts	2	7
Earned from investments	....	1
Other	2	....
Total	100	100

was the source of valuable experience as well as of capital accumulations.

For the veteran whose farm experience was interrupted by military service, nonfarm sources were more important. Many of these did not return directly to the farm or experienced a delay in obtaining a farm to operate and hence accumulated a larger proportion of their starting capital from nonfarm sources.

The subsistence payments received by veteran trainees was an important source of current income once they started to farm. During the 2½ years covered by this study it amounted to $2,328 per man. This steady monthly income took care of operating and living expenses for most of these men and in some cases provided operating capital. Indirectly it was a valuable asset in that it enabled them to get more favorable terms from their landlords or creditors than might otherwise have been possible.

Men starting as partners in a going farm business which was already on a producing basis needed less initial capital of their own. Many of these beginning farmers worked off the farm to provide investment and working capital. The average annual income from this outside work was $480 for the men doing outside work.

Material assistance from relatives helped many of these men to get started. A few cows or a piece of machinery donated by a father or father-in-law was often a very material help. In 10 per cent of the cases the wives of these beginning farmers contributed capital that they had accumulated prior to marriage. A number of men reported that special concession in the way of low rents, free board and room at home, and assistance with farm work—especially at rush periods—was a type of assistance from relatives that made it possible to start with limited capital.

The common practice of exchanging labor for the use of a neighbor's machinery made it possible to keep down the machinery investment. Others did this by rental or custom use of machinery. After farming an average of 2½ years, these men had an average machinery investment of $3,910.

Sources of Total Capital Used

Approximately 90 per cent of the men included in this study at the start of 1953 were using borrowed money. Their average debt was $4,957 and the average value of their assets was $15,099. Forty-six per cent of these men were borrowing from relatives. Much of the capital used by beginning farmers is real estate owned by the landlord. A breakdown of the capital used by 357 beginning farmers covered by another study in southeastern Minnesota[4] is shown in table 4 by ownership of capital and by kind of tenure. This study covered veterans who were starting farming and included 137 owner-operators, 144 cash renters, 149 crop share–cash renters, and 177 crop and livestock share renters.

[4] Stanton, B. F., and Nodland, T. R. "How Much Capital Is Needed to Start Farming" *Minnesota Farm Business Notes*, No. 347, May 1953.

Table 4. Percentage Distribution of Capital Used by Beginning Farmers, 1947-51

Source of capital	Owner-operators	Cash renters	Crop share–cash renters	Crop and livestock share renters
	per cent			
Borrowed	49	7	9	9
Owned by landlord	....	64	70	79
Owned by operator	51	29	21	12
Total	100	100	100	100

Problems Encountered

Apparently the beginning farmer who had less capital to start with was able to offset this disadvantage by spending less freely and making more sacrifices in order to bring his net worth up to a safer level. Of the 317 men for whom the information is available, those with an initial net worth of less than $3,000 effected an annual increase in net worth of $1,225, those with an initial net worth of $3,000 to $8,000, an annual increase of $1,305, and those with over $8,000, an annual increase of $1,137.

Some of those with low initial net worth may have had superior managerial ability or perhaps more favorable rental opportunities. There is, however, no evidence available to bear out this assumption. Forced economies in farm spending and family living during the first years contributed not only to increased net worth but to the formation of conservative spending habits.

In computing annual increases in net worth, the value of any assistance received from relatives, government subsistence, and employment off the farm has been deducted from the change in net worth. The gain in net worth as shown is therefore that portion accruing from current farm operation.

Many of these men, although they were able to start with limited funds, and in most cases have made marked progress, did encounter certain difficulties. These are listed in table 5. Lack of capital was most often mentioned, and difficulty in locating a farm was second in frequency of report.

One difficulty leads to another. The man with limited capital has difficulty in renting a farm since landlords prefer a tenant with ample livestock and machinery. Many were able to command the use of a farm only because they "took over" the home farm. With their limited capital renting on a purely commercial basis was out of the question.

The reader perhaps should be reminded at this point that the men included in this report had succeeded in acquiring a farm to operate. No infor-

Table 5. Frequency with Which Certain Difficulties Encountered Were Reported by 212 Beginning Farmers

Difficulties encountered	Per cent reporting this difficulty as most important
Lack of available capital or credit	35
Obtaining a farm to operate	28
Obtaining livestock, machinery, and equipment	13
Uncertainty as to future prices	9
Lack of sufficient experience or information	8
Risk of loss from weather, disease, insects, etc.	4
Other	3
Total	100

Table 6. Sources of Credit Used by 268 Beginning Farmers in Southern Minnesota, January 1, 1953

Source of funds	Real estate credit: Number reporting	Real estate credit: Average amount per farmer reporting	Nonreal estate credit: Number reporting	Nonreal estate credit: Average amount per farmer reporting
Individuals, mostly relatives	185	$10,839	102	$2,655
Insurance companies	38	8,083	—	—
Commercial banks	24	2,972	70	1,732
Federal Land Bank	19	5,772	—	—
Farmers Home Administration	—	—	51	3,295
Commodity Credit Corporation	—	—	16	1,243
Production Credit Association	—	—	5	4,130
Conditional sales contracts	—	—	5	647
Merchant accounts	—	—	14	518
Other	2	1,500	5	1,476
Total	268	—	268	—

mation is available as to the difficulties encountered by other young men who had failed to achieve the goal of farm operation because some of the difficulties mentioned barred the way. Also any who started as beginning farmers but dropped out because of failure to make satisfactory progress were not covered by this study.

Sources of Credit Used

Individuals, for the most part relatives, were the primary source of credit used by the beginning farmers covered by this study. They provided 69 per cent of the funds for real estate loans and 38 per cent for nonreal estate loans (table 6).

Although less than 20 per cent of these beginning farmers started as owners, 40 per cent of the total indebtedness of these 268 men was covered by real estate mortgages, 32 per cent by chattel mortgages, 24 per cent by unsecured notes, 1 per cent by conditional sales contracts, and 3 per cent represented merchant accounts. The sources of secured nonreal estate credit used by these men are shown in table 7. Commercial banks and the Farmers Home Administration furnished most of this type of credit.

The majority of the beginning farmers included in this study increased their borrowings from the time they started farming up to the date of this study. The percentage of debt-free farmers decreased from 27 to 9 during this period. Fifty-eight per cent increased their total debt, 11 per cent showed no change, and 31 per cent reported a decrease. The data do not indicate how many of those who increased their debts did so because increased assets permitted them to command additional credit, but the general increase in net worth suggests that this may have been a frequent explanation of the increased use of credit.

Table 7. Sources of Secured Nonreal Estate Credit on January 1, 1953 of 268 Beginning Farmers in Southern Minnesota

Source of funds	Per cent of total amount borrowed	Average size of loans
Commercial banks	41	$2,116
Farmers Home Administration	36	3,523
Commodity Credit Corporation	11	1,243
Individual	6	2,170
Production Credit Association	4	4,130
Other	2	2,502
Average	—	$2,329

Table 8. Interest Rates on Bank Loans to Beginning Farmers in Southeastern Minnesota and on All Farm Production Loans Made by Representative Banks in the Area

	Percentage reporting each interest rate: 4 per cent	5 per cent	6 per cent	7 per cent	8 per cent
Beginning farmers	5	7	74	14	0
Representative banks, All production loans	0	2	57	31	10

Table 9. Percentage of Farm Production Loans at Specified Rates to Veterans and Nonveterans Starting Farming and to All Borrowers of Representative Commercial Banks in Southern Minnesota

Interest rate	Loans to beginning farmers: Veterans	Loans to beginning farmers: Nonveterans	All farmer borrowers of representative banks *
4 per cent	5	2	0
5 per cent	10	4	6
6 per cent	65	55	53
7 per cent	19	31	35
8 per cent	1	8	6

* Dahl, R. P., and Nelson, R. E. *Characteristics of Short-Term Bank Loans to Minnesota Farmers.* Division of Agricultural Economics, University of Minnesota. June 1952.

Interest Rates Not Excessive

These beginning farmers appeared to hold a favorable position as regards interest rates charged by commercial banks. Seventy-four per cent of their production loans carried a 6 per cent interest rate in southeastern Minnesota. A study of representative banks in this area[5] shows only 57 per cent of their production loans at this rate.

A comparison between the rates paid by the beginning farmers in this study and the rates of representative banks in the area is shown in table 8. In southwestern Minnesota interest rates paid by the farmers included in this study were somewhat higher. Apparently bankers consider that dairy farming, the prevailing type in the southeastern area, involves less risk than feeder cattle and cash crops that are major sources of income in southwestern Minnesota. Dairy cows provide an almost immediate continuous and seasonally well distributed income that tends to be more stable than that from meat production and cash crops.

Veterans receiving government subsistence payments paid slightly lower rates than other beginning farmers. One banker said in explanation of this difference, "Of course, we take the subsistence payment into consideration."

A comparison of interest rates on loans to veterans, nonveterans, and all farm production loans by representative banks in southern Minnesota is shown in table 9. The rates for nonveterans followed closely the pattern for all production loans. Favorable interest rates may have been due in some cases to the fact that relatives with a good credit rating endorsed the notes of the beginning farmers.

The most common rate on real estate loans charged beginning farmers included in this study was 4 per cent. This included 38 out of 66 cases or 58 per cent. Fourteen real estate loans carried a rate of less than 4 per cent, and the rest had rates ranging from

[5] Dahl, R. P., and Nelson, R. E. *Characteristics of Short-Term Loans to Minnesota Farmers.*" Division of Agricultural Economics, University of Minnesota. June 1952.

4½ to 6 per cent. The guarantee provision of the Servicemen's Readjustment Act was a negligible factor affecting interest rates paid. Only 8 per cent of the veterans had guaranteed loans—one-half for production purposes and one-half for real estate purchases. Since this study was made, there has been a tendency for the rates on new loans to increase.

Beginning Farmers Generally Conservative Borrowers

There was a definite reluctance on the part of the men included in this study to increase their borrowings. The answers to the question "Why don't you use more credit now (January 1, 1953)?" follow, together with the percentage of those interviewed who gave each answer:

	per cent
Do not want to be any more deeply in debt	63
Interest rate on loans too high	14
Can't increase earning enough to make borrowing profitable	8
Can't get any more credit	5
Too much red tape in getting a loan	4
Repayment schedule too difficult to meet	2
Other	4

All renters were asked the question, "Would you buy a farm this year (1953) if credit were available at 5 per cent." The answer was "no" in 91 per cent of the cases. The question, "Would you use more credit this year (for other purposes than the purchase of a farm) if credit were available at 7 per cent," brought negative answers from 87 per cent of those of whom it was asked. A feeling of uncertainty as to the future was quite general as indicated by a very common response to this question, "Not the way prices are." In general, they expressed considerable caution in expanding their operations through borrowing.

Approximately 11 per cent of the men interviewed had been refused credit at some stage of their farming experience. One-half of these considered this refusal a definite handicap. In most cases, however, the loan was eventually granted by the same or some other lender.

Most of these beginning farmers strengthened their credit position rapidly. By 1953 only 15 per cent of them had less than $1.50 of farm capital for every dollar of total indebtedness. Also they had additional assets in the form of personal and household property not used directly in the farm business. Ten per cent of them were entirely out of debt by 1953, 16 per cent had $6.00 or more of farm assets for every dollar of total indebtedness, 9 per cent had from $4.00 to $6.00, 12 per cent had $3.00 to $4.00, 9 per cent had $2.50 to $3.00, 14 per cent had $2.00 to $2.50 and 15 per cent had $1.50 to $2.00.

As might be expected, men who borrowed from relatives in general had smaller equities than those who borrowed from other sources. Over two-thirds of those with less than $1.50 in farm assets to each dollar of farm debt had loans from relatives. Personal rather than purely business considerations are the basis for these loans. In many cases the lender encouraged the borrower to start farming both because he had confidence in his ability and because of a family interest in getting him started for himself. Interest rates were commonly lower than on commercial loans. Many of these loans lacked a definite maturity date and payments were made more or less at the convenience of the borrowers. Commercial borrowings commanded higher interest rates and had a definite due date.

It is interesting to note that the amount of loans from relatives was determined by the willingness and ability of the relatives to provide funds to set the beginner up in the farming business. The borrower was inclined to take all that was offered. However, in case of commercial loans with their usually higher interest rates and definite repayment dates, he was reluctant in many cases to accept as much credit as was available to him. A low ratio of owned capital to debt was not associated with size of operations. However, relatives were financing the larger operations.

The percentage equity of these beginning farmers in their farm capital varied with type of tenure but the differences were not large. These percentages and the total value of capital owned per operator were as follows:

	Equity	Farm capital owned by operator
	per cent	
Cash renters	68	$ 7,913
Crop share-cash renters	65	5,965
Crop and livestock share renters, related landlords	61	5,644
Owner-operators	60	14,731
Crop and livestock share renters, nonrelated landlords	57	4,880

Most Beginning Farmers Made Substantial Financial Progress

The 317 beginning farmers covered by this study more than doubled their net worth from the time they started farming up to the end of 1952. The average time they had been farming was 2½ years. During this time they had increased their average net worth from $4,700, the average starting figure, to $10,142. The yearly rate of increase is fairly uniform by years (table 10).

The men starting farming in the earlier years began operations with less initial capital. Probably a substantial part of the difference was due to larger initial investments in machinery and power equipment in the later years.

The average price of Minnesota farm land on July 1, 1953 as reported by the U.S. Department of Agriculture was up 25 per cent from March 1950 and 33 per cent from March 1949, so those who purchased in the 1948-50 period bought their land at prices well below the market of mid-1953. In computing net worth for these farms the land is valued at purchase price. On the basis of current market prices the net worth of owner-operators as shown here is underappraised by the amount that the value of any land has increased since purchase.

Table 10. Average Initial Net Worth Compared with Net Worth, January 1, 1953, Classified According to Number of Years as a Farm Operator

Years a farm operator	Average net worth: At start	Average net worth: January 1, 1953	Average net worth: Percentage gain
1	$5,792	$ 8,698	50
2	5,062	9,137	80
3	4,553	10,637	133
4	3,641	12,127	234
Average	$4,700	$10,142	116

This gain in net worth did not accrue entirely from earnings of the farm business. An average of $935 per year was received from such outside sources as veteran subsistence payments, employment off the farm, and financial assistance from relatives. If this outside income is subtracted, it is possible to calculate the approximate contribution of earnings from the farm to the increase in net worth.

Data on gain in net worth due to farming operations are shown by type of tenure in table 11. Only limited significance can be ascribed to differences in gain in net worth between the different tenure groups since the differences within each group were greater than between groups.

However the cash renters probably had some advantage in that cash rent tends to lag behind the prices of farm products in periods of rising prices. These cash renters were probably getting their farms on relatively favorable

Table 11. Average Yearly Gain in Net Worth Above Outside Assistance of 317 Beginning Farmers by Type of Tenure

Type of tenure when starting farming	Average yearly gain in net worth
Cash renters	$1,318
Owner-operators	1,069
Crop share-cash renters	1,022
Crop and livestock share renters, related landlords	972
Crop and livestock share renters, nonrelated landlords	671
Average	$1,005

terms. The crop and livestock share renters owned less capital at the start and hence had to pay out more of their current earnings for the use of the landlord's capital. It is assumed (table 12) that the same credit facilities would have been available to these beginning farmers if they had not had outside assistance. This may be contrary to fact.

Another factor that tends to obscure the effect of tenure on gain in net worth is the fact that 12 per cent of these beginning farmers changed their tenure status between the time they started farming and the end of 1952. Two cash renters, two crop share–cash renters, and eight crop and livestock share renters bought farms during this period. There were also shifts in rental systems by 25 men included in this study. In 21 cases these shifts included not only a change in rental system but a move to another farm. The other shifts involved only changes in rental system on the same farm.

There was a gain in net worth for each of these 317 beginning farmers during the period of this study. However, if the amount of outside assistance is deducted from this gain the resulting figure is a loss in 19 per cent of the cases studied. Some comparisons between the group showing a gain and those showing a loss are indicated in table 12. Those beginning farmers who showed a loss in net worth when outside assistance is subtracted operated large farms, had more capital to start with, and had more outside assistance. Apparently they were either less willing or had less need to curtail their personal spending in order to build up their net worth.

Another measure of financial success is "return for capital and family labor." This measure is available only for the 213 veterans who had complete records (table 13). Here again the fact that cash rents did not keep up with the rising prices of farm products created an advantage for the cash renter. The crop

Table 12. Differences Between Beginning Farmers Who Had a Gain in Net Worth Due to Farm Operation and Those with a Loss in Net Worth from Farm Operation

	Change in net worth from farm operation	
	Gain	Loss
Number farmers	258	59
Acres farmed first year	153	179
Acres farmed in 1952	160	186
Net worth at start	$4,363	$6,175
Net worth from farm operation at end of 1952	$8,630 *	$4,747 *
Change	$4,267 (increase)	$1,428 (decrease)
Average value assistance received	$2,002	$3,285
Percentage of distribution by tenure		
Crop and livestock share renter, related landlords	27.8	27.2
Crop share–cash renter	26.0	17.0
Owner-operators	20.6	32.3
Crop and livestock share renter, nonrelated landlords	13.6	10.0
Cash renter	12.0	13.5

* Net worth accruing from nonfarm income has been omitted from this figure.

Table 13. Average Return to Capital and Family Labor in 1952 and Average Value of Proprietor's Farm Capital at End of 1952 of 213 Veterans

Type of tenure in 1952	Number cases	Returns to capital and family labor in 1952	Value of farm capital, December 31, 1952
Cash renters	25	$1,972	$10,832
Crop and livestock share renters, related landlords	41	1,913	7,517
Owner-operators	55	1,792	23,309
Crop share–cash renters	54	1,673	9,068
Crop and livestock share renters, nonrelated landlords	38	1,444	8,303
Average	213	$1,746	$12,517

and livestock share renters whose landlords are related to them also have an advantage in their favorable leasing terms. Interest payments are low for this group since they supply relatively little of the capital used. Owner-operators have borrowed a large share of their capital of over $23,000 and hence have substantial interest and principal payments to make in most cases. Since there was considerable range in return to capital and family labor in each tenure group the type of tenure has limited significance in determining this measure of return.

While this study does not provide any data on the subject, other evidence indicates that one of the most important factors in the success or failure of farm operation is the natural productivity of the soil. Ten less bushels of corn or oats per acre as a result of faulty drainage, or soil that is too sandy, or too rolling are a big handicap. Usually these differences in productivity are only partly reflected in the rental or sale price.

Capital Needs Affected by Type of Tenure

The average size of farm operated and the average value of farm property owned by the different tenure groups at the end of 1952 are shown in table 14. The average value of other assets, the average debts, and the average net worth, for each tenure group are also shown. Starting with an average net worth of $4,700, these 317 beginning farmers have increased this to $10,143 over a period averaging 2½ years.

Machinery and power constitute the largest share of the working capital. The machinery and power investment was highest on the owner-operated and cash rented farms, even though these were smaller farms, since all of the machinery was supplied by the operators. On the crop share–cash rented farms ownership of the more expensive harvesting machinery was sometimes shared with the landlord. On the farms rented for a share of both crops and livestock the landlord commonly furnished a part of the machinery used. Frequently under leases of this type related landlords furnished a major part or all of the machinery. This was especially likely to be the case where the landlord has recently retired from farming and had the machines available. A gradual shift of ownership occurred as the tenant replaced machines as they wore out.

The most common pieces of machinery furnished by tenants when they started to farm were a used car or pick-up truck and an old tractor. During the 2½ years covered by this study one-third of these beginning farmers traded in their old tractors on new ones. By the end of 1952 a number of them had purchased some of the more expensive types of machines such as combines, corn pickers, windrow-balers, and field forage choppers, al-

Table 14. Total Value of Property, Total Debts and Net Worth of 317 Beginning Farmers at End of 1952

	Owner-operators	Cash renters	Crop share-cash renters	Crop and livestock share renters: Nonrelated landlords	Crop and livestock share renters: Related landlords
Number	72	39	77	41	88
Average size of farm, acres	157	148	185	190	209
Value of property					
Feed and seed	$ 2,332	$ 2,088	$ 1,742	$ 1,656	$ 1,369
Livestock	4,318	4,827	3,284	3,162	2,609
Machinery and power	4,427	4,138	3,859	3,681	3,539
Total working capital	$11,077	$10,953	$ 8,885	$ 8,499	$ 7,517
Land and buildings	14,766	333	50	—	1,115
Total capital	$25,843	$11,286	$ 8,935	$ 8,499	$ 8,632
Other assets	2,317	2,479	2,056	1,995	2,117
Total assets	$28,160	$13,765	$10,991	$10,494	$10,749
Total debt	11,112	3,373	2,970	3,619	2,988
Net worth	$17,048	$10,392	$ 8,021	$ 6,875	$ 7,761

though the common practice was to hire or borrow the use of these machines and thus avoid a large investment in machine equipment. The proportion owning these more expensive machines at the end of 1952 and the average inventory valuation of them were as follows:

	Percentage owning	Average inventory valuation *
Corn picker	35	$ 488
Combine	22	964
Windrow-baler	9	1,103
Field forage chopper	3	843

* These values appear low for machines of this type. In many cases the beginning farmer owned only a one-half, one-third, or one-fourth share in the machine. These figures cover only his share and not the full value.

In case of the crop and livestock share renters the amount of working capital was supplemented by that owned by the landlord. The landlord's machinery contribution has already been mentioned. Usually his capital in feed and seed equaled that of the renter and his contribution in the way of livestock was equal to that of the renter. In fact in some cases he furnished all of the livestock at the start.

If the value of the working capital supplied by the landlord is added to that of the tenant the average value of working capital per acre was approximately $70 per acre except in case of the crop share-cash renters for which it was about $20 per acre less. The difference was due principally to the fact that this group included more farms that received a relatively large portion of their income from the sale of crops and hence needed less investment in feed, livestock, and livestock equipment. It is apparent from these comparisons that type of tenure is an important factor in determining the amount of capital needed by the beginning farmer.

This Study Deals Only with Successful Starting Farmers

This study deals only with young men who were farming at the time of this study. Undoubtedly other young men started during this same period and "fell by the wayside" and still others who wanted to farm were unable to find a farm or accumulate sufficient capital for a successful start. Perhaps some of these were overcautious. However, as already pointed out, we need fewer farmers now than we did 20 or 30 years ago.

There is no evidence that the proportion of failures is increasing. All farms in the area covered by this study are occupied and there is no evidence of a decadent agriculture. In fact everything points to a steady and even rapid improvement in the quality of farming in recent years.

There is also ample evidence of increasing levels of farm living. The number of farmers is decreasing, but farm production is increasing. The authors of this report are convinced that the quality and stability of agriculture in southern Minnesota are not menaced by lack of opportunity for the starting farmer. The door of opportunity is still open to young men with ample farm experience, a knowledge of modern farm techniques, and the cardinal virtues of honesty, industry, and thrift.

Part II. Suggestions and Advice from Successful Farmers[6]

The Starting Farmer Needs Advice and Guidance

THE STARTING FARMER is confronted with a variety of perplexing problems. Usually he has only limited capital resources. He may have only limited experience as a farm worker or a manager. He wishes to use his limited capital and experience in a way that will produce maximum returns and yet carry with it a reasonable degree of security and an assurance of ultimate success.

Such questions as the following arise in his mind. How much capital do I need? Should I start as a tenant or as an owner-operator? What are the minimum capital needs for either system of tenure? How much capital am I justified in borrowing to supplement my own financial resources? From whom should I borrow and on what terms? What type of farming should I choose? How large a farm should I start with? Should I start with a low priced farm or wait till I have enough capital to purchase a good improved farm large enough for efficient operation?

Satisfactory answers to such questions as these would be an invaluable guide to the young man starting out as a farm proprietor.

The Experience of Established Farmers Points the Way

Experienced operators who have established themselves successfully in the business of farming can supply valuable information and guidance to the beginner. They started at an earlier period and perhaps under somewhat different conditions, but their experience and seasoned judgment put them in a position to answer some of these questions that perplex the beginner.

[6] The authors are indebted to Donald S. Moore of the Department of Agricultural Economics for his services in tabulating and organizing the data used in this section.

Fig. 2. There are plenty of opportunities to obtain employment as a hired hand on a farm, but one needs vocational training if he expects to succeed as a farm proprietor.

Hence, a questionnaire was sent to all members of the Southeastern and Southwestern Minnesota Farm Management Services.[7] Some of these were young men who had started farming since World War II and had recently encountered the problems that confront the beginner. Most of them, however, were well established, successful operators, whose experience stretched over a period up to 25 or 30 years. They were operating farms somewhat larger and more productive than the average of the locality and in general had above average earnings. This report is based on the replies received from 157 members of these farm management associations.

How Much Working Capital Does the Beginning Farmer Need?

The first question asked of these experienced farmers was the current value of the personal property such as machinery, power, livestock, feeds, and supplies they were using in their farming operations as of January 1, 1953. Their replies are indicated in table 15. The average estimates for the 147 men answering this question was $19,315. The range was from $4,000 to $56,000. Two-thirds of these men reported the current value of their personal property to be $20,000 or less.

The data in table 15 cover farmers who have been operating over a period

[7] These services include farmers in the following counties: Cottonwood, Dakota, Dodge, Faribault, Freeborn, Goodhue, Jackson, Le Sueur, Martin, Mower, Murray, Nicollet, Nobles, Olmsted, Redwood, Rice, Rock, Scott, Steele, Wabasha, Waseca, Watonwan, and Winona.

Table 15. Amount of Working Capital Needed by a Beginning Farmer as Compared with that Used by Established Farmers

Value of personal property used by established farmers, January 1, 1953: Group	Average	Number of farms	Average valuation of personal property needed by beginners	Percentage of valuation of working capital of experienced farmers needed by beginners
Under $10,000	$ 8,689	28	$ 5,660	65
$10,001-$15,000	13,206	35	8,063	61
15,001- 20,000	18,375	35	8,843	48
20,001- 25,000	23,212	19	10,842	47
25,001- 30,000	28,750	15	12,333	43
Over $30,000	41,229	15	15,867	38
Total or average	$19,315	147	$ 9,382	48

of years and have in many cases acquired more working capital than the minimum that a beginner with limited funds would need. With less working capital than that now being used by these established farmers the beginner might have somewhat lower earnings, but he would have greater security than if he operated largely on borrowed funds. The established farmers were asked to estimate the minimum amount of personal property a beginning farmer would need to operate successfully a farm similar to their own under the most common rental basis in the community. A summary of their replies is given in table 15.

The estimates of the established farmers as to the minimum capital needs of a beginning farmer starting as a tenant varied considerably but followed a fairly consistent pattern. The average of all the estimates was that the minimum value of working capital needed by the starting farmer was about one-half of that used now by the present established operator.

In general, where the present value of working capital was low the proportion needed by a beginner was high. In other words the established farmers with smaller amounts of working capital were nearer the minimum requirement for a tenant.

On the other hand the estimated proportion of the value of their current working capital that would be needed by a starting farmer ranged as low as 38 per cent for those established farmers who had the largest investments in working capital. One-fifth of the established operators estimated $5,000 or less as the minimum need of a starting farmer, two-fifths estimated the minimum need as $7,500 or less and only 28 per cent estimated a minimum of more than $10,000. Unfortunately it was impossible to relate these capital needs to size of farm as no acreage figures were available.

How Much of His Working Capital Is It Safe for the Beginning Farmer to Borrow?

Most beginning farmers acquire some of their working capital from savings and then borrow enough additional capital to provide at least their minimum requirements. Each of these established farmers was asked how much of the minimum working capital requirement for his farm a beginning farmer starting as a tenant under the rental system most common in his community would be justified in borrowing from a bank or production credit association and how much he would need to furnish himself.

There was fairly general agreement that the starting farmer would be justified in borrowing about one-half of the minimum working capital needed. The average of all the answers was $5,029 or 53.8 per cent of the average capital needs of $9,382. He would need to supply $4,353 of his own capital in addition to this.

It is interesting to note that this checks closely with the actual amount of owned capital used by the group of men who started farming in southern Minnesota during the past four years as reported in Part I of this bulletin, 70 per cent of whom had G.I. benefits. This group included a few men starting as part owners. Hence some of their capital was in the form of real estate and not all was working capital.

There was no consistent relationship between the estimated percentage of working capital needed that could be safely borrowed and the total amount of working capital needed. The average variation among the size groups shown in table 15 was small. In other words, one could safely borrow about the same percentage of the total capital for a large operation as for a small one. These established farmers were in substantial agreement that the beginner might safely borrow one-half of the working capital he needed at the start.

How Much of a Down Payment Should a Purchaser Make When Buying a Farm?

Each of the established farmers was asked to estimate the current sale value of a farm such as the one he was operating. He was also asked how large a down payment it would be necessary for a young farmer to make in order to justify the purchase. It was stipulated that the young farmer would have the necessary working capital to operate the farm and that his personal property would be free from debt. The assumption was also made that the unpaid balance could be financed by a long-term mortgage upon which interest plus payments of principal would be annually about 8 per cent of the original amount of the mortgage. In addition it was assumed that prices of farm products during the next 10 years would be about the same as during 1952 and early 1953 and that operating and living expenses would also be about the same as in this period.

Replies were received from 133 established farmers. These replies are summarized in table 16. In general it was estimated that approximately one-third of the purchase price should be paid down regardless of the size of the farm in terms of market value. This would make it necessary for the buyer to borrow two-thirds of the purchase price of the farm.

Table 16. Total Value of Farm and Size of Down Payment Necessary to Justify Purchase

Current market value of farm: Group	Average	Number of farms in group	Necessary down payment: Amount	Percentage of purchase price
$20,000 and under	$15,532	14	$ 5,116	33
20,001-$30,000	27,159	41	9,036	33
30,001- 40,000	36,323	34	12,758	35
40,001- 50,000	48,175	13	15,000	31
50,001- 60,000	58,020	12	21,343	36
Over $60,000	83,540	19	28,205	34
Average or total	$41,171	133	$14,007	34

Most credit agencies are unwilling to loan as large a proportion of the purchase price as this. It might be necessary for the borrower either to get the seller of the farm to carry the loan or to get his capital from relatives or other individuals who have interest or confidence in him that would justify such a loan.

Another possibility would be the mortgaging of personal property in order to pay part of the purchase price of the farm but this is contrary to the generally accepted credit principle that short term loans should not be used to finance long time debts. It is, of course, quite possible that if the lender was willing to accept the assumption that there would be no change in the general price level of farm products he would be willing to loan up to two-thirds of the purchase price. This assumption stipulated in the question put to these established farmers doubtless led them to assume that under conditions of stable prices a larger loan is justified than would otherwise be true.

It is obvious from these data that a considerable amount of capital is required for owner operation of farms such as those covered in this study. The average minimum value of personal property needed to operate these farms is estimated at $9,382 (table 16). The average down payment needed for purchase is $14,007. Thus a total of over $23,000 is needed to start as an owner-operator on the average farm included in this group if one has his personal property free from debt and a down payment of 34 per cent on the real estate.

Of course it would be possible to start with less capital on some of the smaller farms in the group. Even if we take the value of the personal property needed on the group of farms with the smallest amount of capital shown in table 15 and the smallest average down payment shown in table 16, a total of nearly $11,000 is required for a start as an owner-operator. Relatively few men ready to start farming have savings as large as this. Except as gifts or as below-market purchases and very favorable loan terms are available to him from relatives or friends, the starting farmer usually finds his best opportunity on a rented farm.

General Suggestions to Starting Farmers

The established farmers offered a large number of suggestions, both as how best to start farming and how to work one's way up the "agricultural ladder." They also mentioned some of the personal or human factors that condition or determine the success of the beginning farmer. A summary of these suggestions follows.

Established Farmers Generally Favor Starting as a Renter

Nine out of ten of the established farmers who commented on the subject, strongly favored starting as a renter. One farmer in Scott County, who now owns his farm, says, "I would by all means suggest beginning as a tenant and accumulate a good amount of livestock, machinery, and feed before buying a farm."

The majority seemed to feel that the young farmer should not only have the needed working capital free from debt but also enough additional cash to make a substantial down payment on the farm before assuming ownership.

Others stressed the importance of gaining experience while operating as a tenant so that he could later assume ownership with less risk. Experience gained under a good landlord is often a very valuable asset.

A Nobles County farmer expressed this word of caution as to the immediate situation, "Due to the uncertainty of prices caused by unsettled world conditions, it would seem that a young man just getting started would have less risk as a tenant." Another Nobles County farmer suggested, "You need a larger farm today. Work and save for at least 10 years before climbing the ladder to ownership."

A Murray County farm owner commented on this same point, "I think it would be much better for a beginning farmer to rent a large farm (320 acres) than buy a small farm (120 acres) and carry a mortgage on it." Another Murray County operator expressed this idea quite effectively, "It's a better feeling to be a rich renter than a poor land owner."

A considerable number of those replying advised the beginning farmer, especially if he has limited capital, to start either on a partnership basis with his father or some good farmer who knows him or else with a 50-50 crop and livestock share lease. It was pointed out that in this way it would be possible to operate with a minimum of owned capital.

One tenant in Olmsted County put it this way, "I think a livestock share lease is about the easiest way to get started if you can finance the machinery end of it. It's awfully handy to have someone who has a little money who will back you up to get started. In this community it is customary to buy half the livestock or else take half of the increase as they are born. In this case the landlord gets the money from the sales of cattle and hogs that are on the farm when you take over." This latter plan reduces the investment that the renter must make at the start.

Help in the form of management advice and counsel from the landlord under the partnership or livestock share lease was mentioned in a number of replies as a valuable contribution.

Under the livestock share or partnership plan the amount of working capital to be furnished by the renter may be adjusted in line with what he has available. In some instances the landlord furnished not only the livestock but much of the machinery as well.

A Freeborn County farmer says, "Often a farmer with no children will give a capable, energetic young man a start by furnishing most of the capital with the young man doing most of the work on a one-third share. This limits the risk and if the young man does well he can buy the machinery and one-half of the livestock and work

Fig. 3. It takes more capital than most young farmers can command to finance cattle feeding. A 50-50 crop and livestock share lease or a father-son partnership may be the best way for the young man to start.

into a 50-50 basis. If a young man proves his worth there are always people willing to help him advance to a better farm and eventual ownership."

A considerable number of the experienced farmers who advised starting under a partnership or livestock share arrangement suggested also the desirability of shifting to a cash lease as soon as the beginner had accumulated sufficient funds to provide the working capital he would need. It was suggested that in this way the operator would get a larger proportion of the total income from the farm than under the partnership arrangement.

A Few Experienced Farmers Favor Owner-Operation at the Start

As previously noted about 10 per cent of the experienced farmers favored a start as an owner-operator. One farm owner in Dodge County said, "I think a man should buy as soon as possible. A large debt will make him dig a little harder."

A Freeborn County farm owner on the other hand, who was considering the purchase of additional land involving a substantial mortgage, advised against carrying a heavy mortgage. That the worry occasioned by a heavy debt would cause him some sleepless nights is indicated by his remark, "Perhaps some people sleep better than I do."

A young man operating under a crop and livestock share lease in Wabasha County said, "If I had to start farming again I would rather borrow all the money I could and start on my own right away. I would be working all for myself then and not for two parties." One cannot help wondering whether he would be able to get a loan of the size needed and then whether he might not still be dividing his earnings with a second party—the money lender—on a basis that does not permit an adjustment in case of a poor year.

Some of the reasons advanced as to why a starting farmer should buy rather than rent were (1) the dearth of good farms available for rent, (2) the preference of landlords for experienced tenants with plenty of working capital, (3) the uncertainty as to length of tenure, and (4) the reluctance of many landlords to share the cost of certain good farm practices such as the use of lime and fertilizer, weed control, grass and legume seedings, and soil conservation.

An Olmsted County operator who started farming within the past 10 years said, "I, myself, started quite slowly with the idea that farms would be cheaper (later on) and less money would be required. I know now that I would have been farther along today if I had bought a farm five or six years ago."

Obviously hindsight is better than foresight. Since the future is always veiled in uncertainty the beginning farmer with limited capital usually leans toward the side of conservatism. The majority of the respondents in this study felt that this attitude of prudent caution is both wise and sound.

Keep Machinery Investment Down to Minimum Needs

One of the most frequent cautions expressed by these experienced farmers was the importance of avoiding overinvestment in machinery and equipment at the start.

A farm owner in Murray County states the case in these words, "A lot depends on the ambition and willingness to sacrifice for future goals. Often if a young man is really ambitious and willing to exchange labor for machine work, there are still a lot of farmers that like to help out a good, hard-working beginner. . . . If he is willing to buy some used machinery and start within his means and not look at the 'Joneses' he can still make a go of it."

Fig. 4. Modern farming calls for the use of much expensive equipment. The starting farmer may well hire the custom services of these machines until he has accumulated sufficient capital to justify their purchase.

A Martin County farmer who started in 1946 said, "When I started . . . I could get only a small amount of machinery and only on veteran's preference. . . . I couldn't afford to buy at any farm sale at that time. . . . Now I think one can buy some very good used machinery either from dealers or at farm sales."

An Olmsted County farm owner says, "Among the young men starting today the tendency is to overload on farm machinery. In some cases in our neighborhood the young farmers are using their fathers' machinery where they are within reasonable distance of each other. On a farm of our size (66 cultivated acres) one can hire machinery such as combines and balers cheaper than one can own it. I do own a one-third share of a corn picker, sheller, and sprayer." Sharing ownership of expensive machines is one way of keeping down the machinery investment.

The operator of a large farm in Mower County also suggests the sharing of machine use with relatives or neighbors, "The best way for a young man to start farming is to live close to his father, father-in-law, or someone he has worked for and be able to use some of their machinery. My son-in-law is starting that way."

A farm owner in Pipestone County who started as a renter in 1941 said that he started with "a new tractor, plow, and cultivator. All the rest of the machinery was second hand. . . . I did without or exchanged labor for machines with neighbors. . . . Later I was able to buy a new binder on time and slowly exchanged old machinery for new . . . tractor still going strong after nearly 13 years."

A Steele County owner counsels the starting farmer to "get along with used machinery which, at the present time, is quite reasonable and have combining, etc., hired (on a custom basis)."

The same suggestion comes from the owner of a farm in Dodge County, "I have noticed that the young farmers like to have new equipment and lots of it, where I think they could get along with less. Hire some and buy a little used machinery."

An established Nicollet County farmer suggests, "If I were to start farming today . . . I would buy only haying machinery and hire the plowing, planting, etc. . . . If you have a brother or friend in the same financial position as you . . . let him own the planting machinery. With a good set of modern machinery between you two, there should be some time for custom work."

A slightly different slant on this matter of machinery purchase policy is expressed by a Faribault County farmer who started as a tenant five years ago, "Don't be afraid to invest in labor-saving machinery such as waterers and self-feeders. Starting out, buy new or nearly new machines, essential ones first, so that they won't need replacing in two to five years. Hire machines instead of buying old, used ones."

A Scott County farmer adds these comments, "When a young farmer buys equipment he should buy new and fewer items and hire work done (silo-filling, threshing, corn-picking, etc.). What he buys should be good and not just to get along. Machinery wears out fast enough, so why start with worn out stuff."

Give Preference to Investments That Bring Quick Returns

Many of the established farmers, especially those who started farming within the past 10 years urge beginners with limited capital to make investments that yield quick returns. They stress the fact that chickens and hogs require a relatively low investment in breeding stock and the returns come quickly. For the same reason they stress dairy cows which bring in an immediate and fairly continuous income. A Le Sueur County farm owner advises the young farmer to "concentrate his capital on livestock such as dairy cattle, hogs, and chickens that give relatively high returns for the investment." A Winona County owner-operator suggests "buying young cattle to hold down the original investment." Buying heifer calves does reduce the original investment in cattle, but they must be fed and cared for until they freshen with no income in the meantime.

Choose a Productive Farm of Ample Size

Many of the established farmers stressed the importance of getting on a good productive farm regardless of whether one is starting as a renter or an owner-operator. A poor farm is a poor bargain regardless of the price. Buying a farm with the idea of building it up is too much like "marrying a man to reform him." It too often results in bitter disappointment for all concerned.

Fig. 5. It is better for a beginning farmer to start as a renter on a well-improved farm of ample size than as the owner of a small farm with inadequate buildings.

Fig. 6. A farm with buildings like this may be cheap, but it is no bargain at any price. The beginning farmer would be better off to rent a good farm than own this.

A Winona County owner advises the beginning farmer "to choose a good farm of good location." A farmer in Wabasha County in urging the importance of a good farm with good improvements cautions, "buy a good farm. . . . It is almost always cheaper to buy improvements than to make them. . . . The first consideration would be the land—whether it is or could be in the shape one wants." A Jackson County farmer stresses this same idea, "Avoid starting on a poor farm." A Waseca County tenant says, "It is best not to try to start on too small a unit."

Sources of Credit for the Starting Farmer

There seemed to be a wide variation in experiences in obtaining credit and in the appraisal of different sources of credit among the farmers included in this study. One crop share renter in Waseca County said, "I started on this farm seven years ago with only $2,500 of personal property and (it was) mortgaged. The young man today should start out any time he has a good farm offered him . . . if the farm is good and of the right size to make a good business. He can usually borrow the money from the Farmers' Home Administration or banks, or secure a G.I. loan if he and his wife are willing to put themselves out for a few years with the bare essentials, work long hours, maybe help your neighbor to pay him for combining your grain, etc. To do this husband and wife must both like farming."

Family partnerships help the starting farmer to accumulate capital. A crop and livestock share renter in Rice County described his start as follows, "After finishing college, my father and I tried to arrive at a workable share arrangement involving no capital outlay for me. . . . I received one-fourth of the income. I was required to furnish all labor, my father all expense. After two years I hunted high and low to find someone to loan me enough money to buy all machinery and one-half of the cattle, pigs, and crops, placing me on a livestock and crop share basis. All loan agencies and banks turned down my request for $6,500. I finally found an individual who loaned me the full amount on a 10-year payment basis at 5 per cent interest. . . . I consider my case a lucky one. Other young men wanting to start out are going to have a hard time finding the money unless an interested individual will back them up. Most loaning agencies at the present time have such stiff requirements to meet that the average young man would have a hard time qualifying." A family partnership helped this man to start farming with no capital, but the very favorable terms of his loan also played a large part in helping him to get established on an adequate earning basis.

Some young farmers start farming with no family help. A cash tenant in Nicollet County who started farming in 1948 says, "I started on a 120-acre farm giving two-fifths of the crops and $7.00 per acre for pasture and hay land. My total capital at the beginning of 1948 was $1,700. I borrowed $1,000 from a bank. I went under G.I. 'on-the-farm' training in March, 1948 and continued 3½ years. My closing inventory in 1948 was $5,900 . . . since then it has jumped to $20,000." He gives benefits under the G.I. bill credit for a substantial part of his successful start.

A crop and livestock share tenant in Faribault County says, "I started farming three years ago on 240 acres with 200 acres tillable with a loan of $5,500 from Farmers' Home Administration and family notes of $2,000. If things progress for others as they did for me the total property valuation after several years should be over $10,000. So you see a person can sort of grow into business by just being on a farm."

A Jackson County tenant with the same type of lease points out how financial aid from his family made possible a successful start for him, "I started farming on this place in 1947. My father loaned me $8,000 at 5 per cent interest for 10 years, and I had saved $5,000 during my time in service. . . . With this $13,000 I was able to borrow $11,000 from a bank."

Fig. 7. A father-son partnership is often the best way for a young man with limited capital to start. He can accumulate both the capital and the experience he needs before starting for himself.

A renter in Jackson County describes the family help he received in this way, "I started in 1947 just out of service, buying out my uncle's machinery—no big pieces but just the usual run of average machinery. I had a total of $500, and I used my father's name to borrow at the bank for expanding. Then as I became established I moved more and more on my own, acquiring cattle and better machinery." This initial financial help from a father, father-in-law, or other relative at the start is often the deciding factor that makes it possible for the beginner to start with a farm unit adequate to provide a fair living.

Fig. 8. Legal advice is very helpful in setting up a satisfactory father-son partnership.

Personal Factors That Condition a Starting Farmer's Success

The importance of capital as a factor in the success of a starting farmer has been heavily stressed in this report. However, one should not overlook some of the personal factors that may be just as important to the success of the beginning farmer. He must know farming and he must like it.

This was strongly stressed by the established farmers contributing to this study. A farm owner in Freeborn County says, "The 'know-how' is what counts." A Goodhue farmer expresses it this way, "In order to start farming a man must have love and ability for farm work. He must be willing to give up pleasures or the time he would have for pleasure in some other job for the joy of seeing things grow, for the feeling of accomplishment when he grows 100 bushels of corn where 75 used to grow, and for a herd of cows that produce better than a pound of butterfat a day."

From Wabasha County comes this statement, "I believe some capital is necessary but that courage and faith in the future are some of the best assets a young farmer can have. . . . I have been close to the farming problem all my life but have never been able to foresee a period in the future that was just right to start farming. Some rich farmer's daughter or just anybody's daughter is a good reason to start farming and the right time probably is now or never."

This suggestion of the importance of the role of the wife in the farm business was echoed in many of the replies. Two heads are better than one in operating a farm business, and a wife who has a genuine interest in and love for farming and farm life goes a long way toward insuring the success of any farm business—starting or established.

From a Murray County farmer comes this statement, "My observation is that the qualities of thrift, determination, and ambition are just as important as capital or lack of it which a prospective farmer might have."

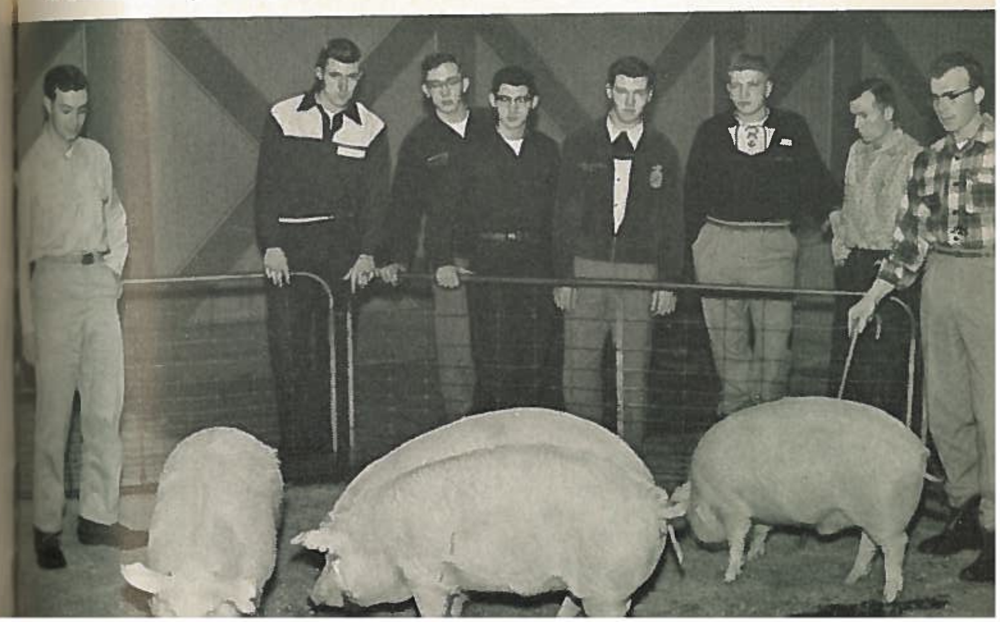
A member of the F.H.A. committee in Scott County adds along this same line, "It is my observation that a good man can make a go of farming under poor conditions (start on a shoe-string). A poor manager and farmer cannot make a go of it under the best conditions. I do not believe that as much stress should be put on what a man has to start with financially as what he has to start with from a character, managerial, and industry standpoint. In other words if I were to lend money I would first consider character—Does he drink? Where does he spend his spare time? Is he honest, etc.?"

A Nobles County farmer who bought his farm recently says, "I think the ability and determination of the operator is a much more important factor to reckon with than the size of his bank account. Some operators with every odd against them and no financial assets become very successful in a relatively short period, while other operators with sound financial backing and everything in their favor manage only to eke out a bare existence or lose everything they have. If a young man asked me about starting to farm I would not ask him how much money he had but how clearly he saw farming as a business enterprise and how he contemplated operating his farm."

The operator of a large livestock farm in Mower County outlines the qualifications that determine the success of a farmer in these words, "I have watched young men in our community. It does not make too much difference what they have when they get started or how much of a down payment they make on the farm. It is the ability to make money and to save it that counts.

"I have had a dozen or more men work for me—then quit and start farm-

Fig. 9. The beginning farmer today needs vocational agricultural training if he is to keep abreast of current farming techniques.



ing. They have all made good, and most of them had little to start with. One man who worked for me in 1933-34 for $12.50 per month has just bought his second farm. The thing most important is what you have above the shoulders—a good name and a good reputation. The farm is no place for a man that can't do anything else."

This farmer might well have added another very important aid to a young farmer—getting the experience of working for a successful operator. Undoubtedly the training and experience under this individual was an important factor in accounting for the fact that his hired men were successful later as farm operators.

Part III. Case Histories of Young Men Who Have Made a Successful Start in Farming

THE ACTUAL EXPERIENCES of three young men who made successful starts in farming during the past 10 years are presented in this section. They serve as specific examples of some of the methods and processes which starting farmers use in obtaining the needed capital and beginning as independent farm operators.

They illustrate that it is possible for young people with a good background of farm experience, liking for farm work, and plenty of drive and ambition to establish themselves successfully in farming in spite of very limited financial resources. These cases are selected from among the beginning farmers studied to illustrate some of the different ways by which a young man can acquire needed capital and develop a successful and satisfying farm business.

Case History No. 1

Farmer No. 1 is 32 years of age. He graduated from high school and attended college one year. He worked on the home farm the next year and was married in 1943. In 1944 he rented 40 acres near his home farm. He helped with work on the home farm in return for the use of his father's machinery and power on the land he rented.

His total net worth when he started to farm was about $1,000. In the fall of 1944 he paid $1,875 for 18 head of Guernsey cattle. He borrowed this money from the bank on a note which his father endorsed. The rate of interest on this loan was 6 per cent.

The next year he rented a 100-acre farm on a 50-50 crop and livestock share lease. He purchased a set of used machinery from the landlord for $1,400, giving him a note for the entire amount with interest at 5 per cent. This landlord knew him personally and rated his ability sufficiently high to justify a 100 per cent loan.

In 1948 he rented a 240-acre farm on a crop share basis with cash rent for hay and pasture land. He is still on this farm. By January 1, 1954 his net worth had mounted to $14,000—an increase of approximately $13,000 in 10 years. He is still a tenant and does not seem interested in tying up capital in land and buildings at the present high price level.

Of his financing he writes, "I never borrowed more than $1,500 at one time except for my initial loan of $1,875 for the purchase of cattle. My highest indebtedness at any one time was $4,000. . . . A good motto (for a borrower) might be 'borrow what you need and need what you borrow'." His cautious attitude toward credit undoubtedly is influenced by the fact that his father lost everything he had in 1933 through mortgage foreclosure and had to start over again.

Good management, a modest amount of family help, and a conservative attitude toward credit has enabled this man to get well established in farming. His accumulation of capital has been largely out of the earnings of his farm operations rather than the result of increases in the price level. He is enjoying a good standard of living, is highly respected by his neighbors, and finds time to participate freely in community activities such as 4-H Club work and farmers' organizations.

Case History No. 2

Farmer No. 2 is 38 years old. After finishing the eighth grade in school he worked for 12 years on the home farm and on nearby farms, thereby establishing a reputation in the community as an honest, capable, and dependable worker. After several years in the army in World War II he married and in the fall of 1946 rented a 160-acre farm in his home community on a crop and livestock share basis. He also registered for vocational agricultural training under the G.I. Bill of Rights.

His savings of $4,900 were invested in livestock, feed, used machinery, and household goods. In addition he borrowed $2,000 from his father for operating expense and for additional equipment. The interest rate charged on this loan was 3 per cent. By the end of the third year he had increased his net worth to $9,500, nearly double his beginning net worth. He decided to buy the farm he was operating. The price was $23,200. His father loaned him $6,500 at 3 per cent interest to make the initial payment on the purchase price. The farm owner took a first mortgage for the balance of the purchase price, $16,700, with interest at 4 per cent. In other words he had no equity in the farm at the time of purchase.

It is interesting to note the statement by this man that "credit was not a problem." In 1950 and 1951 he had no difficulty in getting short time bank loans totaling $3,500 with interest at 6 per cent. By the end of 1953 his net worth had increased in seven years from $4,900 to approximately $18,500. By that time he had acquired a 37 per cent equity in his farm and a 77 per cent equity in his personal property.

Several factors accounted for the financial progress made by this man. In the first place he had the advantage of vocational training and guidance under the G.I. plan. His subsistence payments of $4,856 under the G.I. program gave him regular current income during the years when he needed it the most.

He was a diligent and efficient worker and a careful planner. Instead of plunging into expensive new equipment he purchased used machinery. He avoided investment in expensive harvesting equipment by hiring the harvesting on a custom basis or exchanging his labor for machine use or service.

In addition to doing a good job of farming he, too, was active in community life and took his part in community service. It is interesting to note that he built up a substantial net worth in spite of some unusually high personal and living expenses. One year medical expenses were close to $1,500 and there were other unusual expenses that limited his financial progress.

Case History No. 3

Farmer No. 3 is 32 years of age. He has been farming for seven years. He was graduated from the agricultural course in the local high school. He spent several years working on farms in the neighborhood to accumulate experience and capital. He saved $6,500 by 1946—$2,000 from general farm work and $4,500 from sheep shearing. He also had an insurance policy with a cash surrender value of $500.

He was married in 1946 and bought a 160-acre farm that fall for $16,250. Unlike the other two cases he started out as an owner-operator rather than as a tenant. He borrowed $5,500 from a local bank on a first mortgage. This mortgage was for a 10-year period with interest at 4 per cent. He borrowed an additional $5,000 from a relative on a second mortgage for a three-year period with interest at 3 per cent. His equity in the farm at the time of purchase was $6,000 or about 37 per cent of the purchase price. He also borrowed most of the money needed to purchase livestock, machinery, feeds, and other supplies. Of the total of $8,525 he needed he obtained $1,525 from the owner of the farm and the balance from relatives. The notes ran from one to two years at 3 per cent interest. In 1952 he bought an additional 50 acres about a mile from his original farm. He made a down payment of $1,000 and pays $500 on the principal each year with interest at 4 per cent.

This farmer has been able to borrow operating capital from the bank at 6 per cent interest. The largest amount he has borrowed at any time was $5,500. The bank has never refused him credit and has always been willing to renew his notes when due if he was unable to meet them. By the end of 1953 he had reduced his real estate indebtedness to $8,400 covered by a federal land bank loan and a $3,500 mortgage held by an individual. His total notes outstanding were $5,000. His net worth was $37,759 as compared with $7,000 when he started farming in 1946. In computing this net worth figure, land and building values were based on purchase price and hence do not reflect any increase in the level of land values.

As in case of Farmers 1 and 2, this man had help from relatives in the form of access to credit well in excess of the amount that would be granted by commercial agencies and on favorable terms. He had lived in the community all his life and was known for his honesty, industry, and thrift as well as for his ability as a farmer. His local reputation gave him a favorable credit rating at the bank. He has a wife who shared his interest in and love for farm life and who cooperated in planning and carrying out their program.

Some Comments on These Case Studies

The experiences of these three young men show how they obtained a successful start in farming in spite of very limited capital resources. However, each received some initial aid in the way of loans or endorsement of notes from relatives. This experience serves as an effective illustration of the importance of certain personal characteristics in determining the success of a beginning farmer. These have already been discussed in previous pages.

The old proverb that "a good name is rather to be chosen than great riches" still expresses an important truth. Honesty, industry, thrift, education, farm experience, a good reputation in the neighborhood, and a cooperative wife who shares the burdens of management and planning are more important determinants of the success of a beginning farmer than the amount of money he has to invest in the business.

In a previous section attention was called to the importance of a rising price level in making it easier for a starting farmer to become established. Had these men faced the price debacle of the early thirties the story of their experiences might have been freighted with disappointment and financial distress.

The prices of farm products were mounting rapidly during the early years of their start and in 1953 were still higher than when they started in the middle forties. Without this rising price level progress would have been slower and credit undoubtedly tighter. However one should not overlook the fact that during this period prices of things the farmer buys for living and production were rising even more rapidly than the prices of things the farmer sells. The purchasing power of the farmer's dollar did increase moderately in 1946 and 1947, but since then its trend has been downward until in 1953 it averaged only 105.8 as compared with 133.5 in 1946 and 145.9 in 1947. The cards were not stacked as heavily in favor of these men as it might seem if one considers only farm product prices.

The authors do not wish to give the impression that personal characteristics of the borrower are of so much more importance in insuring the safety of a loan that they greatly outweigh the importance of collateral and a substantial investment on the part of the borrower. Character, capacity, and collateral have long been regarded as the fundamental bases of credit. As previously noted the increasing complexity of agriculture and new technical developments increase the importance of education, "know how," and managerial ability.

It is important that these factors receive more attention from lenders in the future than in the past, but it is certain that individuals who are personally acquainted with beginning farmers can go farther in making loans on the basis of capacity and character than can commercial or cooperative credit agencies operating under definite legal restrictions. Then, too, loans from relatives may be made in some disregard of conventional collateral requirements since helping a relative, especially a son or son-in-law in whom one has confidence, may be rated above the profitability or even the safety of the loan.

The information about these three cases is based largely on farm accounts kept by these men. It is obtained from financial records kept currently by them since they started to farm. All were members of the Southeastern Minnesota Farm Management Association for seven or eight years. This is an organization of farmers which cooperates with the Department of Agricultural Economics and the Agricultural Extension Service of the University of Minnesota in the keeping and studying of farm records.

Each year they had their records and a careful analysis of them as a guide in their farming operations. They report that these records gave them an accurate check on their financial progress—something that is not easily obtained in a business such as farming where so much of the earnings, especially in case of the beginning farmer, is plowed back into the business each year.

No doubt their records and the accurate information they had on their financial status and progress was also a factor in their ability to command the credit they needed. One can hardly afford to invest labor, management, and capital in as complex a business as farming without accurate accounting records as a check on progress and a guide to the planning of future operations.

Summary and Conclusions

Introduction

1. Starting farming was not easy for our fathers and grandfathers—it is not easy today.
2. A rising price level, especially during the first few years, favors a beginning farmer, but he cannot tell in advance what the future holds for him in the way of price prospects.
3. Mechanization and new techniques have increased the amount of capital needed to farm and have also increased the size of farm needed for an economic unit.
4. "Know how" has become a relatively more important qualification for the starting farmer today than the possession of capital.
5. The number of farmers in Minnesota is decreasing. Fewer starting farmers are needed each year to maintain our agricultural production.

Part I

1. This study is based on the experience of 350 men who started farming during the past five years of whom 246 were veterans receiving G.I. training.
2. The initial capital owned by these men varied from nothing to $40,000. The average net worth at the time of starting was $4,700. Nonfarm work and savings from service pay were the principal means of accumulating capital for veterans and farm work for nonveterans.
3. The 18 per cent who started as owner-operators borrowed approximately 50 per cent of the capital they used. The 82 per cent who started as tenants borrowed only 10 per cent of the capital they used.
4. The principal difficulties encountered in starting farming were reported to be "lack of available capital and credit" and "obtaining a farm to operate." Relatives were a great help in overcoming these difficulties.
5. Sixty-nine per cent of the real estate loans and 38 per cent of the chattel loans were obtained from individuals—mostly relatives. Insurance companies, commercial banks, the Federal Land Bank, and the Farmers' Home Administration also supplied starting capital.
6. Forty per cent of all borrowed funds at the start were obtained from real estate mortgage loans, and 32 per cent from chattel mortgage loans.
7. Interest rates paid by beginning farmers were no higher than prevailing commercial bank rates. In some cases loans were obtained from relatives at lower rates than would have been charged by banks. These loans from relatives were frequently made on security that would not be acceptable to commercial banks. Subsistence payments strengthened the credit position in the case of G.I. trainees.
8. Most of these starting farmers actually used less credit than was available to them. Few reported being seriously handicapped by lack of credit.
9. All of these beginning farmers increased their net worth during the period of this study. The average increase was about $2,200 per year. Although earnings from farm operations accounted for the major portion of this accumulation of assets, they were supplemented by average annual receipts of $953 from veteran's subsistence payments, nonfarm employment, and assistance from relatives.
10. There was no close association between increase of net worth and size of farm, tenure, or beginning net worth. Those with higher earnings apparently absorbed more of it in living expenses.
11. The beginning farmer with limited capital has the best chance for a successful start as a crop and livestock share tenant. With more capital he may find a crop share or cash lease more advantageous. Owner operation requires still more capital. A tenant with a share of the income of an adequate sized farm with good soil is better off than with all the income of a small farm or a farm with poor soil.
12. Assistance from relatives is an important factor in the success of starting farmers. It may include favorable rental or purchase arrangements, advice and guidance, outright gifts, favorable credit terms, free use of machinery, and some help with peak labor loads.

Part II

Part II is based on replies to a questionnaire on problems and needs of a beginning farmer received from 157 members of the Southeastern and Southwestern Minnesota Farm Management Services. They are established farmers representing a wide range of farm experience. The suggestions of these experienced farmers to beginning farmers were:

1. Own at least one-half of your working capital before starting as a tenant.
2. Have your personal property clear and pay down at least one-third of the purchase price of a farm.
3. If your capital is limited, start as a renter. Crop and livestock share leases and partnership arrangements permit a start with a minimum of owned capital.
4. If your capital is limited, avoid excessive investment in machinery. Buy used machinery, hire custom services, or exchange labor for machine use.
5. Give preference to investments that bring quick returns such as dairy cows, hogs, and chickens.
6. Buy or rent a good productive farm of adequate size. Attempts to build up a run down farm are likely to end in disappointment.
7. Consider carefully financial assistance from relatives. Such assistance in the form of gifts, loans at rates or in amounts more favorable than commercial lending agencies offer, and the loan of some machinery are valuable aids to the starting farmer.
8. Understand that such personal factors as experience, "know how," interest in farming and liking for farm work, courage, faith in the future, ambition, determination, honesty, industry, frugality, and the cooperation of a wife who is interested in and shares in the management of the farm may be more important determinants of the success of a beginning farmer than the capital resources with which he starts.

Part III

1. The actual experience of individuals who started farming in recent years illustrates various ways of starting farming as well as the success that

may be achieved in spite of limited starting capital.

2. Farmer No. 1 started as a tenant in 1945 with an equity of only $1,000 but by 1953 had accumulated a net worth of $14,000. He is still a tenant.

3. Farmer No. 2 started as a tenant in 1946, bought the farm in 1949 and by the end of 1953 had increased his net worth from $4,900 at the start to $18,500.

4. Farmer No. 3 started out as an owner-operator buying a 160-acre farm in 1946. He bought an additional 50 acres in 1952. His net worth increased from $7,000 at the start to $38,759 at the end of 1953.

5. Factors in the success of these men included:

   a. A good background of education and farm experience and a reputation for industry, honesty, thrift, and good judgment in the neighborhood.

   b. Aid from parents or other relatives.

   c. Cooperative wives who shared the burden of planning and management.

   d. A reasonably favorable price situation, especially during the earlier years.

   e. An accurate accounting analysis of their farm business as a guide to operation.