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"FACTORY FARMS" have played a minor role on the American rural scene for many years. They may be somewhat more important in the future. The economic forces which have persistently and effectively pushed agriculture in the direction of larger farm businesses also result in greater specialization of production on individual farms. Probably mechanization has been the one most important factor in these trends. But technical developments in livestock and crop production have been important also. And such developments may have even greater impact in the years ahead.

The trend toward fewer, larger and more specialized farms, manned by fewer people, is likely to continue even though it is a matter of concern to those who value farming primarily as a "way of life." Obviously, a continuation of the long-term decline in proportion of the nation's labor force needed to produce its farm products will make the "benefits" of the farm "way of life" available to relatively fewer and fewer people. But the people who live on farms are attracted, as are people in other occupations, by the possibilities of substituting mechanical power for "muscle" and increasing their productivity and earning capacity. Shorter hours, greater output and higher income have almost universal appeal.

TECHNICAL DEVELOPMENTS affecting soil management, crop production and livestock feeding require additional specialized machinery and equipment and much, much greater knowledge of chemical, biological and physical processes that affect plant and animal life if they are to be put to use. Since most farmers are confronted with practical limits both as to the amount of capital they can invest in their business and the number of lines in which they can keep abreast of new technical developments, they tend to concentrate both capital and knowledge on the production of one or a few commodities. Hence, more specialized farms.

The family farm need not be frozen out by this trend. Even though the farms be larger and require a higher level of management skill, they can continue to be owned and operated by individual families who provide most of the management and labor from their own resources and earn their income primarily from farming.

EVIDENCES of these trends are present in all areas. A few observations made recently in the Northeast may be of interest to Midwest bankers and farmers. There, frequently on hilly, stony land, are many farms which can well be characterized as family-size food factories. The tillable acreage, judged by Midwest standards, typically is small. But the investment per man in livestock and equipment exceeds that on many Midwest farms. And cash outlays for farm production supplies, especially fertilizer and feed, are very heavy. In a sense, a large part of their crops, even their pasture and hay, are "purchased" in fertilizer bags and much of their livestock production capacity is "purchased" from the feed store.

Conversion rates--of fertilizer into grass or salable crops, and of feed into milk and eggs--must be kept at a high level of efficiency to assure a net margin between costs and prices. Hence, the need for large volume per man and for mechanization.

Probably the word "automation" should be substituted for "mechanization." For automatic equipment is becoming important on many farms. This provides a further reason for specialization of production since such equipment usually is adapted to only one job and it must be kept working if it is to be a profitable use of funds. Hence, farms take on more of the characteristics of the factory.

Reduced to its simplest terms, the larger, more specialized farms are merely a reflection of farmers' further progress in putting capital to work for them. The growing capital investment per worker in agriculture, however, can be expected to boost the credit requirements of individual farms.

SHORT-AND INTERMEDIATE-TERM CREDIT needs have grown relative to the long-term real estate mortgage needs. This shows up in the fact that agriculture's non-real estate debt now exceeds its real estate debt. But it probably will become even more evident as a larger number of these heavily capitalized farms are transferred to new owners.

The conventional separation of the real estate financing from the short-term financing may need to give ground in some areas. Farmers and lenders alike are thinking more in terms of the financial requirements of the whole farm business and less in terms of its individual parts. After all, the farm's debts must be serviced from the proceeds of the whole farm as an operating business and not from one or another of its various parts. The evolution in farm finance is continuing--a companion development to the changes in the financial structure of agriculture.

Research Department