

The Growth of

facilitate the transfer of the farm from generation to generation within the family. Also, as farm size increases, capital, tax, business continuity, and liability considerations encourage the investigation of the corporate form of organization.

Studies of family farm corporations in Indiana, Iowa, Kentucky, Oregon, South Dakota, Alabama, Michigan, and Minnesota have been conducted. In general, they conclude that incorporation, rather than being a threat to the family farm, can aid its development and survival. Where disadvantages were cited, they appeared to focus generally on the difficulty of maintaining a formal organization. Problems of capital acquisition, tax savings, and management improvement were not always solved by incorporation. Perhaps more important are problems that may develop in the future concerning income distribution, ownership, and management when more of the shareholders are nonfarm family members. The growth of family farm corporations was about the same as for well-managed partnerships or other efficient-sized farms.

FACTORS INFLUENCING AGRICULTURAL INVESTMENT

Most of the present concern in agriculture does not apply to family farm corporations but to other closely held, or publicly held investor corporations entering or engaged in farming. Closely held corporations which represent a compact of business and professional men and, occasionally, farmers, appear to be increasing in number.

Many people are motivated to invest in agriculture because they are convinced that its future is very promising. For example, a feasibility study made on a "conservative basis" (assumed corn at \$1.28 per bushel) in 1966 by a private consulting firm concluded that with good management, a continuous corn farm of about 2,000 acres in Iowa could yield 12.1 per cent on stockholders' equities after tax the first year and 18 per cent by the sixth

Table 4
COMPARATIVE RATES OF RETURN
ON FARM INVESTMENT*
(Per Cent)

Year	Average Return on Farmers' Equities		Cotton — San Joaquin Valley†		Cattle Ranch Inter-mountain Valley‡	
			Medium Size General Farm	Large Size General Farm	Sp. clothy Farm	mountain Valley‡
	U. S.	California				
1950	6.3	6.3	8.5	16.7	17.6	19.2
1955	2.5	5.2	7.1	8.6	7.6	11.0
1956	2.5	5.4	7.3	9.0	8.8	36.7
1957	2.8	3.9	5.6	8.7	7.8	5.0
1958	4.5	3.9	5.6	8.2	8.2	6.0
1959	2.2	3.7	5.2	8.0	8.6	17.7
1960	3.0	3.0	4.4	7.1	6.9	11.2
1961	3.8	2.4	3.8	6.7	6.5	1.9
1962	3.8	2.8	4.2	7.0	6.9	7.2
1963	3.9	2.1	3.5	8.2	7.5	4.9
1964	2.9	2.7	4.0	8.5	8.0	18.9
1965	4.8	1.8	3.0	6.2	5.6	22.4

*From the talk by John Hopkin.

†Operator and family labor compensation at average California industrial wage.

‡Operator and family labor compensation at average California farm wage.

year. A study of rates of return on farmers' equities in California, however, suggests that the returns are low and apparently decreasing (Table 4).⁴ Yet, farmers continue to invest their savings into agriculture and land values continue to climb. This apparent paradox may be explained by the unmeasured expected returns from capital gains associated with rising land values or in the distortion of true returns to commercial agriculture through the calculation of less-than-meaningful averages. A third view of the profitability of farm investment is given in *Parity Returns Position of Farmers*, a report to Congress by the USDA.⁵ This publication developed alternative approaches

⁴John A. Hopkin, "Some Implications of Long-Term Outlook for California Agriculture on Capital Requirements." Talk given to the agricultural economists of the Federal Reserve System, May 24, 1967.

⁵U. S., Congress, Senate, *Parity Returns Position of Farmers: Reports to the Congress of the United States by the Department of Agriculture*, 90th Cong., 1st Sess., 1967, Senate Doc. 44. Cited hereafter as *Parity Returns Position of Farmers*, 1967.