

INVESTMENT COST

Total capital investment on Corn Belt farms has been discussed above. It has been noted, for example, that the average value of investment on all commercial farms in the Corn Belt in 1954 was about \$44,000 and that the range in average value of investment among economic classes of farms was from about \$10,000 up to almost \$200,000 (table 31).

Capital is not available without cost. The cost of capital may be in the form of interest charges on money borrowed, interest payments on a mortgage or on indebtedness for machinery or equipment, or it may be an interest rate determined by the alternative opportunities of investment.

Estimated interest charges for capital investment per commercial farm, by major category of investment, and by type of farm in the different regions in the Corn Belt are given in table 89. These interest charges have been computed by using an interest rate of 5 percent for the investment in land and buildings, and an interest rate of 7 percent for the investment in machinery, equipment, and livestock. Because of the large investment frequently found on Corn Belt farms it is interesting to note the estimated charges, at prevailing interest rates, represented by these capital investments.

The relatively large interest charge for investment in land and buildings indicates the cost of land ownership and helps to explain

TABLE 89.—ESTIMATED INTEREST CHARGE FOR CAPITAL INVESTMENT PER COMMERCIAL FARM, BY MAJOR CATEGORIES OF INVESTMENT, BY TYPE OF FARM, IN THE CORN BELT AND COMPONENT REGIONS: 1954

Region and type of farm	Total capital investment	Land and buildings ¹	Machinery and equipment ²	Livestock ³
	Dollars	Dollars	Dollars	Dollars
Total Corn Belt:				
All commercial farms.....	2,416	1,677	419	320
Cash-grain farms.....	2,614	1,997	448	169
Livestock farms ³	2,615	1,688	442	485
Eastern Corn Belt:				
All commercial farms.....	2,218	1,586	414	218
Cash-grain farms.....	2,288	1,735	433	120
Livestock farms ³	2,556	1,736	447	373
Central Corn Belt:				
All commercial farms.....	3,402	2,546	469	387
Cash-grain farms.....	3,810	3,105	503	202
Livestock farms ³	3,380	2,281	512	587
Northern Corn Belt:				
All commercial farms.....	2,275	1,443	448	384
Cash-grain farms.....	2,235	1,579	404	192
Livestock farms ³	2,567	1,531	482	554
Western Corn Belt:				
All commercial farms.....	2,477	1,667	424	386
Cash-grain farms.....	2,370	1,736	438	196
Livestock farms ³	2,759	1,758	448	553
Southern Corn Belt:				
All commercial farms.....	1,611	1,026	346	239
Cash-grain farms.....	1,747	1,223	385	139
Livestock farms ³	1,721	1,050	337	334

¹ Interest charge at 5 percent.

² Interest charge at 7 percent.

³ Livestock other than dairy and poultry farms.

the high proportion of farmers who are part owners or tenants in the relatively high-priced land areas of the Corn Belt. To a tenant, the actual cost of investment in land is not in the form of a direct payment of interest, but it is a cost included in rents paid in the long run by tenants and part owners to their landlords.

The estimated interest charge for total capital investment averaged \$2,416 per commercial farm in the Corn Belt in 1954. It was highest (averaging \$3,810 per farm) on cash-grain farms in the Central Corn Belt. It was relatively the lowest on commercial farms in the Southern Corn Belt, where it averaged \$1,611 per farm. The estimated interest charge for investment in land and buildings averaged \$1,677 for all commercial farms in the Corn Belt, while the average interest on investment in machinery and equipment was \$419 and the average interest on investment in livestock averaged \$320 per commercial farm.

The estimated average charges for interest on the various economic classes of cash-grain and livestock farms in the Corn Belt are shown in table 90. Interest on the total investment was highest on Economic Class I cash-grain farms, averaging \$9,011 per farm. On Economic Class I livestock farms it was \$6,711. Total interest, as well as the interest charge in each category of investment, is progressively lower as we go from Economic Class I farms to Economic Class VI farms. The interest on investment in land and buildings was \$7,495 per farm on Class I cash-grain farms, but only \$442 on Class VI cash-grain farms. The estimated interest charge on machinery and equipment averaged \$1,052 on Class I cash-grain farms, but only \$168 on Class VI cash-grain farms. On livestock farms, the average interest charge for investment in livestock per farm ranged from \$1,395 on Economic Class I farms down to \$109 on Class VI farms.

TABLE 90.—ESTIMATED INTEREST CHARGE FOR CAPITAL INVESTMENT PER FARM, BY MAJOR CATEGORIES OF INVESTMENT, BY TYPE AND ECONOMIC CLASS OF FARM, IN THE CORN BELT: 1954

Type and economic class of farm	Total capital investment	Land and buildings ¹	Machinery and equipment ²	Livestock ³
	Dollars	Dollars	Dollars	Dollars
All commercial farms.....	2,416	1,677	419	320
Cash-grain farms:				
Total.....	2,614	1,997	448	169
Class I.....	9,011	7,495	1,052	464
Class II.....	4,322	3,430	631	261
Class III.....	2,512	1,879	454	179
Class IV.....	1,575	1,121	343	111
Class V.....	1,005	688	256	61
Class VI.....	646	442	168	36
Livestock farms: ³				
Total.....	2,615	1,688	442	485
Class I.....	6,711	4,422	894	1,395
Class II.....	3,738	2,482	594	662
Class III.....	2,396	1,522	434	440
Class IV.....	1,610	985	322	303
Class V.....	1,041	628	228	185
Class VI.....	649	396	144	108

¹ Interest charge at 5 percent.

² Interest charge at 7 percent.

³ Livestock other than dairy and poultry farms.