

# FARMER FINANCIAL PLANNING NEEDS MORE EMPHASIS

by Carson D. Evans

Wayman G. Chappell is correct in criticizing financial management and record keeping among this nation's farm operators (*CHOICES*, First Quarter 1989).

For almost a decade I have worked part time across much of South Carolina collecting data from farmers for the National Agricultural Statistics Service (NASS) and for Clemson University. Many farmers have an adequate recordkeeping system and actually use it. But my experience suggests that 25 percent or more of the farm operators in South Carolina do not. The proportion of non-financial planners would, doubtless, be even higher if it were not for income tax returns or maybe some farm loan applications. At those times they, at least, have to make some effort to substantiate income and expense claims. For too many, their income tax return or loan application is the first and only time they see some kind of written financial report of their year's work.

The NASS numbers for such items as crop acreage and livestock numbers are probably fairly good; production numbers are probably somewhat less accurate. But estimates of farm costs and returns are another matter all together. Even including those operations that have complete records of expense and sales receipts, and there are some, the estimated costs of producing certain crops or kinds of livestock are way off. How much? There is no way to tell for sure but it must be in excess of 15 percent or 20 percent either too high or too low. What other types of businesses would dare risk operating in such a financially ignorant environment? Very few, if they expect to stay in business.

## Farm Program Effects

Besides the negative effects on the individual farm decision-making, there is also the chance that these inaccuracies distort

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farm support prices and related payments to farmers. Since those data are one basis for setting those payment levels, either the farmer is getting too little or the general public is being taken for a ride. I suspect that it is more the latter than the former. The consequences, therefore, of basing widespread and fundamental decisions on data that are probably inaccurate but also improvable are too great to ignore.

## Some Alternatives

The remedy is fairly simple. The hard part, as Mr. Chappell said, is to get the farmers to recognize the need. They hold the key to doing something about correcting the situation.

A sophisticated recordkeeping system is not necessary. For many, just knowing how to construct a simple balance sheet and a cash flow chart would be a great start—and an eye opener, as well.

Recording the amount of sales from various farm enterprises is not difficult. Allocating the various production costs to the right enterprise is harder. But even using a technique that may be somewhat less than perfect would be a giant step in the right direction for the operators.

It is appropriate for the Extension Service to aggressively offer basic farm financial management training and promote record keeping by farm operators. Some states, like Illinois and Tennessee, have taken steps to improve the situation. Unfortunately, other states such as South Carolina have not yet recognized the problem and taken steps to correct it. Such a program requires more than a free farm record book and a counseling service to soothe the stress at bankruptcy time.

The Economic Research Service (ERS) should have a major concern about the conditions of farmers' records and should be a prime mover in bringing about their improvement. ERS sponsors the cost and return surveys conducted by NASS as part of their responsibility to furnish the public and Congress with the best possible economic interpretation of farm data and information.

Chappell and I may, of course, be wrong. But our concerns are based on our opportunities to observe firsthand the records—or rather the lack of records—that farm operators utilize when responding to NASS questionnaires. If we are right—and I think we are—the problem is real and needs serious attention by our universities and by USDA—and soon. **C**

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