



FINANCIAL PERFORMANCE AND FARM TYPE

This article documents differences in financial performance among farms in the Kansas Farm Management Association (KFMA) based upon farm type. Labor standards and production units are used to designate farm types. Crop farms have at least 65 percent of their labor, paid and unpaid, devoted to crop production. Crop/beef cow farms have at least 35 percent of their labor devoted to beef cow production. Similarly, crop/dairy farms have at least 35 percent of their labor devoted to dairy production.

To document differences in financial performance, the following measures are used: total expense ratio, adjusted total expense ratio, economic total expense ratio, operating profit margin, and asset turnover ratio. The total expense ratio is computed by dividing accrual expenses (cash costs, accrual cost adjustments, and depreciation) by value of farm production. A ratio below one indicates that value of farm production has covered all accrual expenses. The adjusted total expense ratio is computed by adding unpaid operator and family labor to the expenses included in the total expense ratio and dividing by value of farm production. A ratio below one indicates that a farm, or group of farms, has covered accrual expenses, and unpaid operator and family labor. The economic total expense ratio is computed by adding the opportunity charge on net worth to the expenses

included in the adjusted total expense ratio and dividing by value of farm production. The opportunity charge on net worth, in addition to accrual expenses and unpaid operator and family labor, are covered when this ratio is below one. The operating profit margin is computed by adding interest and subtracting unpaid operator and family labor from net farm income, and dividing the result by value of farm production. A negative operating profit margin ratio typically indicates that a farm, or group of farms, is not able to cover unpaid operator and family labor. The asset turnover ratio is computed by dividing value of farm production by total assets. In addition to these financial performance measures, this article also reports the incidence of financial stress; the percent of farms covering accrual expenses and opportunity costs; the percent of labor devoted to crop production; and information on crop and livestock accrual income.

Information for KFMA farms with continuous data from 2005 to 2009 is presented in this article. Table 1 reports the averages for these 1,052 farms. The average total expense ratio, adjusted total expense ratio, and economic total expense are 0.766, 0.891, and 1.064, respectively. Note that the average adjusted total expense ratio is below one. This indicates that, on average, value of farm production for this group of farms covered accrual expenses, and unpaid operator and family labor. Approximately 63 percent of the farms were able to cover these expenses. In contrast, only 28 percent of the farms covered opportunity costs on net worth, as well. The average operating profit margin is 0.1613 and the

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average asset turnover ratio is 0.3303. Also note that on average these farms devoted approximately 78 percent of their time to crop production.

It is important to compare a farm's financial performance measures with similar farms. With this in mind, Table 2 reports financial performance measures for dryland crop farms, irrigated crop farms, crop/beef cow farms, and crop/dairy farms. The total expense ratio was the highest for the crop/beef cow farms and the lowest for the dryland crop farms. The adjusted total expense ratio and economic total expense ratio for the crop/beef cow farms and crop/dairy farms were relatively higher than the corresponding ratios for the crop farms. Because these ratios include opportunity costs, comparisons among farms using the adjusted total expense ratio and the economic total expense ratio are more appropriate than comparisons among farms using the total expense ratio. It is particularly problematic to compare the total expense ratio between a group of farms with no hired labor and a group of farms with hired labor because unlike unpaid operator and family labor, hired labor is included in the expenses that make up the total expense ratio. The percent of farms covering accrual expenses and unpaid operator and family labor ranged from 29 percent for the crop/beef cow farms to 83 percent for the irrigated crop farms. The range in the percent of farms covering all costs, or with an economic total expense ratio below one, is also quite wide. None of the of the crop/beef cow farms covered all costs while approximately 61 percent of the irrigated crop farms covered all costs.

The average operating profit margin ranged from -0.0318 (-3.18 percent) for the crop/beef cow farms to 0.1811 (18.11 percent) for the dryland crop farms. The average asset turnover ratio ranged from 0.1595 for crop/beef cow farms to 0.4618 for irrigated crop farms. Income by crop and livestock enterprise is also reported in Table 2. It is important to note that the beef and dairy incomes reported represent

value added income measures. Also note that purchased feed is subtracting from value of farm production, but not from beef and dairy income.

Table 3 reports financial performance measures for dryland crop farms by region of the state. The average expense ratios are relatively lower for farms in eastern Kansas. Also, the operating profit margin is relatively higher for farms in eastern Kansas. These results are at least partially due to differences in farm size among regions. The average dryland crop farm in eastern Kansas that participates in the KFMA program is relatively larger using value of farm production as a measure of farm size. Other reasons for regional differences include differences in weather, the mix of crops produced, and livestock production among regions.

It is common for farms to want to compare financial performance with farms in the top quartile or top one-third. There are enough dryland crop farms and crop/beef cow farms to make these comparisons. Table 4 presents financial performance measures for dryland crop farms by profit margin quartiles. The difference in expense ratios, operating profit margin, and asset turnover ratio among groups is large. Farms in the top quartile (fourth quartile) have an economic total expense ratio that is 35 percent lower than that of farms in the bottom quartile (first quartile). Primarily due to their inability to cover unpaid operator and family labor, farms in the bottom quartile have a negative operating profit margin. In contrast, the average operating profit margin for farms in the top quartile is 0.2964.

Table 5 presents financial performance measures for crop/beef cow farms by profit margin thirds. As with the case with dryland crop farms, differences in financial performance measures among groups are large. Farms in the top one-third (third category) have an economic total expense ratio that is 42 percent lower than the economic total expense ratio for farms in the bottom one-third. None of the farms in the

bottom two-thirds in terms of the operating profit margin are able to cover opportunity costs. Approximately 90 percent of the farms in the top one-third are able to cover opportunity costs on unpaid operator and family labor. The average operating profit margin is negative for farms in the bottom profit margin categories (first and second categories). In contrast, the average operating profit margin is 0.1339 for farms in the top one-third profit margin category. The farms in the top one-third profit margin category also have a relatively higher asset turnover ratio.

In addition to benchmarking using the whole-

farm information presented in this article, it is also important to examine the relative competitiveness of individual enterprises. Enterprise analysis enables a farm to determine whether a particular enterprise is contributing to a farm's relatively low or high whole-farm financial performance. Additional information on whole-farm and enterprise benchmarks can be found at the following web site:
www.agmanager.info/kfma.

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Table 1. Summary Statistics for 1,052 KFMA Farms with Continuous Data from 2005-2009.

Item	Average
Value of Farm Production (VFP)	\$389,428
Net Farm Income	\$91,276
Interest	\$20,403
Unpaid Family and Operator Labor	\$48,853
Total Assets	\$1,179,111
Total Debt	\$334,617
Total Expense Ratio (TER)	0.766
Adjusted Total Expense Ratio (ATER)	0.891
Economic Total Expense Ratio (ETER)	1.064
Operating Profit Margin Ratio	0.1613
Asset Turnover Ratio	0.3303
Debt to Asset Ratio	0.2838
Percent of Farms with Positive Net Cash Flow	94.01%
Percent of Farms Financially Stressed	5.23%
Percent of Farms with TER less than 1.000	90.78%
Percent of Farms with ATER less than 1.000	62.74%
Percent of Farms with ETER less than 1.000	29.09%
Percent of Farms with VFP less than \$100,000	12.45%
Percent of Farms with VFP between \$100,000 and \$250,000	30.80%
Percent of Farms with VFP between \$250,000 and \$500,000	33.08%
Percent of Farms with VFP greater than \$500,000	23.67%
Crop Labor Percentage	78.00%

Source: Kansas Farm Management Association 2009 Databank.

Table 2. Summary Statistics by Farm Type.

Item	Farm Type			
	Dryland	Irrigated	Crop Beef Cow	Crop Dairy
Number of Farms	641	18	62	33
Value of Farm Production (VFP)	\$391,394	\$816,886	\$142,646	\$396,914
Net Farm Income	\$100,053	\$148,348	\$25,533	\$82,342
Interest	\$17,951	\$39,188	\$9,177	\$18,210
Unpaid Family and Operator Labor	\$47,132	\$42,866	\$39,250	\$65,969
Total Assets	\$1,056,798	\$1,768,832	\$894,168	\$1,284,006
Total Debt	\$292,975	\$673,952	\$145,788	\$286,840
Total Expense Ratio (TER)	0.744	0.818	0.821	0.793
Adjusted Total Expense Ratio (ATER)	0.865	0.871	1.096	0.959
Economic Total Expense Ratio (ETER)	1.021	0.977	1.516	1.160
Operating Profit Margin Ratio	0.1811	0.1771	-0.0318	0.0871
Asset Turnover Ratio	0.3704	0.4618	0.1595	0.3091
Debt to Asset Ratio	0.2772	0.3810	0.1630	0.2234
Percent of Farms with Positive Net Cash Flow	95.63%	77.78%	82.26%	93.94%
Percent of Farms Financially Stressed	5.30%	0.00%	1.61%	9.09%
Percent of Farms with TER less than 1.000	94.23%	94.44%	72.58%	90.91%
Percent of Farms with ATER less than 1.000	70.36%	83.33%	29.03%	48.48%
Percent of Farms with ETER less than 1.000	36.04%	61.11%	0.00%	9.09%
Crop Labor Percentage	91.86%	98.59%	40.62%	23.90%
Wheat Income	\$76,861	\$102,511	\$17,037	\$13,424
Corn Income	\$85,453	\$428,513	\$6,617	\$21,500
Grain Sorghum Income	\$29,002	\$4,853	\$6,417	\$2,807
Soybean Income	\$92,405	\$54,465	\$14,350	\$40,081
Hay and Forage Income	\$11,224	\$32,296	\$3,851	\$4,945
Beef Income	\$30,846	\$7,007	\$90,613	\$2,955
Dairy Income	\$859	\$0	\$27	\$424,413

Table 3. Summary Statistics for Dryland Crop Farms by Region of the State.

Item	Region		
	East	Central	West
Number of Farms	295	273	73
Value of Farm Production (VFP)	\$421,558	\$358,735	\$391,637
Net Farm Income	\$118,863	\$82,983	\$87,877
Interest	\$19,423	\$15,425	\$21,452
Unpaid Family and Operator Labor	\$49,314	\$46,291	\$41,458
Total Assets	\$1,165,425	\$903,311	\$1,191,829
Total Debt	\$318,157	\$256,672	\$326,979
Total Expense Ratio (TER)	0.718	0.769	0.776
Adjusted Total Expense Ratio (ATER)	0.835	0.898	0.881
Economic Total Expense Ratio (ETER)	0.996	1.042	1.058
Operating Profit Margin Ratio	0.2111	0.1453	0.1733
Asset Turnover Ratio	0.3617	0.3971	0.3286
Debt to Asset Ratio	0.2730	0.2841	0.2744
Percent of Farms with Positive Net Cash Flow	96.61%	94.87%	94.52%
Percent of Farms Financially Stressed	4.75%	6.59%	2.74%
Percent of Farms with TER less than 1.000	95.59%	93.04%	93.15%
Percent of Farms with ATER less than 1.000	77.29%	62.64%	71.23%
Percent of Farms with ETER less than 1.000	40.00%	31.87%	35.62%
Crop Labor Percentage	90.62%	92.26%	95.42%
Wheat Income	\$35,037	\$108,089	\$129,089
Corn Income	\$127,413	\$39,333	\$88,368
Grain Sorghum Income	\$10,271	\$47,088	\$37,056
Soybean Income	\$148,993	\$54,776	\$4,448
Hay and Forage Income	\$8,222	\$15,463	\$7,502

Table 4. Summary Statistics for Operating Profit Margin Quartiles, Dryland Crop Farms.^a

Item	Profit Margin Quartile			
	First	Second	Third	Fourth
Number of Farms	161	160	160	160
Value of Farm Production (VFP)	\$152,446	\$304,714	\$469,303	\$573,031
Net Farm Income	\$13,994	\$67,619	\$117,083	\$202,052
Interest	\$8,893	\$19,292	\$23,293	\$20,384
Unpaid Family and Operator Labor	\$38,674	\$47,365	\$49,955	\$52,586
Total Assets	\$570,665	\$957,035	\$1,188,252	\$1,514,279
Total Debt	\$143,487	\$307,177	\$369,245	\$352,926
Total Expense Ratio (TER)	0.908	0.778	0.751	0.647
Adjusted Total Expense Ratio (ATER)	1.162	0.934	0.857	0.739
Economic Total Expense Ratio (ETER)	1.386	1.104	0.997	0.901
Operating Profit Margin Ratio	-0.1036	0.1298	0.1927	0.2964
Asset Turnover Ratio	0.2671	0.3184	0.3950	0.3784
Debt to Asset Ratio	0.2514	0.3210	0.3107	0.2331
Percent of Farms with Positive Net Cash Flow	83.23%	99.38%	100.00%	100.00%
Percent of Farms Financially Stressed	13.66%	7.50%	0.00%	0.00%
Percent of Farms with TER less than 1.000	77.02%	100.00%	100.00%	100.00%
Percent of Farms with ATER less than 1.000	3.73%	78.12%	100.00%	100.00%
Percent of Farms with ETER less than 1.000	0.00%	19.37%	50.00%	75.00%
Crop Labor Percentage	90.76%	91.40%	91.24%	94.06%
Wheat Income	\$42,359	\$87,795	\$87,758	\$89,747
Corn Income	\$18,259	\$64,666	\$99,320	\$159,988
Grain Sorghum Income	\$12,105	\$28,161	\$39,209	\$36,638
Soybean Income	\$23,827	\$72,695	\$108,511	\$165,015
Hay and Forage Income	\$9,233	\$15,229	\$13,059	\$7,386

^a The first quartile is represented by farms with the lowest operating profit margin ratio. The fourth quartile is represented by farms with the highest operating profit margin quartile.

Table 5. Summary Statistics for Operating Profit Margin Thirds, Crop and Beef Cow Farms.^a

Item	Profit Margin Thirds		
	First	Second	Third
Number of Farms	21	21	20
Value of Farm Production (VFP)	\$68,080	\$133,568	\$230,471
Net Farm Income	-\$5,409	\$16,882	\$67,104
Interest	\$7,115	\$10,600	\$9,847
Unpaid Family and Operator Labor	\$34,011	\$37,984	\$46,082
Total Assets	\$634,126	\$843,485	\$1,220,428
Total Debt	\$105,413	\$177,519	\$154,864
Total Expense Ratio (TER)	1.079	0.874	0.709
Adjusted Total Expense Ratio (ATER)	1.579	1.158	0.909
Economic Total Expense Ratio (ETER)	2.200	1.557	1.279
Operating Profit Margin Ratio	-0.4745	-0.0786	0.1339
Asset Turnover Ratio	0.1074	0.1584	0.1888
Debt to Asset Ratio	0.1662	0.2105	0.1269
Percent of Farms with Positive Net Cash Flow	61.90%	85.71%	100.00%
Percent of Farms Financially Stressed	0.00%	4.76%	0.00%
Percent of Farms with TER less than 1.000	33.33%	85.71%	100.00%
Percent of Farms with ATER less than 1.000	0.00%	0.00%	90.00%
Percent of Farms with ETER less than 1.000	0.00%	0.00%	0.00%
Crop Labor Percentage	34.42%	39.76%	48.02%
Beef Income	\$58,507	\$87,374	\$127,726
Number of Cows	114	140	188

^a The first profit margin one-third is represented by farms with the lowest operating profit margin ratio.
The third profit margin one-third is represented by farms with the highest operating profit margin ratio.

SOURCES AND USES OF FUNDS ON KFMA FARMS

A flow of funds report, often referred to as a sources and uses of funds statement, provides a mechanism for reporting how a farm's performance during an accounting period influenced and was influenced by major funding activities. This report reconciles information in the income statement, the balance sheet, and the cash flow statement.

Sources of funds include total cash farm receipts, machinery sales, building sales, land sales, net farm loans received, net nonfarm loans received, nonfarm income, and net transfer in. If a farm borrows more money than its reduction in short-term and long-term debt (i.e., principal payments), net farms loans received will be positive. A decrease in accounts receivable from the beginning to the end of the year would represent a net transfer in.

Uses of funds include total cash farm expenses, machinery purchases, building purchases, land purchases, net farm loans paid, net nonfarm loans paid, family living expenses, nonfarm expense, taxes, corporation operator labor, and net transfer out. If a farm pays back more money on loans than it borrows, net farm loans paid will be positive. An increase in accounts receivable from the beginning to the end of year would represent a net transfer out. A farm that is growing would typically have relatively higher asset purchases compared to asset sales, and a positive value for net farm loans received. In contrast, a farm that is downsizing, perhaps in anticipation of future retirement, would typically have relatively higher asset sales compared to asset purchases, and a positive value for net farm loans paid.

Table 1 presents a summary flow of funds report for the 1,052 KFMA farms with continuous data from 2005 to 2009. The layout in Table 1 is similar to the layout contained in Section 33a of a KFMA member's whole-farm analysis report. In the summary report farm loans received were

greater than farm loans paid so net farm loans received was positive. Similarly, total transfers out were greater than transfers in so net transfer out was positive. Machinery, building, and land purchases are also reported as net figures in Table 1. Finally, most KFMA farms do not keep detailed nonfarm income and expense information so Table 1 assumes that the unlocated flow of funds represents nonfarm items. If all cash is accounted for, unlocated flow of funds would be zero.

Net cash farm receipts (total cash farm receipts minus total cash farm expenses) ranged from \$68,847 in 2006 to \$129,039 in 2009. Net cash farm receipts were greater than \$100,000 in both 2008 and 2009. Net cash farm receipts, along with net farm loans received, were used to purchase assets and for nonfarm expenses (the primary nonfarm expense on most farms is family living expense).

Figure 1 presents net cash farm receipts (called net receipts in the figure), asset purchases, and unlocated funds for each of the last five years. Unlocated funds (i.e., nonfarm expenses) were above \$40,000 in 2008 and 2009, and ranged from \$32,570 in 2005 to \$43,678 in 2009. Asset purchases at \$79,372 and \$80,782, respectively, were substantially higher in 2008 and 2009 than the levels in the previous three years. It is obvious from Table 1 and Figure 1 that KFMA farms used the above average income in the last three years to expand their operations.

It is important to note that not all farms purchased assets or increase loans over the last five years. Figure 2 presents the percentage of farms with positive net assets purchased and loans received. Most farms purchased more assets than they sold over the last five years. In contrast, less than 50 percent of the farms in a given year had more farm loans received than loans paid. This illustrates the fact that a large percentage of farms used the relatively high

incomes during the last three years to pay down debt.

This newsletter article presented historical sources and uses of funds information. I encourage KFMA members and others to take a close look at their flow of funds report and determine what their net cash farm receipts have been used for in recent years. For most

businesses, to maintain competitiveness, it is essential that the business grow over time. Net cash farm receipts are an important source of funds that can be used to purchase assets and expand the farm.

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Table 1. KFMA Flow of Funds Reports, 2005-2009.

Item	2005	2006	2007	2008	2009
<u>Sources of Funds</u>					
Total Cash Farm Receipts	427,229	436,630	487,636	569,109	559,913
Machinery and Building Sales	0	0	0	0	0
Land Sales	0	0	0	0	0
Net Farm Loans Received	11,273	10,967	9,172	22,014	5,595
Net Nonfarm Loans Received	0	0	0	0	0
Nonfarm Income	0	0	0	0	0
Net Transfer In	0	0	0	0	0
 Total Sources of Funds	 \$438,502	 \$447,597	 \$496,808	 \$591,123	 \$565,508
<u>Uses of Funds</u>					
Total Cash Farm Expenses	353,923	367,783	404,426	457,153	430,874
Machinery and Building Purchases	39,596	35,387	41,192	61,566	69,431
Land Purchases	7,304	6,179	9,396	17,806	11,351
Net Farm Loans Paid	0	0	0	0	0
Net Nonfarm Loans Paid	0	0	0	0	0
Family Living Expenses	0	0	0	0	0
Nonfarm Expense	0	0	0	0	0
Taxes	0	0	0	0	0
Corporation Operator Labor	0	0	0	0	0
Net Transfer Out	1,479	1,287	1,165	2,338	3,554
 Total Uses of Funds	 \$402,302	 \$410,636	 \$456,179	 \$538,863	 \$515,210
<u>Net Flow of Funds</u>					
Net Flow of Funds	\$36,200	\$36,961	\$40,629	\$52,260	\$50,298
Beginning Cash Balance	\$55,760	\$38,813	\$41,343	\$48,462	\$57,861
Net Flow of Funds	\$36,200	\$36,961	\$40,629	\$52,260	\$50,298
Unlocated Flow of Funds	\$32,570	\$33,092	\$33,610	\$43,398	\$43,678
Ending Cash Balance	\$59,390	\$42,682	\$48,362	\$57,324	\$64,481

Source: Kansas Farm Management Association 2009 Databank.

Figure 1. Net Receipts and Asset Purchases for KFMA Farms, 2005-2009

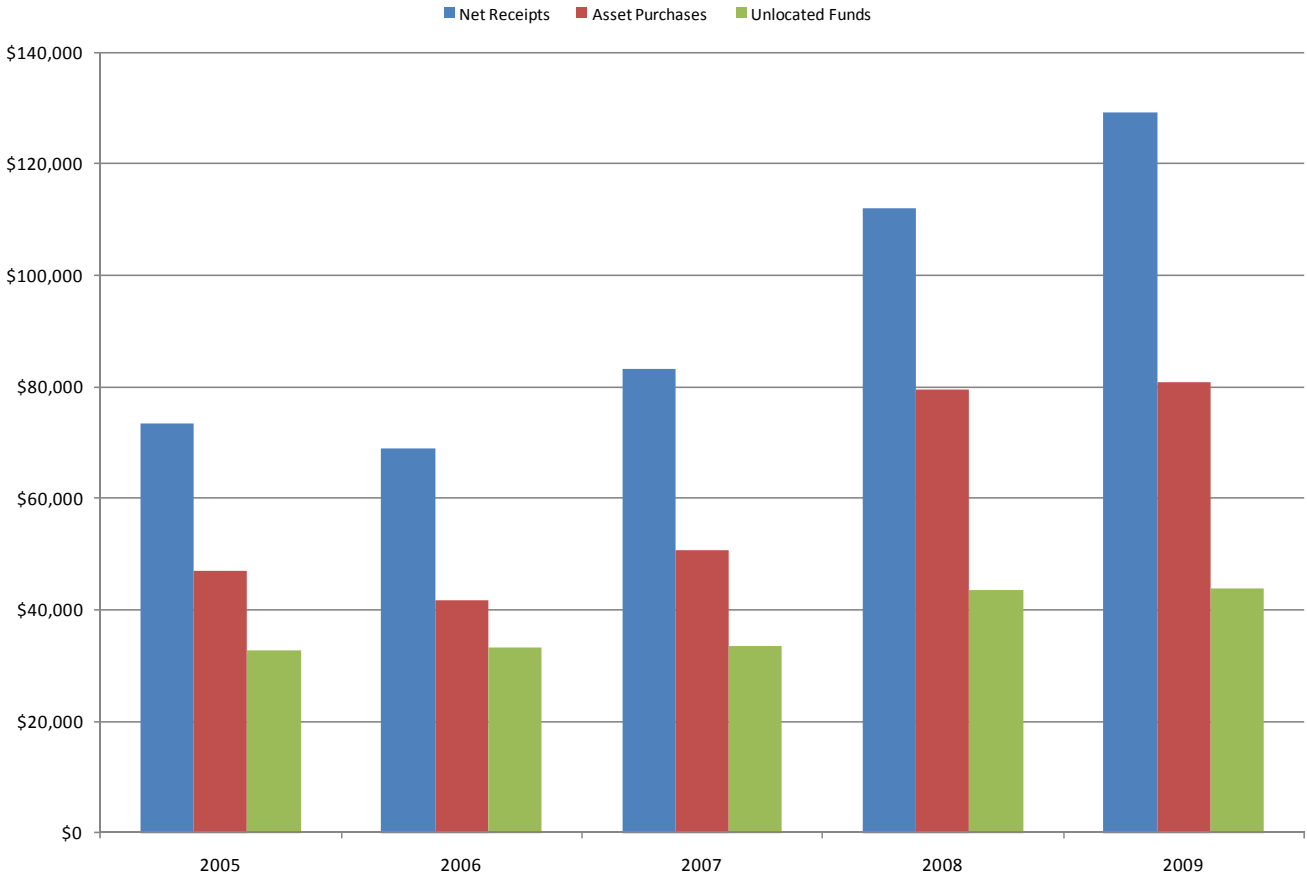
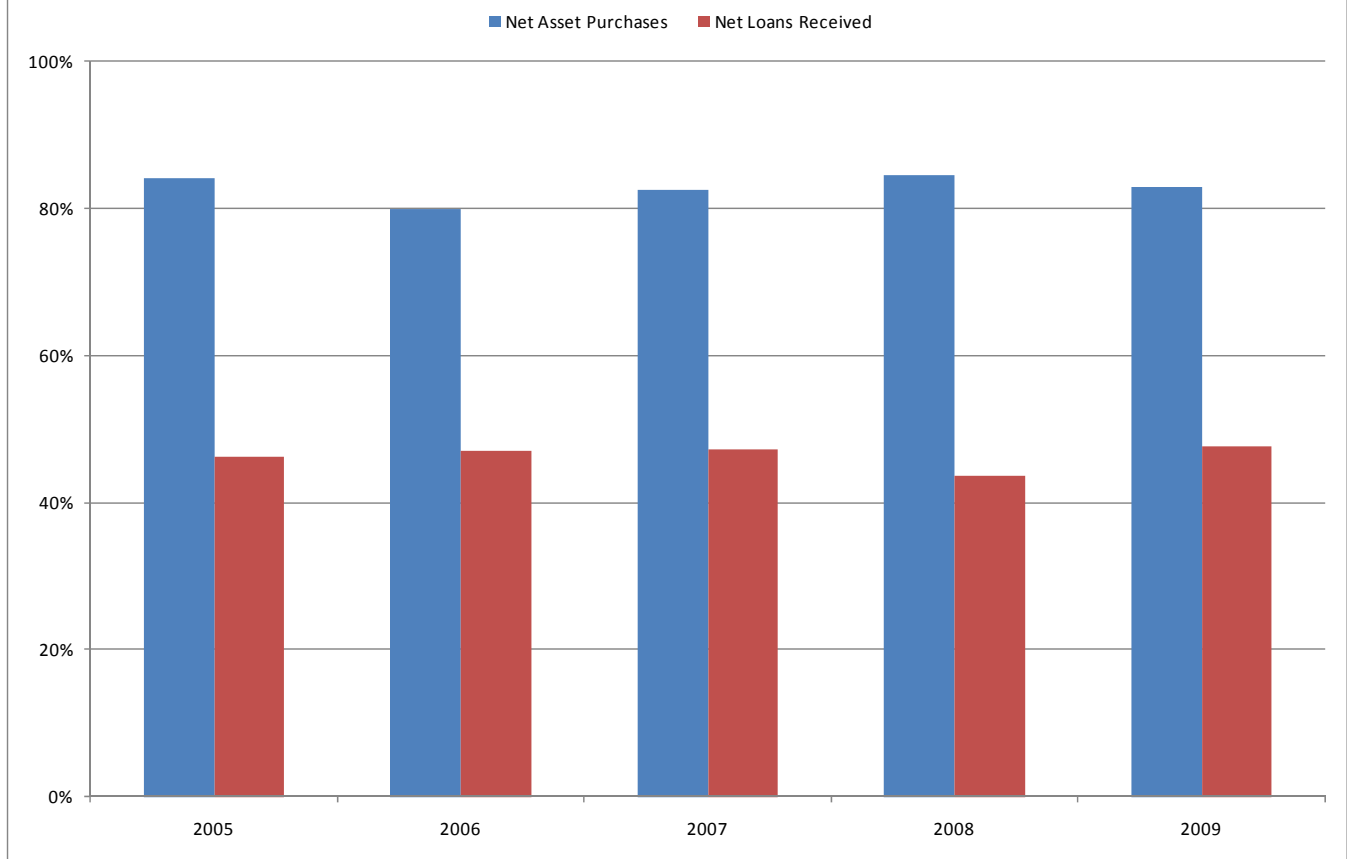


Figure 2. Percentage of KFMA Farms with Positive Net Assets Purchased and Loans Received



LONG-TERM TRENDS IN FARM INCOME

This article documents the long-term trends in value of farm production, net farm income, and the net farm income ratio using Kansas Farm Management Association (KFMA) summary data from 1973 to 2009. Trends in farm income are also compared to inflation over the same time period. Given the relatively high net farm income in 2007, 2008, and 2009; it is important to relate these years to previous years and determine whether these years were atypical.

Average net farm income for KFMA farms from 1973 to 2009 is illustrated in Figure 1. Average net farm income was above \$100,000 for 2007, 2008, and 2009. Does this mean that these years were atypical from a profit standpoint?

The answer is, not necessarily. To compare profitability over time, it is useful to express net farm income as a percentage of value of farm production. This ratio is called the net farm income ratio and is illustrated in Figure 2. The net farm income ratio averaged 28.09 percent in 2007, 26.09 percent in 2008, and 22.59 percent in 2009. These values were considerably above the long-run average net farm income ratio of 17.61 percent. Moreover, the net farm income ratios in 2007 and 2008 were two of six years in which the net farm income ratio was above 25 percent. The only two years with higher net farm income ratio than 2007 were 1973 (46.41 percent) and 1979 (28.29 percent). Thus, though relatively high in 2007, 2008, and 2009;

the net farm income ratios in these years were not that unusual compared to historical ratio values.

One of the reasons why the incomes from 2007 to 2009 seem so unusual to some individuals is due to their failure to take account of inflation when examining trends in income. The growth rates in value of farm production and net farm income over the 1973 to 2009 periods were 3.34 percent and 4.21 percent, respectively. These growth rates are comparable to the growth rate in the implicit price deflator for personal consumption expenditures of 3.53 percent over the same period. Interestingly, there was not a

significant trend in the net farm income ratio over the 1973 to 2009 period.

As I have indicated in previous newsletter articles, profitability (measured using the net farm income ratio, operating profit margin ratio, or a similar measure) can vary significantly among farms. Individual farms are encouraged to compare their five-year average net farm income and operating profit margin ratios to producers in their association.

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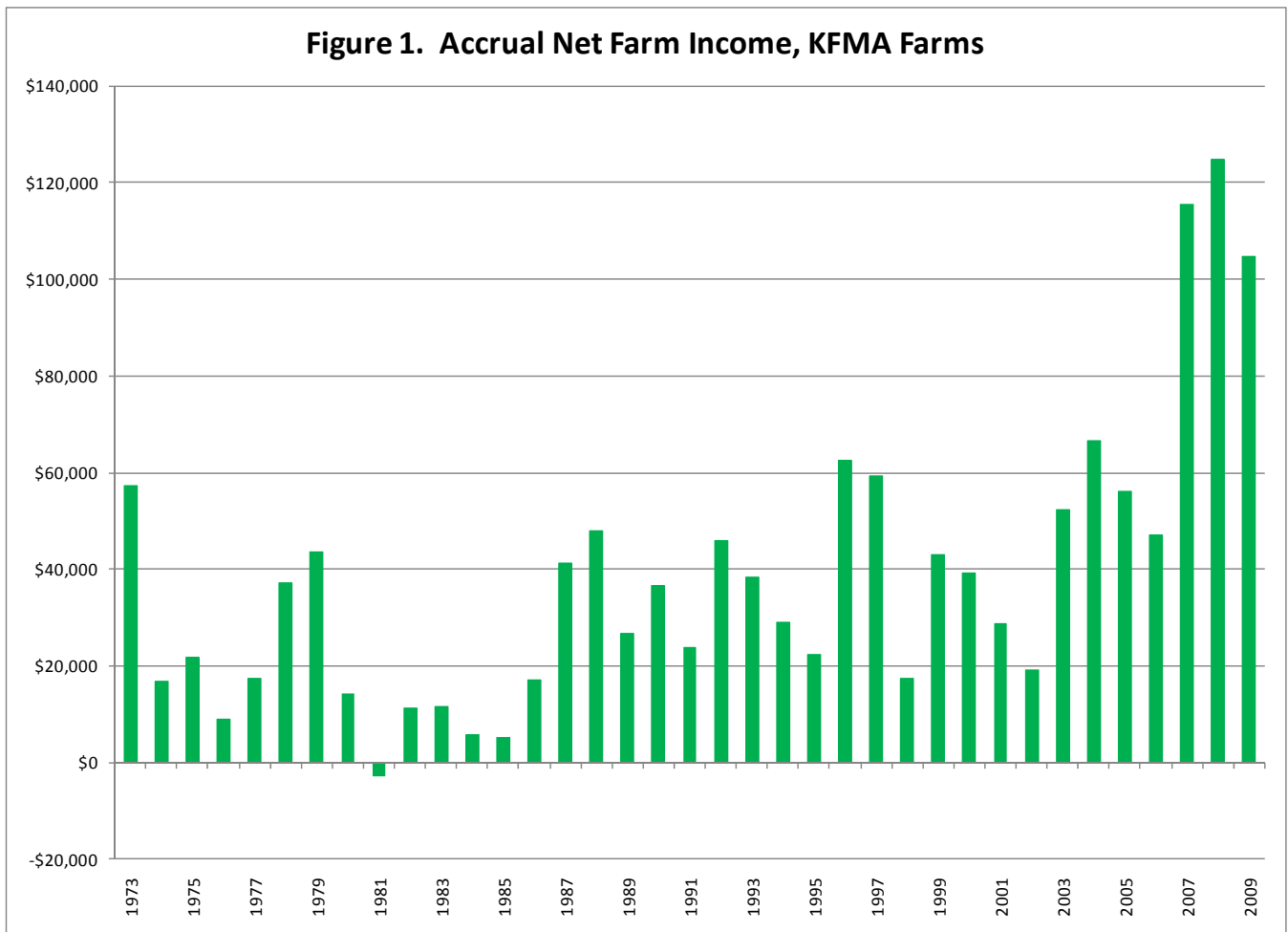
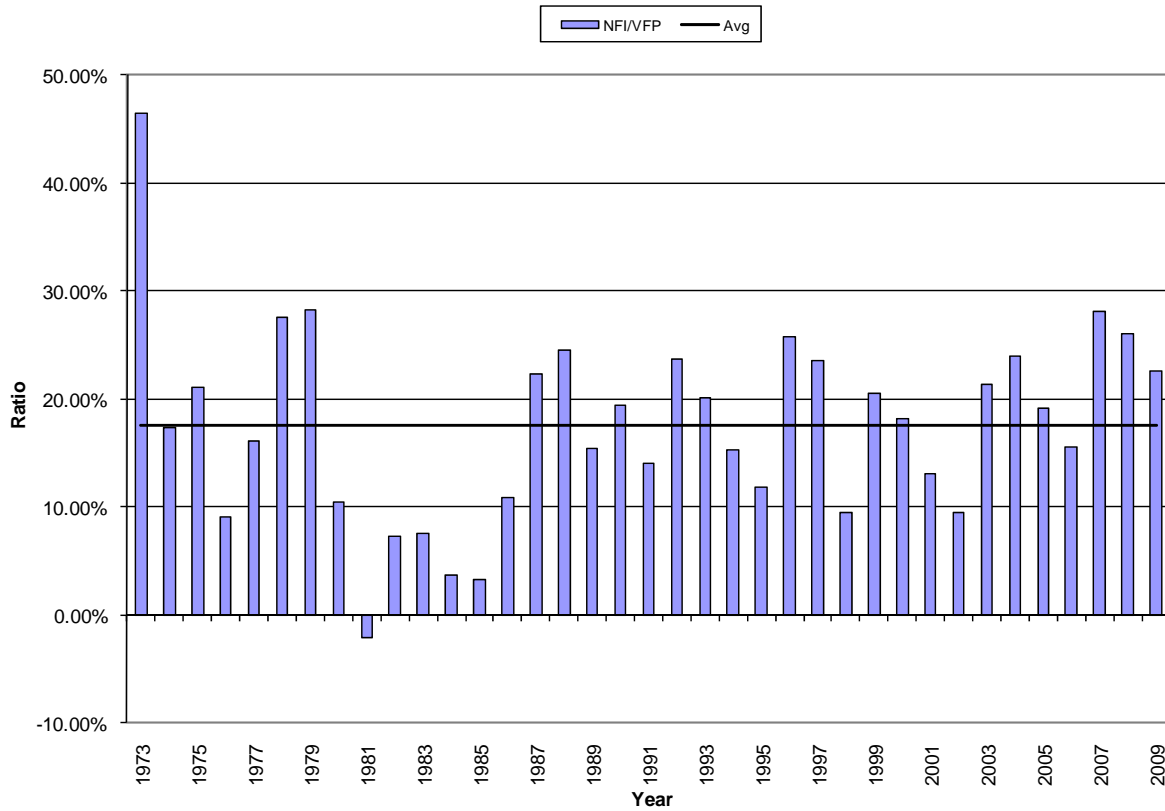


Figure 2. Trend in Net Farm Income Ratio, KFMA Farms



RECOMMENDATIONS FOR FURTHER READING

The purpose of this section of the newsletter is to briefly discuss articles and web sites that may be of interest to readers. In general, the articles discussed will not report on original research. Rather, the articles will contain citations to web sites and articles that discuss topics of general interest.

In a recent article, Gary Schnitkey of the University of Illinois summarizes shifts in crop acres since the inception of the Freedom Farm legislation in the 1995 Farm Bill which eliminated many acreage restrictions. U.S. data for 1990-1994 and 2005-2009 periods were used to conduct the analysis. The largest increases were for corn (24 percent) and soybeans (14 percent). Hay and rice acreage were similar for the two periods. Large decreases in acreage were found for barley (55 percent), corn silage

(38 percent), and grain sorghum (38 percent). Wheat acreage declined 19% between the two periods. More information pertaining to acreage shifts can be found in the article which is posted on my contributor site under “Recommended Readings”.

In previous newsletters I have discussed the fiscal gap. The fiscal gap is an accounting measure that reflects the long-term budgetary status of the federal government and measures the size of the immediate and permanent increase in taxes and/or reductions in non-interest expenditures that would be needed to keep the long-term debt/GDP ratio at its current level. In a recent paper entitled “Déjà vu All Over Again: On the Dismal Prospects for the Federal Budget”, Alan Auerbach and William Gale estimate the current fiscal gap. The

authors note that the importance and urgency of revising fiscal policy has increased for several reasons including the fact that the medium-term projections have deteriorated rapidly, the primary issues driving the long-term projections (i.e., Medicare and Social Security) are imminent, there are increasing concerns about the appetite of U.S. debt from other countries, and many U.S. states and other countries also face serious fiscal prospects. The authors use three scenarios to estimate the fiscal gap. The first scenario uses the CBO baseline projections. The second scenario, called the extended policy scenario, assumes that Congress will continue to act like previous Congresses when deciding which policies to continue. The third scenario uses the Administration's budget proposals. The fiscal gap, through 2085, is estimated to be \$35.0 trillion under the CBO baseline, \$54.8 trillion under the extended policy scenario, and \$48.2 trillion under the scenario that uses the Administration's budget proposals. Obviously, it would take large increases in taxes or decreases in programs to eliminate the fiscal gap. The authors indicate that long-term deficits will potentially impact national savings, interest rates, investment, future national output or GDP, and future living standards. More information can be obtained from the paper which is posted on my contributor site under "Recommendations for Further Reading".

The analysis by Auerbach and Gale mentioned above assumes that the U.S. economy will return to full employment in the next few years. There are numerous reasons why that may not be the case. A recent article by William Emmons entitled "Economic Hangover: Recovery is Likely to be Prolonged, Painful"

discusses the previous decade's economy and scenarios for long-term growth. The decade before the current financial crisis (1998-2007) was marked by an unusually high level of consumption and government spending, and an unusually low level of investment and net exports. The author calls the growth in this decade "unbalanced" and indicates that it would not be sustainable to return to an environment with unbalanced growth. Increasing investment and net exports is essential to a prolonged economic recovery. As the author states, "unless we are able to rebalance our own economy and, in cooperation with other major countries, do the same at the global level, we are likely to face a long period of slow and volatile economic recovery." More information can be obtained from the article which is posted on my contributor site under "Recommendations for Further Reading".

The Wikipedia web site (www.wikipedia.org) contains information on numerous topics. For example, if you search for "benchmarking", you will find an article that provides a basic description of benchmarking, including an outline of the procedure, the costs of benchmarking, and types of benchmarking. The KFMA program focuses on financial benchmarking which involves performing a financial analysis and comparing the results with other farms to assess a farm's competitive position.

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The Kansas Farm Management Association (KFMA) Newsletter is distributed monthly to provide farm management information to farm decision makers. Further farm management information can be found on the KFMA program website: www.agmanager.info/kfma; and, on the Extension Agricultural Economics website: www.agmanager.info. The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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