



## 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 and crop/backgrounding farms have at least 35 percent of their labor devoted to beef 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 2006 to 2010 is presented in this article. Table 1 reports the averages for these 1,016 farms. The average total expense ratio, adjusted total expense ratio, and economic total expense ratio are 0.747, 0.865, and 1.045, 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 65 percent of the farms were

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able to cover these expenses. In contrast, only 33 percent of the farms covered opportunity costs on net worth, as well. The average operating profit margin is 0.1834 and the average asset turnover ratio is 0.3259. 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 non-irrigated crop farms, irrigated crop farms, crop/beef cow farms, crop/backgrounding farms, and crop/dairy farms. The average number of cows on the crop/beef cow and crop/dairy farms was 149 and 110, respectively. The total expense ratio was the highest for the crop/backgrounding farms and the lowest for the non-irrigated crop farms. The adjusted total expense ratio and economic total expense ratio for the crop/beef cow, crop/backgrounding, 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/backgrounding farms to 89 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. Only 8 percent of the crop/beef cow farms covered all costs while approximately 72 percent of the irrigated crop farms covered all costs.

The average operating profit margin ranged

from 0.0368 (3.68 percent) for the crop/beef cow farms to 0.2313 (23.13 percent) for the irrigated crop farms. The average asset turnover ratio ranged from 0.1888 for crop/beef cow farms to 0.4468 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 subtracted from value of farm production, but not from beef and dairy income.

Table 3 reports financial performance measures for non-irrigated crop farms by region of the state. The average expense ratios are relatively lower for farms in eastern and western Kansas. Also, the operating profit margin is relatively higher for farms in eastern and western Kansas. These results are at least partially due to differences in farm size among regions. The average non-irrigated crop farm in eastern and western Kansas that participates in the KFMA program is relatively larger, using value of farm production as a measure of farm size, than the average non-irrigated KFMA farm in central Kansas. 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 non-irrigated crop farms and crop/beef cow farms to make these comparisons. Table 4 presents financial performance measures for non-irrigated 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 0.3192.

Table 5 presents financial performance measures for crop/beef cow farms by profit margin thirds. As with the case with non-irrigated 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 52 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 83 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 0.1884 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](http://www.agmanager.info/kfma).

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**Table 1. Summary Statistics for 1,016 KFMA Farms with Continuous Data from 2006-2010.**

Item	Average
Value of Farm Production (VFP)	\$430,427
Net Farm Income	\$108,994
Interest	\$20,908
Unpaid Family and Operator Labor	\$50,945
Total Assets	\$1,320,806
Total Debt	\$352,880
Total Expense Ratio (TER)	0.747
Adjusted Total Expense Ratio (ATER)	0.865
Economic Total Expense Ratio (ETER)	1.045
Operating Profit Margin Ratio	0.1834
Asset Turnover Ratio	0.3259
Debt to Asset Ratio	0.2672
Percent of Farms with Positive Net Cash Flow	94.59%
Percent of Farms Financially Stressed	4.43%
Percent of Farms with TER less than 1.000	92.13%
Percent of Farms with ATER less than 1.000	65.06%
Percent of Farms with ETER less than 1.000	32.78%
Percent of Farms with VFP less than \$100,000	10.33%
Percent of Farms with VFP between \$100,000 and \$250,000	27.76%
Percent of Farms with VFP between \$250,000 and \$500,000	33.76%
Percent of Farms with VFP between \$500,000 and \$1,000,000	20.18%
Percent of Farms with VFP greater than \$1,000,000	7.97%
Crop Labor Percentage	77.79%

Source: Kansas Farm Management Association 2010 Databank.

**Table 2. Summary Statistics by Farm Type.**

Item	Farm Type				
	Non-Irrigated	Irrigated	Crop Beef Cow	Crop Backgrounding	Crop Dairy
Number of Farms	620	18	74	17	29
Value of Farm Production (VFP)	\$437,175	\$974,978	\$186,660	\$341,502	\$415,390
Net Farm Income	\$118,652	\$234,146	\$37,403	\$35,711	\$91,521
Interest	\$18,947	\$37,064	\$12,176	\$39,180	\$18,603
Unpaid Family and Operator Labor	\$49,001	\$45,683	\$42,705	\$47,242	\$67,281
Total Assets	\$1,208,969	\$2,182,307	\$988,670	\$1,356,590	\$1,384,277
Total Debt	\$318,586	\$683,020	\$200,036	\$626,376	\$294,293
Total Expense Ratio (TER)	0.729	0.760	0.800	0.895	0.780
Adjusted Total Expense Ratio (ATER)	0.841	0.807	1.028	1.034	0.942
Economic Total Expense Ratio (ETER)	1.004	0.929	1.366	1.205	1.152
Operating Profit Margin Ratio	0.2027	0.2313	0.0368	0.0810	0.1031
Asset Turnover Ratio	0.3616	0.4468	0.1888	0.2517	0.3001
Debt to Asset Ratio	0.2635	0.3130	0.2023	0.4617	0.2126
Percent of Farms with Positive Net Cash Flow	95.48%	100.00%	83.78%	88.24%	93.10%
Percent of Farms Financially Stressed	4.52%	0.00%	2.70%	17.65%	0.00%
Percent of Farms with TER less than 1.000	94.84%	94.44%	72.97%	70.59%	89.66%
Percent of Farms with ATER less than 1.000	73.23%	88.89%	31.08%	29.41%	41.38%
Percent of Farms with ETER less than 1.000	40.16%	72.22%	8.11%	11.76%	10.34%
Crop Labor Percentage	91.40%	98.47%	44.20%	34.87%	24.24%
Wheat Income	\$81,418	\$116,663	\$27,367	\$10,880	\$15,192
Corn Income	\$104,857	\$550,135	\$13,692	\$11,155	\$29,991
Grain Sorghum Income	\$33,126	\$9,082	\$9,620	\$4,170	\$2,972
Soybean Income	\$109,930	\$71,775	\$21,037	\$19,703	\$55,101
Hay and Forage Income	\$11,838	\$34,049	\$5,886	\$26,013	\$4,712
Beef Income	\$32,260	\$9,285	\$112,810	\$313,566	\$4,289
Dairy Income	\$893	\$0	\$0	\$3,117	\$420,593

**Table 3. Summary Statistics for Non-Irrigated Crop Farms by Region of the State.**

Item	Region		
	East	Central	West
Number of Farms	303	252	65
Value of Farm Production (VFP)	\$445,962	\$404,723	\$522,025
Net Farm Income	\$129,131	\$100,083	\$141,791
Interest	\$19,654	\$16,573	\$24,856
Unpaid Family and Operator Labor	\$50,140	\$48,356	\$46,192
Total Assets	\$1,272,406	\$1,050,489	\$1,527,672
Total Debt	\$330,347	\$281,815	\$406,313
Total Expense Ratio (TER)	0.710	0.753	0.728
Adjusted Total Expense Ratio (ATER)	0.823	0.872	0.817
Economic Total Expense Ratio (ETER)	0.992	1.024	0.989
Operating Profit Margin Ratio	0.2212	0.1688	0.2307
Asset Turnover Ratio	0.3505	0.3853	0.3417
Debt to Asset Ratio	0.2596	0.2683	0.2660
Percent of Farms with Positive Net Cash Flow	96.37%	94.84%	93.85%
Percent of Farms Financially Stressed	4.62%	5.56%	0.00%
Percent of Farms with TER less than 1.000	94.72%	94.05%	98.46%
Percent of Farms with ATER less than 1.000	76.90%	67.86%	76.92%
Percent of Farms with ETER less than 1.000	41.25%	37.30%	46.15%
Crop Labor Percentage	90.21%	91.87%	95.16%
Wheat Income	\$30,454	\$119,768	\$170,306
Corn Income	\$144,194	\$48,855	\$138,602
Grain Sorghum Income	\$8,101	\$56,075	\$60,812
Soybean Income	\$166,034	\$68,961	\$7,233
Hay and Forage Income	\$8,939	\$16,796	\$6,131

**Table 4. Summary Statistics for Operating Profit Margin Quartiles, Non-Irrigated Crop Farms.<sup>a</sup>**

Item	Profit Margin Quartile			
	First	Second	Third	Fourth
Number of Farms	155	155	155	155
Value of Farm Production (VFP)	\$178,984	\$410,982	\$513,456	\$645,279
Net Farm Income	\$16,340	\$82,617	\$137,115	\$238,536
Interest	\$11,133	\$20,068	\$24,349	\$20,238
Unpaid Family and Operator Labor	\$41,380	\$50,035	\$51,776	\$52,813
Total Assets	\$666,766	\$1,032,169	\$1,429,915	\$1,707,026
Total Debt	\$180,311	\$324,633	\$405,385	\$364,013
Total Expense Ratio (TER)	0.909	0.799	0.733	0.630
Adjusted Total Expense Ratio (ATER)	1.140	0.921	0.834	0.712
Economic Total Expense Ratio (ETER)	1.357	1.058	0.993	0.879
Operating Profit Margin Ratio	-0.0777	0.1281	0.2136	0.3192
Asset Turnover Ratio	0.2684	0.3982	0.3591	0.3780
Debt to Asset Ratio	0.2704	0.3145	0.2835	0.2132
Percent of Farms with Positive Net Cash Flow	82.58%	100.00%	100.00%	99.35%
Percent of Farms Financially Stressed	12.26%	5.81%	0.00%	0.00%
Percent of Farms with TER less than 1.000	79.35%	100.00%	100.00%	100.00%
Percent of Farms with ATER less than 1.000	7.10%	86.45%	100.00%	99.35%
Percent of Farms with ETER less than 1.000	0.00%	32.26%	52.90%	75.48%
Crop Labor Percentage	90.04%	89.44%	91.85%	94.27%
Wheat Income	\$45,157	\$88,555	\$89,322	\$102,638
Corn Income	\$21,680	\$79,934	\$122,247	\$195,566
Grain Sorghum Income	\$13,890	\$33,765	\$39,508	\$45,343
Soybean Income	\$35,924	\$90,092	\$139,435	\$174,271
Hay and Forage Income	\$10,808	\$15,468	\$12,532	\$8,544

<sup>a</sup> 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/Beef Cow Farms.<sup>a</sup>**

Item	Profit Margin Thirds		
	First	Second	Third
Number of Farms	25	25	24
Value of Farm Production (VFP)	\$68,187	\$172,848	\$324,456
Net Farm Income	-\$7,433	\$28,481	\$93,402
Interest	\$7,823	\$11,722	\$17,182
Unpaid Family and Operator Labor	\$34,622	\$44,301	\$49,461
Total Assets	\$696,863	\$1,049,167	\$1,229,618
Total Debt	\$118,551	\$195,853	\$289,273
Total Expense Ratio (TER)	1.109	0.835	0.712
Adjusted Total Expense Ratio (ATER)	1.617	1.092	0.865
Economic Total Expense Ratio (ETER)	2.295	1.487	1.096
Operating Profit Margin Ratio	-0.5020	-0.0237	0.1884
Asset Turnover Ratio	0.0978	0.1647	0.2639
Debt to Asset Ratio	0.1701	0.1867	0.2353
Percent of Farms with Positive Net Cash Flow	64.00%	92.00%	95.83%
Percent of Farms Financially Stressed	0.00%	4.00%	4.17%
Percent of Farms with TER less than 1.000	32.00%	88.00%	100.00%
Percent of Farms with ATER less than 1.000	0.00%	12.00%	83.33%
Percent of Farms with ETER less than 1.000	0.00%	0.00%	25.00%
Crop Labor Percentage	39.58%	43.58%	49.67%
Beef Income	\$49,322	\$105,423	\$186,639
Number of Cows	98	159	193

<sup>a</sup> 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.

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## VARIABILITY OF FINANCIAL PERFORMANCE BY FARM TYPE

This article documents the variability of 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/backgrounding and crop/dairy farms have at least 35 percent of their labor devoted to beef and dairy production, respectively.

To document the variability in financial performance by farm type, the following measures are used: value of farm production, net farm income, operating profit margin ratio, and asset turnover ratio. The operating profit margin ratio 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 average total assets.

Table 1 reports the average, standard deviation, and coefficient of variation of value of farm production (VFP) by operator for non-irrigated, irrigated, crop/beef cow, crop/backgrounding, and crop/dairy farms. The average number of farms represented by the non-irrigated, irrigated, crop/beef cow, crop/backgrounding, and crop/dairy farm types was 1162, 82, 258, 70, and 55, respectively. The irrigated farms had the highest average VFP per operator while the crop/beef cow farms had the lowest. The coefficient of variation (CV in the tables) measures relative variability and is computed by dividing the standard deviation by the average

or mean value. The livestock farm types had lower relative variability in VFP over the 2002 to 2010 period. This was largely due to the fact that these farms did not experience to as great an extent the increases in value of farm production in 2007, 2008, and 2009. The last year in the sample period, 2010, was a good year, in terms of VFP, for all farm types.

The average, standard deviation, and coefficient of variation of net farm income by farm type are reported in Table 2. The average net farm income by operator was relatively higher for the crop farms (non-irrigated and irrigated) and the crop/backgrounding farms. However, the CV for these farm types was also relatively higher than the CV for the crop/beef cow and crop/dairy farms.

The problem with comparing net farm income among farm types is that net farm income is dependent on farm size. Profitability measures, such as the operating profit margin ratio, can be more readily compared among farm types. Table 3 presents the average, standard deviation, and coefficient of variation of the operating profit margin by farm type. The average operating profit margins for the non-irrigated, irrigated, and crop/backgrounding farms were relatively higher than those for the crop/beef cow and crop/dairy farms. In addition, the CVs for the crop/beef cow and crop/dairy farms were relatively higher than the CVs for the other farm types. Thus, these two farm types had lower profit margins and higher levels of risk. The only farm types with a negative profit margin in a particular year were the non-irrigated, irrigated, and crop/beef cow farms in 2002.

As illustrated in Table 4, the asset turnover ratio tends to be relatively less variable than the operating profit margin ratio over time. However, it is important to note that the asset

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turnover ratio varies considerably by farm type. The average asset turnover ratio ranged from 0.2130 for the crop/beef cow farms to 0.4228 for the irrigated farms.

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](http://www.agmanager.info/kfma).

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**Table 1. Average, Standard Deviation, and Coefficient of Variation of Value of Farm Production per Operator by Farm Type.**

Year	Non-Irrigated	Irrigated	Crop Beef Cow	Crop Backgrounding	Crop Dairy
2002	199,752	326,445	138,642	267,144	205,612
2003	243,183	423,048	179,752	369,977	226,039
2004	267,400	455,402	206,466	395,548	262,877
2005	288,964	578,843	218,806	395,233	270,535
2006	305,020	615,878	198,144	339,240	262,951
2007	413,352	969,157	272,410	434,091	378,494
2008	510,852	943,871	267,674	394,927	350,161
2009	496,259	881,965	287,746	415,849	337,447
2010	549,536	1,052,774	355,348	499,480	540,117
Average	363,813	694,154	236,110	390,165	314,915
Std Dev	130,351	270,879	65,664	63,984	102,306
CV	0.3583	0.3902	0.2781	0.1640	0.3249

**Table 2. Average, Standard Deviation, and Coefficient of Variation of Net Farm Income per Operator by Farm Type.**

Year	Non-Irrigated	Irrigated	Crop Beef Cow	Crop Backgrounding	Crop Dairy
2002	20,185	8,361	13,735	28,114	26,706
2003	52,563	56,518	41,483	123,642	37,668
2004	58,925	66,148	56,783	138,989	73,318
2005	49,021	59,337	55,731	104,660	59,560
2006	50,177	88,728	27,497	9,753	33,511
2007	120,877	287,350	62,920	87,646	110,700
2008	147,965	197,047	39,916	36,946	74,662
2009	125,874	195,415	35,220	53,461	40,577
2010	159,741	327,820	98,432	155,446	112,547
Average	87,259	142,969	47,969	82,073	63,250
Std Dev	51,116	112,983	24,414	52,308	32,240
CV	0.5858	0.7903	0.5090	0.6373	0.5097

**Table 3. Average, Standard Deviation, and Coefficient of Variation of Operating Profit Margin Ratio by Farm Type.**

Year	Non-Irrigated	Irrigated	Crop Beef Cow	Crop Backgrounding	Crop Dairy
2002	-0.0035	-0.0118	-0.0547	0.0672	0.0032
2003	0.1066	0.0887	0.0803	0.2679	0.0426
2004	0.1128	0.0947	0.1348	0.2760	0.1500
2005	0.0806	0.0854	0.1279	0.2211	0.1053
2006	0.0864	0.1153	0.0308	0.0354	0.0296
2007	0.2304	0.2911	0.1265	0.2022	0.2111
2008	0.2350	0.1930	0.0298	0.0718	0.1071
2009	0.1898	0.2012	0.0124	0.0879	0.0195
2010	0.2269	0.2925	0.1773	0.2834	0.1138
Average	0.1406	0.1500	0.0739	0.1681	0.0869
Std Dev	0.0837	0.1019	0.0744	0.1015	0.0686
CV	0.5957	0.6791	1.0062	0.6035	0.7894

**Table 4. Average, Standard Deviation, and Coefficient of Variation of Asset Turnover Ratio by Farm Type**

Year	Non-Irrigated	Irrigated	Crop Beef Cow	Crop Backgrounding	Crop Dairy
2002	0.2818	0.3472	0.1757	0.2364	0.3497
2003	0.3361	0.4528	0.2208	0.2716	0.3543
2004	0.3464	0.4799	0.2308	0.2759	0.3917
2005	0.3010	0.3872	0.2012	0.2173	0.3638
2006	0.3068	0.3763	0.1800	0.1791	0.3395
2007	0.3833	0.5183	0.2260	0.2493	0.4270
2008	0.4211	0.4986	0.2270	0.2470	0.3627
2009	0.3671	0.3838	0.2259	0.2257	0.3207
2010	0.3211	0.3612	0.2294	0.2662	0.3020
Average	0.3405	0.4228	0.2130	0.2409	0.3568
Std Dev	0.0442	0.0647	0.0218	0.0307	0.0369
CV	0.1298	0.1530	0.1023	0.1274	0.1034

## 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.

Innovation in the public and private sectors is imperative to a country's long-term prosperity and competitiveness. Martin Baily, Bruce Katz, and Darrell West have recently written an article for the Brookings Institution entitled "Building a Long-Term Strategy for Growth through Innovation" that discusses the importance of public and private sector innovation to future economic growth in the United States. Specifically, the authors stress the importance of fostering an economy driven by innovation, exports, and clean energy. This will require investments in human capital and infrastructure, effective technology adoption and transfer, and the restoration of fiscal sanity with respect to the

federal budget and deficit. This does not necessarily entail "tampering with the market's allocation of resources". Rather, it means creating a foundation and the infrastructure needed for markets to function and businesses to thrive. More information on the policies recommended by the authors can be found in the paper which is posted on my contributor site on Ag Manager under "Recommendations for Further Reading".

Michael Tanner, a senior fellow with the Cato Institute, has recently written a policy brief entitled "Bankrupt: Entitlements and the Federal Budget". The author starts out by noting that the true national debt amounts to \$119.5 trillion when you include unfunded liabilities associated with Medicaid, Medicare, and Social Security. Federal government spending has doubled in the last ten years due to large increases in both domestic spending and defense spending. Deficits since 2009 are extremely large, even if you take out the effect of the Bush tax cuts and

military operations. Though the current level of debt is largely due to domestic and defense spending, the vast majority of future debt is driven by entitlement programs which include Medicaid, Medicare, and Social Security, thus the need for entitlement reform. The author indicates that ducking entitlement reform will condemn future generations to mounting debt and higher taxes. The article contains a wealth of information on federal debt, deficits, spending, and the entitlement crisis. More information can be found in the article which is posted to my contributor site on Ag Manager under "Recommendations for Further Reading".

Steven Horwitz in an article for the June 2011 issue of *The Freeman* entitled "Is a Nation Something That Can Be Built" discusses the difficulty associated with nation building from a libertarian perspective. He argues that attempts to build nations are likely to fail. Using arguments originally proposed by Mises, the author states that nations are not defined by

geography or political institutions. Rather, nations are defined by language and cultural institutions. In addition, the author discusses arguments originally proposed by Hayek. Hayek indicates that nations are spontaneous orders that evolve based on individual choices and community attributes. Attempts to control or manipulate these spontaneous orders face an uphill battle. Finally, the author mentions a book by Chris Coyne entitled *After War* that discusses the difficulty of postwar reconstruction. In particular, this book discusses the difficulty associated with exporting democracy. *The Freeman* is published by the Foundation for Economic Education ([www.fee.org](http://www.fee.org)) and can be accessed using the following link: [www.thefreemanonline.org](http://www.thefreemanonline.org).

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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](http://www.agmanager.info/kfma); and, on the Extension Agricultural Economics website: [www.agmanager.info](http://www.agmanager.info). The Newsletter is edited by Michael Langemeier, Professor, Department of Agricultural Economics, Kansas State University.



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