

Copyright by
DEON W HUBBARD
1962

AN ANALYSIS OF THE
ORGANIZATION, STRUCTURE, AND USE OF
THE CORPORATE FORM OF OWNERSHIP FOR
FARMS AND RANCHES IN OREGON

by

DEON W HUBBARD

A THESIS

submitted to

OREGON STATE UNIVERSITY

in partial fulfillment of
the requirements for the
degree of

DOCTOR OF PHILOSOPHY

June 1962

APPROVED:

Redacted for privacy

Professor of Department of Agricultural Economics

In Charge of Major

Redacted for privacy

Head of Department of Agricultural Economics

Redacted for privacy

Chairman of School Graduate Committee

Redacted for privacy

Dean of Graduate School

Date thesis is presented May 17, 1962

ACKNOWLEDGEMENT

So broad has been the extent of influence and assistance that the author will not attempt to acknowledge individually all persons who have contributed to this thesis.

The impetus of direction into this area of research was given by the author's father, Wesley W. Hubbard, who incorporated the family ranch with entrepreneurial imagination and success prior to the time of knowledgeable farm corporation research. For the author's participation in the research project, appreciation is given to Dr. G. Burton Wood and the Department of Agricultural Economics. Thanks must go to the author's graduate committee, with special recognition to the author's major professor, Dr. Grant E. Blanch, for his professional insight and guidance and for personal encouragement and confidence. Thanks also to Professor Harry T. Allen for his assistance on the legal aspects of the research and thesis. Appreciation to my colleague "Chris" Bonte Friedhiem.

For the not so simple task of verbal presentation, the author is indebted to the entire Agricultural Economics staff, the typist, Jolene Wuest, and to Carol and Forrest Baker for copy reproduction.

The loyalty, moral support and infinite assistance of my wife, Louise, have been constant.

For any errors in content or presentation, the author assumes all responsibility.

TABLE OF CONTENTS

Chapter		
I.	INTRODUCTION	1
	The Problem	4
	Acquisition of Capital	5
	Current Operations	6
	Intergeneration Transfer	7
	Objectives of the Study	8
	Hypotheses	10
	Procedural Methods of Research	11
	Enumeration of Corporate	
	Farm Firms	12
	Annual Reports	13
	Mail Questionnaire	14
	Stratifying the Population	16
	Selecting the Sample	18
	Interview Schedule	18
Chapter		
II	THE CORPORATION	19
	Evolution of the Corporation	22
	Development of Corporate Farming in	
	the United States	24
	Period 1880-1920	26
	Early Criticism	27
	Period 1921-1929	28
	Cooperative Corporations	28
	Industrialized Farming	30
	Corporations Inevitable	31
	Success Stories	33
	Critics	34
	Period 1930-1944	35
	Corporate Failures	36
	Emotional Opposition	41
	Political Opposition	42

	Avid Proponents	44
	Federation of Corporations	44
	Compromise Proposals	45
	Conspicuous Developments	47
	Period 1944-1962	49
	Georgia Experiment	50
	Government Opposition	51
	Family Corporations	52
	Law Publications	55
	Professional Journals	58
	Agricultural College	
	Publications	59
	Magazines	61
	Pros and Cons	64
	Anti-Corporate Farm Law	
	Repeal	65
Chapter		
III	SCOPE OF FARM INCORPORATION	67
	Farming Corporations in the	
	United States	67
	Number of Corporations	68
	Location	69
	Sales and Assets	70
	Farming Corporations in Oregon	74
	Number of Corporations	74
	Types of Farms for Various	
	Periods	76
	Dissolutions	79
	Location of Farm-Ranch	
	Corporations	81
	Length of Corporate Life	84
	Average Life	84
	Incidence of Dissolution	85
	Comparison With All	
	Corporations	91
	Lengthening Life	91
Chapter		
IV	PHYSICAL AND FISCAL STRUCTURE OF	
	FARM-RANCH CORPORATION IN	
	OREGON	94
	Comparisons by Census Economic Class	94
	Number of Corporate Farms By	
	Economic Class	94

Acreage	96
Variation by Type and Class of Farm	101
Sales	103
Total Sales Comparisons in Oregon	104
Average Sales Comparisons	105
Land and Buildings	108
Leased Lands	109
Summary of United States and Oregon Corporate Relationships	112
Balance Sheet of Corporate Farming	114
Assets	115
Leased Lands	116
Individual Property	118
Liabilities	122
Federal Lending Agencies	126
Stockholder Loans	130
Debt Securities	132
Loans to Stockholders	134
Credit Availability and Use	135
Changes in Business Debt	136
Credit Easier to Get	138
Credit Harder to Get	139
Need for Working Capital	140
Debt Attitude	140
Risk and Uncertainty	141

Chapter

V

OWNERSHIP STRUCTURE	145
The Family Farm	145
Stockholders	149
Officers	150
Directors	151
Age of Stockholders	151
Minor Children	152
Relationship of Stockholders	153
Education of Stockholders	156
Occupation of Stockholders	157
Residence of Stockholders	157
Stock Holdings	158
Capital Structure	159
Sale of Stock	161
Treasure Stock	162

	Dividends	162
Chapter VI	RATIONALE AND INCORPORATION PROCEDURE	163
	Rationale of Incorporation	163
	Pre-incorporation Information	164
	Why Farmers Incorporated	165
	Influence of "Subchapter S"	168
	Incorporation Procedure	169
	Professional Assistance	169
	Registered Agent	172
	Previous Form of Ownership	173
	Acquisition of Assets	174
	Costs of Incorporating	175
	Filing and Annual License Fee	176
	Stamp Tax	178
Chapter VII	OPERATION AND MANAGEMENT	179
	Technical Operational Procedures	179
	Stockholders-Directors-Officers	179
	Close Corporation Problems	180
	Unanimous Vote	181
	Voting Trust	182
	Cumulative Voting	183
	Meetings	184
	Compliance with Requirements	186
	Records and Reports	188
	Professional Services Since Incorporating	190
	Management	192
	Operational Changes	194
	Vertical Integration	196
	Labor	198
	Labor and the Family Farm	198
	Insurance	201
	Workmens Compensation	202
	Crop Insurance	202
	Life Insurance	203
	Taxes	204
	"Subchapter S" Corporation	205
	Taxable Income	209

Chapter		
VIII	ESTATE PLANNING	212
	Securities Transfer	213
	Stock Transfer Restriction	215
	Buy-Sell Agreements	216
	Use of Life Insurance	217
	Selling Price	218
	Trusts	218
	Tax Planning	219
	Gifts	220
	Testamentary Transfer	222
	Retirement Plans	223
Chapter		
IX	EVALUATION BY CORPORATE OFFICERS	226
	Difficulties Encountered	227
	Stockholder Disputes	228
	Lawsuits	228
	Formalities	229
	Attitude Toward Incorporation	229
	Personal Attitudes	230
	Degree of Satisfaction	231
	Dissatisfaction	231
	Dissolved Corporations	232
	Officers' Statements	235
	Advantages	235
	Disadvantages	236
	Conditions to Incorporate	236
	Limiting Factors	238
	Changes Needed	238
Chapter		
X	SUMMARY AND CONCLUSIONS	240
	BIBLIOGRAPHY	256
	APPENDIX A	271
	APPENDIX B	274
	APPENDIX C	289

LIST OF FIGURES

Figure	Page
1. Number of corporations in the United States, 1916-1958.	69
2. Number of farm corporations in the United States, 1916-1958.	69
3. Farm corporations by states, United States, 1930.	71
4. Number of Oregon business corporations organized, dissolved and remaining each year, 1913-1961.	75
5. Number of Oregon farm-ranch corporations organized, dissolved and remaining each year, 1880-1960.	78
6. Number of Oregon fruit, livestock, and dairy farm corporations remaining each year, 1880-1960.	80
7. Location and type of Oregon farm-ranch corporations, 1960.	83
8. Percent of dissolved Oregon farm-ranch corporations having various years of life, average 1900-1959.	88
9. Cumulative percent of Oregon farm-ranch corporations dissolving according to years of corporate life. Cumulative average 1900-1939; 1940-1959 and all periods.	90
10. Number of Oregon farm-ranch corporations organized each year, 1885-1960 for corporations in existence in 1960.	92

Appendix B

Figure

1. Location and type of Oregon farm-ranch corporations included in the sample.	288
--	-----

LIST OF TABLES

Table	Page
1. Stratified population of farm corporations from which sample was drawn and sample observations per strata.	17
2. Farm corporations in the United States as related to total corporations and total farms for selected years.	70
3. Farm corporation sales and assets as related to total farm sales and assets in the United States for selected years (millions of dollars).	73
4. Chartered Oregon farm-ranch corporations as compared to total Oregon corporations and total Oregon farms for selected years.	73
5. Type of Oregon farm-ranch corporations organized each period as a percent of the total for that period.	77
6. Location by county of the type of Oregon domestic and active farm-ranch corporations, 1960.	82
7. Percent of Oregon farm corporations dissolving each year of corporate life, by period of organization, 1900-1959	87
8. Cumulative percent of Oregon farm-ranch corporations dissolving according to years of corporate life by period of organization 1900-1959.	89
9. Percentage of corporations in the United States surviving in 1946 in relation to the total number of corporations organized in specified years.	93
10. Estimated number of Oregon operating farm-ranch corporations by type of farm in each economic class, 1960.	95
11. Corporate farms by type as a percent of all commercial farms and Economic Class I farms, 1960.	96
12. Size of various classes of farms in Oregon.	97
13. Size of farms in Oregon measured by acres operated.	98

14. Estimated acreage by type and class of Oregon farms-- corporate and noncorporate.	99
15. Value of farm products sold from various categories of farms in Oregon, 1960.	103
16. Comparison of estimated sales of farm products by type and class of Oregon farms.	106
17. Estimated value of land and buildings for various cate- gories of farms in Oregon.	109
18. Comparison of estimated value of land and buildings for various types of farms in Oregon.	111
19. A comparison of Oregon and United States farm corpor- ation relationships; percentage of totals.	112
20. All Oregon corporate farms as a percent of all Oregon commercial farms and all Oregon Class I farms by type of farm.	113
21. Estimated average assets by type of operating domestic corporate farm in Oregon.	117
22. Utilization of assets retained by individual stockholders in their own names.	119
23. Reasons why stockholders retained assets in their own names and leased back to the corporation.	121
24. Estimated average liabilities, net worth and stockholder loans by type of operating domestic corporate farm in Oregon.	123
25. Source of farm corporation loans in Oregon by type of loan.	124
26. Purpose of corporate loans by type of loan.	125
27. Security for corporate loans by type of security instru- ment.	125
28. Reasons given for borrowing from stockholders.	131

29. Changes in farm business firm loans since incorporating; percent of corporations giving each answer.	137
30. Number of stockholders by type of farm corporation in Oregon.	149
31. Average age of Oregon farm corporation stockholders and officers by type of farm.	152
32. Relationship of stockholders to the president for Oregon farm-ranch corporations by type of farm.	154
33. Relationship of other officers to the president for Oregon farm-ranch corporations by type of farm.	155
34. Average years of formal education completed by Oregon farm-ranch corporate stockholders.	156
35. Occupation of stockholders of Oregon farm-ranch corporations.	157
36. Persons actually residing on Oregon corporation farm-ranch property.	158
37. Denominations of par value stock and issue price for no-par stock for Oregon farm-ranch corporations.	160
38. How Oregon farmers and ranchers became acquainted with the idea of incorporation.	163
39. Information sought by Oregon farmers and ranchers before incorporating.	165
40. Why Oregon farm-ranches were incorporated.	166
41. Influence of "Subchapter S" on Oregon farm-ranch incorporations since 1958 based on interview response.	169
42. Use of attorney to incorporate Oregon farm-ranch corporations.	170
43. Use of accountant to incorporate Oregon farm-ranch corporations.	170

44. Persons serving as registered agents for Oregon farm-ranch corporations.	172
45. Oregon farm-ranch corporations business existence prior to incorporation.	174
46. How farm-ranch corporate assets were acquired.	175
47. Estimated cost of incorporating farm-ranch corporations in Oregon.	176
48. Oregon fee for filing articles of incorporation and annual license fee, with percent of farm-ranch corporations to which each fee applies.	177
49. Description of Oregon farm-ranch corporation meetings.	185
50. Frequency of Oregon farm-ranch corporation meetings.	185
51. Written minutes of meetings.	186
52. Use of attorney and accountant by Oregon farm-ranch corporations since incorporating.	191
53. Purposes for which professional assistance was used by Oregon farm-ranch corporations.	191
54. Operational management of Oregon's farm-ranch corporations.	193
55. Oregon farm-ranch business activity outside the state.	196
56. Estimated amount and source of labor utilized by type of farm-ranch corporation in Oregon, 1960.	199
57. Reasons given for Oregon farm-ranch corporations not filing federal income tax as a "subchapter S" corporation.	207
58. Oregon farm-ranch corporations by type of farm which reported taxable income 1958, 1959, 1960.	210
59. Estate planning done by farm-ranch corporate officers to minimize taxes at death.	213

60. Farm-ranch corporation stock transfer since incorporating.	213
61. Why Oregon farm-ranch corporation stock had been transferred.	214
62. Anticipated reasons for transferring farm-ranch corporation stock.	215
63. Source of retirement income anticipated by stockholder-officers of Oregon farm-ranch corporations.	224
64. Fringe benefits accorded Oregon farm-ranch corporation officer-stockholders.	225
65. Reasons given by Oregon farm-ranch corporate officers for not incorporating earlier.	227

Appendix A Table

1. Disposition of 640 corporations "suspected" of agricultural production in Oregon.	271
2. Strata withdrawn to further delimit Oregon corporate farm study.	273
3. Adjustments to corporate farm strata prior to drawing sample.	273

Appendix B Table

1. Farm corporations in the United States as related to total corporations and total farms, 1916-1958.	278
2. Farm corporation sales and assets as related to total farm sales and assets in the United States, 1916-1958.	280
3. Oregon business and farm corporations organized, dissolved and remaining each year with percentage relationships.	282

AN ANALYSIS OF THE ORGANIZATION, STRUCTURE, AND USE OF THE CORPORATE FORM OF OWNERSHIP FOR FARMS AND RANCHES IN OREGON

CHAPTER I

INTRODUCTION

Revolutionary technological, institutional and economic changes have occurred and are occurring in agricultural production. As the number of farms has decreased in the United States, their land has been taken over by other enlarging farms. As the number of persons on farms has declined, their work has been taken over by additional amounts of labor saving, mechanized and specialized equipment. Prices have risen for things farmers purchase, and prices have declined for things farmers sell. With this cost-price squeeze and certain restrictions on crop acreage, the rational approach for the individual farmer to maximize income or minimize loss while obtaining optimum resource allocation has been to intensify production -- that is, to produce more per unit with existing large fixed costs and given fixed resources. This he has done by adding variable inputs such as fertilizers and improved feeds or by adding irrigation or by using improved tillage or livestock feeding methods with new and specialized equipment.

Investments have increased for all inputs, fixed and variable, farm and nonfarm. Somewhat commensurate with these increases on commercial farms have been increased yields and increased sales.

According to the 1959 Census of Agriculture, there were approximately 200,000 farms in the United States which had gross sales of \$25,000 or over. They owned an average of nearly 2,000 acres and had average assets valued at nearly \$200,000 each. In addition there were approximately 500,000 other commercial farms having assets valued at approximately \$100,000. When combined, these two groups, designated as Economic class I and II by the Census of Agriculture, represent about 13 percent of all farms, about 57 percent of all farmland, and about 58 percent of the total dollar output of agricultural production.

Economic and technological changes have placed this segment of commercial farming into a business and economic sphere far more complex than any other period in history.

"The American commercial farmer--a significant term we shall define--is a businessman. His farm is a complex business enterprise, calling for a high order of agricultural and mechanical skills, executive ability, and a concentration

of capital equipment." (21, p. 11). It may be added that he has learned to confer with and consult off-farm specialists in his complex process of decision making.

Inherent with the vast changes in commercial agriculture, all manner of financial and legal complexities have come into existence or have been magnified by these changes. Taxes have reached such proportions that management decisions revolve and evolve around them. A labyrinth of tax saving methodology and procedure at federal, state and local levels involves income taxes, property taxes, excise taxes, inheritance and gift taxes, and has forced the farm entrepreneur to leave the farm for specialized advice relative to these phases of his managerial decision making. Legal considerations also enter as new responsibilities of executive decision making become apparent. Legal liability is now serious; contracts and agreements are now more important, and the problems of intergeneration transfer of the family farm have become of vital concern since wills, trusts, estates, probates, and laws of descent hinder or help in fulfilling the desires of benefactors or beneficiaries. The legal profession has become a much closer partner of commercial farming.

The Problem

Within this setting of commercial agriculture today, "The development and continued maintenance of an economic farm-ranch unit over time is of important concern to farm owners and economists. Society as a whole is concerned with the socio-economic losses incurred in the turnover of farms; the struggle of recapitalization every generation; small uneconomic units; and inadequate capital to meet the technological needs of a dynamic agriculture." (73, p. 1498). The current problem is presented in three simply stated parts:

- (1) How to accumulate sufficient capital in order to acquire an adequate economic farm-ranch unit.
- (2) How to maintain and operate this economic unit with maximum efficiency in allocation of resources throughout the lifetime of its owners.
- (3) How to best transfer this economic unit to the next generation with maximum production capacity, minimum costs, and capital shrinkage.

Acquisition of Capital

With such high capital requirements in agriculture today, it is no easy problem to acquire sufficient capital to farm.

Ownership is often acquired by inheriting a farm which is often the accumulation of the lifetime savings of more than one generation. "Most capital used in agriculture today has been acquired from earnings of farmers, capital gains, inheritance, and gifts--internal equity capital rather than external financing." (73, p. 1499). "One of every two Iowa farm owners received family assistance in acquiring ownership of their farm resources. These intra-farm transfers appear to be increasing throughout the state." (115, p. 5). It is reasonable to believe this is also the pattern elsewhere.

Some farms are still acquired through process of the "agricultural ladder", where renters or tenants acquire enough savings to purchase an interest in the farm they operate. But this method is declining. Large industrial concerns and wealthy individuals outside agriculture sometime diversify into agriculture, often in large ranches. This is frequently for aesthetic reasons or "tax advantages."

Current Operations

Although farm acquisition and transfer is one problem, the operation and management by the current generation is another. Any farm manager or farm business executive is faced with allocation problems. Allocation is the essence of management. Some resources are invariably restricted or limited. The greatest utilization of these limited factors compatible with accepted concepts of risk and uncertainty is the goal of the rational entrepreneur in an economy at least partially motivated by gain.

Financing current operations is a problem separate from acquisition of real property. Personal productive property, such as machinery or supplies, may also be acquired by means of gift or inheritance, but these are expendable and are soon dissipated. For this source of funds now needed in increased quantities, entrepreneurs often turn to off-farm sources, since they are not usually available sufficiently out of earnings.

Borrowing funds presupposes the borrowers belief in the principles of leverage or trading on the equity--the belief that he can obtain a greater return from the use of such borrowed

funds than he paid for such funds. Financial management of borrowed capital is of vital concern to most farm entrepreneurs today.

Intergeneration Transfer

Primary concern is with commercial family farms which, by the inevitable reason of death, must be transferred either prior to death inter vivos or following death testate or intestate. Therefore, each family at least once in its lifetime must face the transfer of property. With the coming of estate and gift taxes and their continued increase in rates, a new problem entered the picture. Then evolved a whole new methodology and procedure of estate planning to minimize the amount of transfer tax payable.

State laws of descent make quite arbitrary the transfer proceedings for those who die without a formal plan of property transferral. For long periods in our history this led to the division, breaking up, and dispersion of economic units in order to transfer to each heir his seemingly equitable share. A re-examination of this practice is being taken today.

In summary the problem is this: how best to accumulate, maintain and transfer the "agricultural estate" with maximum production capacity, with minimum taxes, other costs and capital shrinkage, and thus to maintain and operate a farm or ranch as a perpetual economic unit.

Objectives of the Study

Off-farm business firms have long and successfully used the corporate form of business organization as one means of approaching the "accumulating, maintaining, transferring problem" of business. It is estimated from business income tax returns compiled by the Internal Revenue Service (167) that about 20 percent of all businesses other than farm firms are incorporated. But only about four-tenths of one percent of all commercial farms are incorporated.

One objective of this study is therefore to discover why the corporation is so little used for agriculture. Would it not serve the same purpose for the farm firm as it does for the nonfarm firm? Are there peculiarities in agriculture that prevent its widespread use? Will the corporate device serve agricultural business firms in approaching a solution to their financial-legal problems?

This, then, becomes the prime objective: to evaluate the corporate device as an effective means of solving for agriculture the "accumulating, maintaining, transferring problem" for efficient, economic-sized farm firms.

There are also several intermediate objectives:

- (1) Understand the nature of the corporate device, its legal and technical characteristics.
- (2) Enumerate, identify and locate corporate firms, active, inactive and dissolved, which are engaged in agricultural production.
- (3) Determine size of the farm-ranch corporation from a balance sheet and operating statement approach, as well as acreage and labor expended.
- (4) Reveal the existing ownership-management structure of corporate farm firms and compare with family farm concept.
- (5) Determine the objective and subjective rationale behind incorporated farm firms.
- (6) Ascertain incorporation procedures, costs, and extent of professional assistance.

Hypotheses

It is hypothesized that the corporate form of business organization can be adapted to benefit farm ranch entrepreneurs in their financial-legal planning and management. This is particularly so in estate management--in assisting with the accumulation, maintenance, and transferal to the next generation of owners the agricultural estate with minimum taxes, costs, and capital shrinkage, and with maintenance of the family farm as an economic and perpetual operating unit. Implied therein is also the concept that the corporate form of business organization is an effective tool of current operational management; that intra-firm decisions pertaining to resource allocation can be effectively made within the corporate structure; and that current resources can effectively be drawn to the firm; and that current distribution to resource contributors can be effectively made.

Several more specific but schismatic hypotheses can also be stated:

- (1) Farm-ranch entrepreneurs can limit personal liability.
- (2) Farm-ranch entrepreneurs can improve their capitalization and credit position and obtain additional equity and debt financing.

- (3) Farm-ranch entrepreneurs can save taxes.
- (4) The family farm can be maintained, giving it uninterrupted and continuous life with ease of transfer.

Procedural Methods of Research

Certain information was sought for the entire United States relative to scope, setting and historical development of the corporation in agriculture. The more intensive areas of study were delimited to Oregon for two reasons. One reason was physical relative to restrictive time and financial limitations. Another reason was circumstantial because many aspects of accumulating, maintaining and transferring an agricultural estate are inseparable from statutes which represent the individuality and creation of each sovereign state.

Included in the initial investigation were all corporations engaged in agricultural production in Oregon. This included domestic as well as foreign corporations,^{1/} public^{2/} as well

^{1/} A foreign corporation is one whose charter lies outside the state of Oregon but which has been granted a certificate of authority to do business in Oregon.

^{2/} A public corporation is one whose stock is widely held.

as closely held corporations.^{3/} Review of literature provided the full source of information on scope and development of corporate farming in the United States. Literature also provided an understanding of the technical and legal aspects of incorporation. Nothing was revealed in the literature that would provide sufficient evidence to test the hypotheses; therefore, research proceeded into other areas of inquiry.

Enumeration of Corporate Farm Firms

An enumeration was made of all corporations in Oregon which were engaged in agricultural production. Consultation with the Corporation Commissioner's office revealed that no classification as to business activity is maintained by their office. The State Income Tax Division indicated that they classified tax returns according to business activity, but according to statute, tax returns are not public information.

In the Corporation Commissioners office, corporations are identified by a number given in consecutive order by date of incorporation and filed in numerical order. An alphabetical

^{3/} Also known as a close corporation and one whose stock is held by just a few stockholders, often family, close friends or business associates.

card roster is maintained for cross reference to corporation or filing number. This index separates the active from the dissolved corporations.

Even a visual check of articles of incorporation was not a sufficient source of information relative to business activity. Articles of incorporation are usually written in such shrouded language of legal obscurity that the law requiring "The purpose or purposes for which the corporation is organized" (118, paragraph 57.311(c)) is by "letter" fulfilled but in "reality" void of information.

Annual reports Statute requires that:

"Each domestic corporation and each foreign corporation authorized to transact business in this state, shall file, within the time prescribed . . . an annual statement setting forth: . . . (e) a brief statement of the character of the business in which the corporation is actually engaged in this state." (118, paragraph 57.755).

These annual reports were deemed the "best" source of information relative to business activity. This required visually checking each report. There were in the fiscal year ending June 30, 1959, over 10,000 active corporations^{1/}

^{1/} Active, meaning not dissolved but not necessarily actively doing business.

in the State excluding nonprofit corporations. These reports were checked, and a roster was compiled of all corporations that indicated agricultural production. Because listed business activity was often vague or incomplete those suspected of being engaged in agricultural production were also included. For example, some business activity was simply listed as fruit, dairy, grain. From this it was impossible to determine whether the corporation was engaged in primary production or some related activity such as processing, wholesaling, or retailing. Articles of incorporation were checked on these suspects, but more positive identification was only occasionally possible from this source.

For new incorporations annual reports were nonexistent. Therefore, all articles of incorporation were examined, and new corporations possibly engaging in agricultural production were placed on the "suspect list." A list of 640 "suspects" was completed as of June 30, 1960.

Mail questionnaire. A one-page mail questionnaire was devised to delimit the "suspects" and compile a precise roster of corporations engaged in agricultural production in Oregon. Desired also was sufficient information that would allow stratification of the population for sample purposes.

Therefore, requested of each corporation was an estimated percentage of gross income from each of several production enterprises and related activities as well as an estimate in the following categorical groups: gross sales, corporate assets, and number of acres.

After a pre-test and revision the questionnaire with an accompanying letter of explanation was mailed to all officially registered agents of the "suspected" corporations. With two interspersed postal card reminders to nonrespondents, nearly 60 percent were returned.

A new letter was prepared, and a second copy of the questionnaire was sent to nonrespondents, this time to corporate presidents instead of registered agents. Registered agents, in many cases, proved to be only the lawyers who incorporated the business and knew nothing of the business operations. The registered agents were initially used because their address is the official registered address of the corporation. The corporate firm address is nowhere officially recorded, although officers and their addresses appear on the annual report. With a postal card reminder to the nonrespondents of the second questionnaire, an additional 10 percent were returned.

With information available from corporate records and with experience from existing returns, another 8 percent of nonproducing corporations were removed from the list. These were mostly real estate companies, food processors, feed and seed dealers, and meat processors.

County agents were most helpful in checking out the remaining corporations. The over-all result was an almost complete accounting.

Basic information for the section discussing length of corporate life and record of Oregon agricultural corporations throughout the years was taken from the alphabetical files of dissolved corporations. These were obtained by name only and adjusted according to relative information obtained from mail questionnaires pertaining to name use and actual type of farm production.

Stratifying the population. From the mail questionnaire, corporations were classified by major agricultural productive enterprise according to gross sales or into nonproductive enterprises.

Prior to drawing the sample, certain adjustments were made in the list of producing corporations to further delimit the strata and area of intensive study. Certain strata were withdrawn, and some firms were withdrawn from the strata. The adjusted strata from which the stratified random sample was drawn are presented in Table 1. The dispositions of the 640 corporations suspected of agricultural production in Oregon are presented in Appendix A Table 1. The strata withdrawn to further delimit the study are presented in Appendix A Table 1. Adjustments to strata prior to drawing the sample are presented in Appendix A Table 3.

Table 1. Stratified population of farm corporations from which sample was drawn and sample observations per strata.

Major production enterprise	Number of corporations in adjusted strata	Number of sample observations per strata
Livestock	91	14
Grain	44	9
Vegetables	34	8
Fruit	30	8
Nursery	27	8
Lessor	13	6
Poultry	11	6
Dairy	10	6
Total active domestic . . .	260	
Dissolved	22	7
Foreign	18	7
	300	79

Selecting the Sample

Corporations in each stratum were numbered consecutively. Then using the table of random numbers, the required number of observations was drawn from each stratum. In order to get sufficient number of observations for adequate analysis in strata having few corporations, a sample base 5 plus 10 percent of each stratum was selected. The resulting number of observations in each stratum is shown in Table 1.

Interview Schedule

A comprehensive interview schedule was developed, pretested and revised. Interviews were then conducted with a corporate officer of each corporation in the sample. The president was interviewed when possible. If contact with officers of the sample corporation was not possible, and no other responsible person could be located, an alternate was taken. Alternates were chosen from the same stratum and were the nearest corporation in geographical location. Interview information was tabulated, and much of it appears in tabular form throughout this writing.

CHAPTER II

THE CORPORATION

A corporation is an entity, an artificial, legal being having a name, personality and existence distinct from its one or several owners. It is a "creature" of the state or territory of its birth or existence. It may be organized for any lawful purpose unless substantive provisions of the law omit or prohibit certain activities. It is vested with the capacity of continuous succession irrespective of its changes in ownership and may have a perpetual or a limited life as established by statute or its own articles of incorporation. As an entity and in its own name, it can enter into and is responsible for its own contractual and tort obligations. It can sue and be sued, complain and defend in court proceedings; it can make contracts, acquire, hold, convey, lease, mortgage, pledge, dispose of any property--real or personal, tangible or intangible--including rights, privileges, contracts, or franchises. It can borrow and loan money; it can buy, sell, pledge, subscribe to bonds, notes, shares and other securities or evidences of equity or indebtedness--secured

or unsecured--in or with other corporations, associations, individuals--domestic or foreign. It can acquire and convey its own shares as prescribed by statute.

A corporation also has been described as an intellectual body, invisible, intangible and soulless and also as being more nearly a method than a thing.^{1/} Harl, et al. speaks of the corporation as a "legal and economic entity," (65 p. 9), or possibly more accurately as "a legal structure with economic consequences." (64, p. 1). He continues to say, "A method of property tenure and a means of organizing economic life in the allocation of risk, control and profit among the parties to the enterprise. More specifically, the corporation is a means of allocation of resources within the firm, of attracting resources to the firm and of distributing returns to resource contributors." (64, p.1). Fisher, et al. says that "The term corporation is a legal not an economic term," and the authors go on to say, "Neither physical laws nor economic theory requires modification when applied to the incorporated firm." They continue to explain that tenure form does affect the allocation of resources and does influence the resource structure of farm firms. (55, p.4-5).

^{1/} Definition and description adapted from many sources including but not limited to (7), (118), (57).

The corporation is one form of business organization. Other major forms are the proprietorship and partnership. There are also special variations of each, such as limited partnership, joint adventure or syndicate, joint stock company, common law, or Massachusetts trust.

The peculiarity of the corporation and its usefulness as a business device derives from its being an entity separate from its shareholder owners. This separation allowed the establishment of the principle of limited liability and made the shareholders liable for actions of the corporation only to the extent of their investment therein--assuming reasonably responsible management and no fraud.

Since the corporate entity holds property in its own right, shareholders own an undivided interest in the whole and do not own specific corporate property. This share interest represented by stock certificates is considered by its owners as personal property and generally enjoys the privileges of personal property relative to buying, selling, trading, making gifts and otherwise acquiring, holding and disposing thereof.

Thus, the real property (real estate) of the corporation is translated into personal property of its shareholders, coming under personal property law rather than real property law.

Evolution of the Corporation

The conception of the corporate idea has been attributed to many peoples in many places. The most prominent notice is probably given the Romans who had a concept of an artificial legal person. English corporation law is believed to have developed from the Roman concept. By the end of the 15th century certain essential principles of corporate law had been quite well established in England. Early corporate charters were granted directly by the Crown, and later directly by Parliament. Not until 1844 were charters more freely obtainable by registration without dependence upon special acts or grants.

American corporate law came primarily from the English, although many of the refinements evolved concurrently in England and America. In this country the land companies were the first to use an association with some of the characteristics of the corporation. Finally, state legislatures began to create statutes giving more formality to the corporate form. The first such laws were enacted in

New York state in 1811. Early corporate statutes were often quite restrictive, limiting the amount of capitalization, amount of land holdings, length of corporate life, ability to borrow money, etc. It was not until mid-19th century that the concept of limited liability was accepted both in this country and in England. Limiting liability has been credited with giving the stimulus to the great development of American industry. Beginning in 1898 "Enabling Acts" were passed by states allowing corporations much more freedom in business activity.

Provisions for corporations were included in Oregon's Constitution when it became a state in 1859. The first general statutes for corporations were enacted in 1862. There were no particular restrictions, and a corporation could be organized "for the purpose of engaging in any lawful enterprise, business pursuit, or occupation" (37, Chapter 8 Title I).

Development of Corporate Farming
in the United States

In the search of literature a comprehensive bibliography entitled Large Scale and Corporation Farming was encountered. This was compiled in 1929 by the United States Department of Agriculture, Bureau of Agricultural Economics (159). This was brought up to date by a later publication in 1937 (160). In reviewing the entries in these and other independently compiled bibliographies, there appeared to be four quite distinct periods of "corporate farming" development. These periods will be discussed briefly and independently.

At the outset it would appear well to indicate that corporation farming has not always in fact meant farming by corporations but has encompassed the whole area of large-scale farming. Even though much of this early large-scale farming was not in fact farming by corporations, this does not mean it can be excluded from discussion. Two things are important here. First, what people think is often as important as what in reality is. Second, because of the confusion in understanding and terminology, it became impossible in many instances in the literature to separate

references to bona fide corporations from references to large-scale proprietorships and partnerships. The preface of the afore mentioned U. S. Department of Agriculture bibliography states:

"In many cases the terms large scale and corporation farming are used interchangeably. The terms factory farms, industrialized farms, and chain farms are also used rather loosely ... Some of these farms are owned by individuals, some by partners, and others by corporations. References on group farming, and chain farming ... are usually a number of farms operated either by tenants or by hired labor under the supervision of a centralized management or an agricultural service. The term, chain farming is usually applied to group farming where all the farms in the group are owned by the same individual, partnership or corporation." (159, p. III).

Mumford also states in Large Scale Farming in the United States:

"There has been considerable confusion, and naturally so, as to what constitutes a large-scale farm. Any number of terms, for example, industrialized farming, chain farming, group management, supervised farming, corporation farming and still others have been used interchangeably in this connection and have been considered frequently, especially by the reading public, as belonging to the same general system of agricultural operation. Strictly speaking, some of these terms have little or nothing in common save that usually, but not always, a large number of acres is involved." (108, p.2).

No further attempt will be made to point out which particular references were to corporation farming per se or which were simply to large scale farming, since in the minds of most of the writers and readers of the period the terms were generally synonymous.

Period 1880-1920

This was a period during which corporate ideas were introduced into agriculture, and it was also the beginning of the industrial revolution in agriculture. The earliest bibliography reference to what might have been called corporation farming appeared in the 10th Census, 1880. This report made reference to several large-scale wheat, sheep and cattle ranches and discussed briefly joint-stock farming. (159, p. 1).

In a book entitled Farming Corporations (1), written in 1892, the dedication reads, "To My Father, ...and to His Own Class, That of American Farmers, Now Suffering an Inglorious Decline, I dedicate This Book." This author advocates large corporate associations of farmers with ability to produce and market collectively, emulating the power and size of large industrial concerns. Other early references were dated 1892, 1903, and 1908. Then beginning in 1910 and reaching a temporary peak in 1920, there was considerably

increased writing on bonanza farming, corporation farming, industrialized farming, large-scale farming, business farming, and factory farming. These early writings seemed to be about evenly divided pro and con in favor of "corporation farming."

"The only possible future for agriculture...is to be found in large farms, worked with ample capital, especially in the form of machinery, and with labor organized somewhat after the factory system."
(170, p. 3).

Early criticism. There was, however, doubt and criticism, and even as early as 1910 one author wrote that "bonanza farming" was already on the descendency. Coulter, in drawing his conclusions on 50 years of bonanza farming in The Red River Valley, wrote:

"For the first decade of bonanza farming-- (they) proved to be far more profitable than small scale farming...the bonanza farmers made profits from the first--some very large profits--but advance but little; the small farmers made steady progress and gradually were able to utilize land and equipment as economically, or nearly so, as the bonanza farmers. They are now able...as a rule, to net greater profits largely on account of the ability of the family to care for details. The temporary ascendance of bonanza farms-- not understood at the time made many eminent economists to conclude that 'the big fish were eating up the little fish' and that large scale production in agriculture would bring it to a par with other industries in the movement toward concentration. With more careful

study it is now clear that their ascendancy was temporary. The medium sized farm, a good economic unit, properly equipped, and well managed, would be the most successful as a basis for production if not as the basis of a nation of agricultural homes." (29, p. 662).

Although his conclusions seem quite matter of fact, the point was argued for years following and seems to be arguable even today.

Period 1921-1929

The crisis of 1920 sharply reduced the writings on "corporation farming." But in about 1925 interest seemed to have revived, and writings upon this subject reached an all-time peak in 1929. Other terms were added in this period: chain farming, group farming, pool farming, supervised farming, combined farming, cooperative farming.

Cooperative corporations. Cooperative schemes were discussed by many; Norse writing in 1918 is an example:

"In brief, the modern industry of agriculture demands technical skill, training, equipment, credit facilities, and commercial contacts such as the individual farmer cannot possibly supply for himself. Efficiency in these directions is to be attained, as in other industries, only when certain phases of the business are taken over and provided for by larger units of organization. In some instances the corporate form of enterprise is capable of doing this, and is, therefore, finding a place for itself within the field of agriculture. But in the larger number of cases, this consolidating movement is being brought about through

cooperative associations. These, while leaving the task of routine operation to private enterprise, furnish an effective means of pooling certain commercial, financial, and executive functions for joint administration." (110, p. 103-04).

Wealthy men experimented with philanthropic types of farming cooperatives. John D. Rockefeller, Jr., with the Fairway Farms Corporation in Montana, operated, by tenant-purchasers, a sort of "federation" of units. J. C. Penney, with the J. C. Penney-Gwinn Corporation, operated in Florida a large number of highly supervised tenant farms.

Opinions varied about these "cooperative corporations", and at about the same time Holmes said:

"Probably the most valuable contribution which workers in our field may make in the next ten years is the education of our better farmers in the nature of business proprietorship as embodied in farming; in making them realize that it is within their power to take advantage of a changing economic environment rather than be the victims of it. When they see that there are possibilities of utilization of their resources far beyond what they have as yet achieved, and that the means of this greater utilization are within their reach, there will be less of helpless and hopeless dependence upon legislation and impossible cooperative schemes." (33, p. 11).

Commenting on Holmes' statement, Crowther said:

"This would seem to be the field of a new kind of cooperative enterprise which would be in effect the pooling of resources to the end of attaining a better production. Such cooperative would at the best be only a clumsy corporation, but it would very materially reduce costs, increase production

and make more general avail of modern methods, provided always the direction was unqualifiedly in the hands of a capable manager." (33, p. 11).

Industrialized farming. Other prominent men entered into the scheme of things. Henry Ford spoke out in unequivocal terms in favor of industrialized farming and operated such a farm near Dearborn, Michigan. These two quotations will indicate his thinking:

"Large corporations, whose sole business it will be to perform the operations of plowing, planting, cultivating, and harvesting, will supersede the individual farmer, or groups of farmers will combine to perform their work in a wholesale manner. This is the proper way to do it and the only way in which economic freedom can be won." (56, p. 8-10).

"The farmers can free their time through organization to take over as big business that which is now conducted as a little business; the corporate organization with proper provision that the stock must always be held by producers will prove more effective than cooperative societies; the cooperative form is not so convenient as the corporate.

"And then farmers can go into some other line of work." (32, p. 18).

Ford also advocated that livestock and dairy raising be done by large corporations and that other farming be done by factory workers on a part-time basis. (32, p. 18).

Corporations inevitable. Other writers were sure that "corporation farming" was inevitable. In an editorial in Magazine of Business, two types of farming were predicted in this country: "peasant farming, on the one hand; and large-scale, corporately organized, mechanized farming, on the other." Although this condition is to be regretted, it is inevitable owing to the independence of the farmer and his failure to cooperate." (121, p. 47).

D. Howard Doane, founder of Doane's Agricultural Service, said in 1929, "Corporation farming is here to stay, but it is in its infancy, growing and changing rapidly." (173, p. 66). Robert S. Brookings, founder of the Brookings Institution, said in 1928:

"My own opinion is that the best means of hastening the present slow process of agricultural regeneration is by the formation of agricultural corporations which will accomplish in organization and management what big business has accomplished for industry following the method pursued in the organization of the United States Steel Corporation. The most inefficient farms, which are now operated are worth less than nothing, would be paid for in safe bonds of the "Agricultural Corporation" with some regard for their potential value; and the most efficient farms would receive their full present value in the same bonds, and their efficient managers become the department managers of the corporation.

" . . . I believe they (the corporations) would greatly reduce even the present low cost of production of the most efficient farmers; and that their securities would eventually become one of the most extensive and safest forms of investment for our people, converting the present immense and unprofitable values tied up in farm lands and equipment into an additional means of distributing the national wealth among all the people. The philosophy of Ford (Henry) is similar to Campbell who states - 'the moment the farmer considers himself as an industrialist, with a horror of waste either in material or in men, then we are going to have farm products so low priced that all will have enough to eat and profits will be satisfactory that farming will be considered as among the least hazardous and most profitable of all occupations'." (10, p. 34).

An editorial comment reported in the Literary Digest tells of three Kansas wheat farmers combining 5,000 acres of wheat land into a corporation.

"Such a movement brings us face to face with a new kind of trust in America, and a trust, too, of rather dangerous significance. But the farmers of this country have as much right to form these corporations as any other class of citizens, and the fact that they have failed to do it extensively up to this time has too often left them to the mercies of men not much interested in farming except for the unearned profits they could get out of it.

"True some of the big stock farms of the country have been incorporated. Orchardists too are incorporated. The corporations have made huge successes, too, and are outstanding among great American enterprises.

Some of the cotton plantations also have been owned and operated by corporations; but as a rule the incorporators were not "dirt farmers." In the Kansas case the incorporators are wheat farmers, men of the ground, men familiar with the needs and problems of the wheat farmers of the country . . . There does not seem to be any good reason why farmers of other kinds in other sections of the country may not do likewise. Soon we may have all the farms of the country operated by corporations and this may bring us face to face with a new economic order of large meaning in our national life." (78, p. 69).

Success stories. In addition to the pros and cons, there were a few stories of failure, but a large number of "success stories" were reported. These were mostly descriptions of successful, large farming or ranching operations and generally implied, at least, that this was the image to imitate and the nature of things to come. Such an example was a paper presented in 1928 to the American Society of Agricultural Engineers by Thomas D. Campbell, President of the famous Campbell Farming Corporation of Montana, touted as the world's largest wheat farm. A quotation from Mr. Campbell's paper entitled "Ten Years Experience in Manufacturing Wheat on 100,000 Acres" will indicate his thinking:

"It is hard to investigate agriculture without becoming too enthusiastic as to the possibilities that are present for the engineer. I

know that there is no opportunity in all creation today equal to the opportunity which the agricultural engineer has before him. I have stated many times that there is no industrial opportunity in the United States equal to the opportunity in industrial farming. There is no capital investment which you can make today which will yield as big a return over a period of ten years as industrial farming. I mean conservative business; I am not talking about novelties and patents and businesses which have a high rate of income for a short time." (13, p. 20).

Critics. This period was not without its severe critics of the corporate idea. An editorial in the American Agriculturalist states, "Neither corporate nor cooperative farming is practical on the productive side of farming." It is also critical of Mr. Campbell, who, they say, leases the land he uses from the Crow Indians, pays no taxes and pays his rent with a percentage of his crop. "What farmer could not succeed under like conditions?" (27, p. 43).

Wallaces' Farmer printed an article by S. Rowley favorable to incorporation, setting down the following to commend it: (1) Economy of operation by shifting labor and horses to greater utilization; spread overhead, and depreciation. (2) Buying and selling large quantities. (3) Greater specialization and diversification by units. (4) Trained managers.

Following this favorable article and in prominent space and type came this editorial comment:

"Corporation farming has had lots of advertising lately. Here is some more . . . So far as Wallaces' Farmer is concerned, we doubt if corporation farming can or should succeed. It has yet to prove its efficiency. With a few exceptions, corporation farms have lost money. Farming, particularly diversified farming, does not lend itself to methods of the corporation.

"But even if it were efficient, corporation farming would still be socially undesirable. We need the family farm; we need the social qualities it generates, love of the land is something too precious in the life of a farmer and in the long life of a nation to be traded for stock in a corporation farm." (131, p. 376).

Period 1930 - 1944

This was a period when written material about corporation farming declined. Articles written in 1930 dropped to

about half the number written in 1929. In 1931 interest revived somewhat and then gradually faded out by 1942. The influence of the economy as a whole was undoubtedly a factor in the interest shown corporation farming, although interest was still relatively high until 1934. Since 1929, however, the tenor has changed from one predominantly in favor of large scale or incorporated farming to an attitude quite against it. Reports of failure began to appear in place of "success stories", although the failures were never played up to the extent the successes were.

Corporate failures. General farm failure in the 1930's was apparent regardless of the form of business organization. But there does seem to be some indication that corporate farming might have been harder hit.

"But harsh schoolmaster that it is, the depression insistently points to a new lesson. Except under isolated conditions corporation farming will not work in this country. The collapse of our economic structure and the plight of our mass producers are proof of the fallibility of large size. Bigness alone is not a protection against credit difficulties.

"....all corporation farms can be classified into two groups--'those that have failed and those that are going to fail'.

"This depression has proved the ability of the individual farmer to hang on while the corporations in far safer businesses than agriculture are well-nigh crushed beneath the debris of a credit structure that has collapsed upon them." (6, p. 4).

"And so the corporation farms and those who cultivate them are doing badly. The individual farmer--the middle farmers who have tried to imitate their example by mortgaging their land to buy expensive machinery--are doing even worse. All farmers are suffering in these depression years, but those who suffer least of all are precisely the small farmers on marginal land...they have the advantage during these hard years, of being largely independent of money. They live directly on the produce of the soil. And instead of dying out they are actually increasing in numbers." (30, p. 211).

There were other indications that corporation farming was not profitable. Studies, using 1926 statistics of income, indicated that corporate farms had not been able to hold their own with individual farms. They were 20 times the size of average farms and had assets 21 times as large, which meant they should have earned 20 times as much, but they did not do as well as regular farms (146, p. 77-83). Not all lack of profits can be counted as monetary, nor are all profits the result of farming.

"Large-scale farming operations in the past have been unsuccessful due to shortage of capital in proportion to the amount of land, and to inadequate management of land and capital. Probably the most important reason why small farms (within limits) have paid better than larger ones is because every farm produces an income made up of cash and of intangible elements. These intangible factors of income ordinarily disappear under large-scale farming. They constitute a large part of the family living of the farmer. They are found in the aesthetic or psychic values of rural life, and such elements as satisfaction in land ownership." (169, p. 376).

"You would suppose that the big farm would be the logical development and that large scale management would be able to do on the farm what it has done in the factory. But we have not been able to find any industrialized farm which can be called profitable, though we have examined the affairs of many. Such farms pride themselves in their book-keeping, but when you apply to them the system of modern cost accounting which the manufacturer uses the profits somehow disappear. The only one we found which seemed to be profitable turned out, on examination, to have an oil well on it..." (2, p. 11).

Failures occurred but were not reported with the fanfare accompanying "success stories" of the same farms in a previous period. The huge Dalrymple farms of North Dakota had given up wheat and turned to livestock (132 a). The large Hickman Price farm of Texas had been petitioned into receivership by a rural hardware store to which was owed \$600 (5). The big Wheat Farming

Company of Hays, Kansas, failed (145). In 1930 the Campbell Farms of Montana were listed among the large-scale operations that had been "miserable failures." (149). In 1932 the following appeared in a miller and baker trade magazine:

"An interesting chapter in the history of large scale farming and an important precedent in government conduct are involved in the sale of several hundred thousand bushels of volunteer wheat... The wheat comes from the idle lands on Crow Indian Reservation in Montana which were leased from the government at 75¢ by Thomas D. Campbell, once called the Montana wheat king and the country's largest wheat farmer. The Campbell Farming Corporation is \$60,000 behind in its rent to the Bureau of Indian Affairs of the Department of Interior and the wheat is being sold by the Department for this reason..." (171, p. 608).

Some reasons have been given for these failures other than strictly being the result of the economy of the times. It should also again be pointed out that these are largely reasons or charges against large-scale farming and not necessarily against the corporate form as such, although the corporate farm may be conducive to such developments. Stokdyk lists five disadvantages of corporate farming: (1) Difficulty in handling labor, (2) difficulty interesting the hired laborer in the enterprise, (3) seasonal character of farm work, (4) precariousness of farming enterprise, (5) unavailability of

large tracts of land at low price. Stokdyk continues to say, "The point of diminishing returns per unit of managerial ability is reached much sooner in agriculture than in industry." (146, p. 78).

"...farming is not a manufacturing or chain store business, it is farming, an enterprise which as a New Englander is credited with saying, 'the Lord has altogether too much to do with.'... (35, p. 213).

"The owner of a large ranch once remarked the corporations had to quit farming because they kept books. The tenant farmer doesn't know enough to figure overhead and investment costs; he doesn't realize he's losing money all the time, so he keeps on farming.'" (35, p. 215).

Ezeikiel and Johnson (50, p. 66-68) pointed out that farm production can't be reduced to a routine as can a factory process. Individual workers must assume managerial responsibilities and adjust constantly. These conditions limit the area operated as a single unit under a single manager.

Past attempts at corporation farming have failed to recognize these characteristics and have been unwieldy in size. Individual workers could not be supervised, as in a factory, and lacked the incentive and self interest of individual farmers.

Emotional opposition. There was certain emotional feeling against corporations. One writer said, "Federation or fuedalism--corporation or cooperation." (124, p. 6). Another author compared corporate farms in this country and state farms of dictator controlled countries by saying, "They are literally and practically the same." (71, p. 713). Senator Capper of Kansas said, "Corporation farming is a bad public policy. It is dangerous; I am strongly opposed to it. Every farmer and every business man in rural America and every worker in the big industrial centers should oppose it." (58, p. 856-57). Farmers had "visions of gigantic tractors driving them from the land" and spoke of the corporation farm as an "Ogre of Wall Street." (58, p. 856-57).

"Corporation farming will be in the nature of retrogression instead of progress. The tendency will be for certain few to dominate over many and reduce them to surfdom..." (22, p.15).

"Some profess to see in corporation mass-production farming the most dangerous threat to democracy ever started in American history. They see in it the eventual wiping out, not only of thousands of small farms, but also of hundreds of little towns, whose merchants, bank, and professional men depend for their support upon the small farmers who live in the surrounding territory. They see a sinister connection between this movement and the growth of the chain-store. Some see it as a blessing. But regardless of what somebody thinks, it is going on. Small farmers are being bought out, tenant farmers

are being dispossessed, ramshackle buildings are being torn down, and piece-meal farm units are being erased. Farm corporations are legal; they are incorporated under strict laws; they have a right to go into the farming business.

"It is indubitably a tremendous movement. It seems to me to be a beautiful and interesting social phenomenon. We are moving--inovated by inexorable economic forces, which may perhaps be directed, but which respond to no brakes." (101, p. 199).

Political opposition. These discussions reached such political proportions that Kansas and North Dakota passed laws prohibiting farm corporations. Oklahoma's constitution included a provision forbidding corporations to hold agricultural land except for sale. Texas and Nebraska placed restrictions on farm corporations, and Minnesota and Mississippi limited the acreage which a corporation could own (15).

Much of the anti-corporation feeling in agriculture probably resulted from the policy followed by banks, insurance companies, or other lending agencies of taking over farms through foreclosure. These financial institutions usually were corporations. The foreclosure itself was a sinister enough situation, but thereafter big corporations were operating these farms with hired managers and "taking over all of agriculture." Many of

these farms were acquired in a run-down condition. There was no acceptable resale market for these farms, and the only way these companies could maintain their interests was to hire a manager and operate the farm for what current income was possible. Also, they often sought to build up the farm while holding it for higher land values. Their interests were not in operating the farms indefinitely but only until an acceptable market could be found.

"Many of the owners of these chain farms have taken up agriculture involuntarily. Individuals, banks and insurance companies have acquired farms through mortgage foreclosures, and, rather than sell them in an unfavorable market, they have hired graduates of agricultural colleges to manage them, hoping for higher prices later.....In the plains region, many farmers now want to use the taxing power to force such owners to dispose of their lands." (58, p. 856).

"One of the results of the depression has been a notable increase in the amount of farm land held by agencies which normally do not hold farm real estate for operation or investment. Most of this land is owned by corporations such as banks, life insurance companies, the land banks, and mortgage companies, which have acquired farms in satisfaction of loans by taking title to the property which composed the security." (174, p. 12).

Avid proponents. While now in the minority, there were still avid proponents of corporate farming. One author made a vehement attack on "quarter-section half wits" and "thirty-cent statesmen" for opposing the industrialization of agriculture.

The same author scoffed at the "good old American farm home with its poverty and squalor." He proceeded to advocate agriculture as a public utility, and said, "instead of denouncing corporation farming and seeking to stop it, intelligent men will study its advantages and strive to adopt them all." (123, p. 119).

"Men of words apparently are united in saying that it is impossible to organize agriculture along industrial lines. Men of action, meanwhile, are so organizing the farm business. Factory production methods are being used on the farms regardless of whether the business is called a corporation, a company, a partnership or a one-man captialistic enterprise." (53, p. 17).

Federation of corporations. Federations of small farms plus other approaches were suggested, such as having small farmers live on and intensify a small part of the land they owned and rent the remainder to a corporation for efficient, extensive-type farming. A group of such owners and renters might also own the operating corporation (129).

Ezekiel suggested that a national corporation operate groups of farms in different sections of the country, each unit operated by responsible operators sharing in profits and losses. This would fully diversify the national corporation and spread uncertainty and risk (50).

Others seemed to have given corporations a special place in the scheme of agricultural development.

"Corporation farms are, however, successful and essential to development projects. Where considerable capital is necessary to improve areas by irrigation or drainage they function well. But here the profits are largely made in increased land values and not in crop production. The corporation may carry on the farming enterprise for some time at high profits if it does not capitalize the increase in land values; but as soon as it does capitalize the land values, high profits cease." (147, p. 1092).

Compromise proposals. In between those who advocate corporation farming and those who oppose it are those who would propose a compromise for chain farming.

"Under this system tenants are supervised by a manager. The tenant retains an active interest in the operations and bears a part of the risk. The manager is free to supervise and direct while the tenant conducts the actual operations. Here some of the advantages of corporation farming are combined with the advantages of family farming." (146, p. 82).

There is, however, under all of this a continual awareness that a need is present--if efficiency is a criterion--to mechanize and increase size of operating units. This requires additional amounts of capital.

"There is an ever increasing trend in American agriculture toward larger units of land and the use of more labor saving machinery. Under certain conditions, the only answer to this trend seems to be corporation farming. Some farm families today are having difficulty in economical production of agricultural products.

".... But I do believe that if the farm family cannot get enough land, labor saving machinery and operating capital to produce economically, or if they cannot of their own accord join with other farm families and get these things, farming corporations will inevitably control a large part of our farming land." 167a, p. 14).

"The corporation presents an opportunity to secure the capital needed and it is possible that more corporations may engage in farming as time goes on... Corporation farms lack the social advantages which go with farm life for a farm operator and his family. The family of the manager of the corporation farm does not usually feel that it is an integral part of the farm business, consequently the corporation-owned farm operated by a manager lacks one of the factors of outstanding importance in making a farm successful. This factor is the interest and cooperation of the entire family. The chief advantage of the corporate type of organization is in the ability

to secure the needed capital and to insure that the best practices can be followed if those practices require the investment of additional sums of money..." (63, p.24-25).

Conspicuous developments. In summary, it can be said that most of the discussion, the pros and cons and the emotion of corporation farming in this period, can be centered around a few conspicuous developments. Tolley, writing in a 1929 U. S. Department of Agriculture publication said:

"As a matter of fact, there is little definite information of any radical change in the typical size of the farming unit during the last decade. ...There have been a few conspicuous developments, but we know that the movement toward consolidation of holdings and the carrying on of farm operations on a scale markedly larger than previously existed has not gone far. The importance of the subject, therefore, is mainly in its potentialities rather than in its actualities..." (153, p. 10).

The U. S. Department of Agriculture's 1932 Yearbook states:

"In certain areas mechanization has greatly increased the size of farms and the investment per farm. It has been suggested that this development may foreshadow an increase in corporation farming as distinguished from family farming. Mechanization, however, does not necessarily involve corporation farming or absentee ownership. It is quite consistent with the family-sized farm, though it may make that farm larger. Much interest has been manifest since 1920 in large-scale farming, corporation farming, 'chain' farming, and the like. A few conspicuous developments have taken place. But the movement toward the consolidation of holdings and toward farm operations on a

large scale has not gone far. For the present, the subject is interesting mainly in its potentialities.

"Large-scale farming as yet is a very minor thing in American agriculture. The capital value of all corporation farms that made income tax returns in 1924 was only 2.7 percent of the total value of all farms in the nation. Some increase has taken place since 1924 in corporation farming, but the developments have not been spectacular." (76, p. 18).

The family farm was still by far the most important and prominent economic and social unit in agriculture. The family farm had undergone changes and was destined to undergo still more.

"There is the enlarged family farm, operated for the most part by the labor supplied by a single family. The increase in the normal size of the family farm unit is one of the most remarkable changes to be observed in American agriculture during the last decade.." (95, p. 3).

"The conditions and forces which have prompted the recent lively discussion of corporation farming are having a less conspicuous but vastly more important effect upon the time-honored institution of American agriculture, the family farm. Rash observers have gone so far as to predict that current developments will sound the death knell of the family farm. But it is not a trial, conviction and death sentence that is just ahead, but rather a rejuvenation and a new period of growth, involving larger acreage, more power, more capital and a new self-consciousness on the part of the family-farm operator of his place and function as a business proprietor." (70, p. 25).

Period 1944-1962

The significant thing about all previous periods is that the corporation was never associated with the family farm. It was always thought of as being a competitor or something that would replace the family farm. The 1944-1962 period is significant because the connection is made in bringing the corporate form of ownership to the family farm--a farm that is now much larger and more complex in business, legal, and tax aspects.

There were a few articles from 1945 to 1952. There was added interest in 1953 through 1957. Then in 1958 and 1959 the number of written articles about farm incorporation doubled each year from the previous year. There was still an increase of articles in 1960, which was the peak in recorded interest. Articles declined during 1961 but were still significantly important. This increase beginning in 1958 can be attributed largely to certain federal tax law changes which allow a closely held corporation (with ten or less shareholders and completion of other requirements to be discussed later) to be taxed as a partnership (125). This act eliminated most of the federal income tax disadvantages the corporation previously held for most family-owned farms.

Georgia experiment. The first talk of corporation farming in this period came from a Georgia experiment called the Callaway Plan. This was a plan to rejuvenate many small worn out Georgia farms, and one hundred corporations were consequently formed in 68 counties. The plan called for seven stockholders to provide \$1,000 each. These were often local business or professional men. Each corporation purchased one or two farms to make up about one hundred acres. Professional advisors, such as soil conservationists and county agents, were heavily relied upon, and there was a supervisory board over all corporations setting up cropping patterns, etc.

The corporation in this experiment was an intermediary device to raise capital, build up the farm and sell it-- usually to its operator at specified and favorable terms at investment costs. Many were sold to returning World War II servicemen. The results or analysis of this experiment were never written. However, correspondence with Roy E. Procter, University of Georgia, in a letter dated February 1, 1962, said "...it was strictly for a three year period. All farms have been sold; many of them were sold to the initial operators...This should prove why no new publicity has been printed."

Government opposition. Opposition to large scale or corporate farming was not confined to periods of the past. Such an example took place in 1946 when a special Senate committee studying problems of American small business received a report on a study made in the San Joaquin Valley of California. The study took two small communities, one surrounded by large scale (many corporate farms) and one surrounded by small family farms. The communities surrounded by the family farms purportedly had more and better of everything deemed desirable by our present society: separate businesses, community services (paved streets, garbage collection, etc.) schools, churches, playgrounds, boy scout troops, civic clubs, etc. The study concluded "...quality of social conditions is associated with scale of operations; that farm size is in fact an important causal factor in the creation of such differences, and that it is reasonable to believe that farm size is the most important cause of the differences." (156, p. 114).

Although not directly an indictment of farm corporations, the implication of this study would seem to uphold a previously stated government policy: "The policy of the government is

to build up communities of many settlers with small holdings and not to encourage the prosecution of agriculture by large corporations."/1

This government policy is still reflected in the fact that Farmers Home Administration loans generally will not be made to corporations. Exceptions allow a limited loan for soil and water conservation and certain disaster loans in designated areas. This technicality abides even though the farm corporation is in reality a family farm, the distinction being whether it is incorporated or not.

Family corporations. State agricultural experiment stations and extension services published numerous bulletins and circulars on farm operation and transfer agreements; many were directed to father-son arrangements. A 1950 law review article was quite critical of the bulletins on father-son operating arrangements for not considering the corporation. The author of the article then briefly examined the family corporation as a means to accomplish certain operating and transfer arrangements. This is one of the first references encountered that directly looks at the corporation as

-
1. A statement by Congressman Martin of South Dakota, Congressional Record, 57th Congress, 1st Session (1902) (p. 6758).

a device for family farms (20). This publication was directed to lawyers. Lawyers and those with law training were among the first to explore the corporation as a device of the family farm. This is understandable since the corporation, after all, is a legal creature. The influence of lawyers is great:

"Without being overly dramatic, it can be stated confidently that the small town legal counselor of farmers influences the farm policies and land tenure developments of the nation. The extent of that influence can only be surmised, but probably it is very great." (42, p. 558).

A thesis written for a law degree in 1950 studied the corporation as one among many devices for farm operating and transfer agreements (43).

About this same time agricultural publications began to include mention of the corporation. One of the first such statements in its entirety is as follows:

"Sometimes a large farm holding or farm business is incorporated. In such a case the matter of keeping the farm in the family becomes a matter of distribution of shares in the corporation rather than of acres of a single successful operation unit even though the ownership is redistributed.

"Incorporation is a rather complicated procedure and it usually involves changes in accounting and taxation. It has important advantages and disadvantages which concern other aspects than transfer within the family. It is used very little by South Dakota farmers." (106, p. 17).

A study in 1951 presented certain information about corporation farming in the United States and particularly in California (36). In this same year a college of agriculture circular indicated:

"Incorporating the farm business has been suggested and tried by some families as a means of aiding the farm-transfer process. This method, however, seems to be decreasing rather than increasing in popularity. At best, the job of making out legal papers, issuing stock, holding meetings, and making out annual reports is complicated and somewhat expensive. It does not appear to be adapted to the usual size and type of farm business. Where the farm becomes 'big business' however, the family might well consider the advantages, as well as the disadvantages of incorporation." (66, p. 29).

Under the title "Legal Problems in Father-Son Farming Operations", Ellis, a lawyer, devoted a section to corporations, and said:

"Although a corporation may engage in farming in most states, the corporate form of business has not often been used for this purpose. It is more complicated, bothersome, and expensive way of doing business than partnership or landlord-tenant." (49, p. 244).

He cited certain legal formalities and paper work and the necessity of lawyer assistance to incorporate as well as to prepare reports, tax returns, etc. Among the legal consequences he cited limited liability, but he suggested stock certificates may represent the total assets of an individual.

He also warned of personal liability for individuals signing corporate debt obligations. Perpetual life, he noted may give greater continuity of identity and existence to the farm, but he warned of bothersome and expensive dissolution. He explained the use of shares as a transfer device between father and son and of certain transfer limitations and restrictions that may be placed on stock. He briefly compared the income tax considerations of the corporation with the partnership and proprietorship, indicating that the corporation is a separate tax paying entity.

This was a basic outline very similar to many articles, bulletins and publications which followed, some directed to specific states or localities. These publications can be classified into the following general categories: extension and experiment station publications; popular articles in general farm magazines; articles in specialized crop and livestock magazines; professional journals; law publications and reviews.

Law publications. A law review note in 1952 discussed the limited partnership and the corporation in family farm operating and transfer agreements. "Recent studies on the subject of family-farm operating and transfer arrangements

have indicated that the existing tools with which drafters of such agreements must work are inadequate." (59, p. 171).

Gehl explained the limitations of partnerships as well as the complications of the corporation bound by laws devised for public corporations rather than closely-held corporations.

He suggested a revision of law to simplify the conditions of the close corporation. "In addition there is a very real problem presented by the farmer's reluctance to have anything to do with something that smacks of corporate enterprise." (59, p. 172).

Eckhard, professor of law at Wisconsin University and whose thesis was previously mentioned, also wrote for a law publication presenting the legal and technical aspects of family farm incorporation (44, p. 61-70).

Five questions were posed for consideration:

1. Is limited liability important?
 - Will all assets be in the corporation?
 - Will creditors demand personal commitment?
 - Are there uninsurable risks?
2. Is it desirable to transfer undivided interests?
 - Are there one or more children in the business?
 - Will parents be selling interests for retirement?
 - Is inter vivos distribution to several heirs contemplated?

3. Are there several owners?
4. Are taxes a consideration?
 - Is there ordinarily capital gains income?
 - Would splitting income reduce taxes?
 - Is a short business existence contemplated?
5. Would an alternate business organization be more satisfactory?

In speaking of limited liability, he continued to say:

"A corporation is responsible for the contractual and tort liabilities of its agents, but the personal assets of the stockholders cannot be reached in satisfaction of such obligations. This feature is frequently desirable to the client, but its importance is often exaggerated. If the farmer has all his assets in the corporation he is protecting nothing." (44, p. 61).

The Minnesota Law Review likewise devoted part of two issues (Dec, 1958; March, 1959) to a more comprehensive and documented discussion on incorporating the farm business (79, 80). The American Bar Association recently created a new committee on corporate law in agriculture and ranching, showing their interest in this area of law. This committee chairman wrote a recent article on incorporation of farms in the Association's Journal (168).

Considering the serious tax implication, Shoemaker presented and discussed some of the management decisions necessary in light of certain tax implications in farm

incorporation. However, he indicates, "Since corporations in agriculture have a limited foothold there is little case law and less in Internal Revenue rulings, regulations, or decisions directed to family agricultural corporations." (133, p. 516).

A seminar on farm corporations sponsored by the North Central Land Tenure Research Committee in November 1960 brought forth some important papers on research, economic and legal aspects of the farm corporation (55), (40), (64). Professional Journals. One of the earliest discussions of the farm corporation to appear in professional journals for agricultural workers appeared in the Journal of Farm Economics in 1953. In this discussion Crossman said, "It (incorporation) appears to do more toward assuring security to the farm operator and his family than to the increasing of their farm income." (31, p. 961). He said society is concerned that the corporate structure would destroy the "family farm" and that we are not so much concerned about the farm as about the family. "The farm corporation as a threat to the family farm, which is prized so highly in our society, is unfounded. The family farm may actually be perpetuated

through the corporate device." (31, p. 961). Here the corporate organization is recognized as a social device or institution and not strictly as a business institution.

Papers were presented to American Farm Economic Association in 1958 (89), 1960 (73), and 1961 (72). Other journal articles and research bulletins of a more exploratory nature have been written by Miller (107), Dorner (39), and Elefson and Miller (48). The stimulation for these explorations seemed to be expressed by Dorner as "...a problem of constructing a market to facilitate the transfer of these increasing aggregations of capital" (39, p. 816). These authors explored some means of creating a nonfamily market for farm corporate securities which presently doesn't exist. They suggest a holding corporation or government agency which would help capitalize smaller operating corporations and offer a ready market for exchange or sale of these securities.

Agricultural college publications. The first complete publication encountered about farm incorporation was directed to farmers on a mimeographed paper written by Robert S. Smith, of Cornell University, in 1952 entitled Incorporation of the Farm Business (139). This was an

extension-type presentation and was later published in 1958 as an extension bulletin (140). The publication date of this bulletin followed an Illinois circular by three months. The Illinois circular, Corporations in the Farm Business (92), was probably the most comprehensive of those published prior to an Oregon State Experiment Station publication in 1961 (75).

These early bulletins were highly popular. Robert S. Smith wrote in personal correspondence dated March 10, 1959, concerning the New York bulletin (140): "Response to our publication has surprised us. We felt 5,000 copies would last three years, but they were gone in five months."

Now at least 13 states, the North Central Region of 14 states, and the U. S. Department of Agriculture have published bulletins and circulars on corporation farming. These publications have generally explained what the corporation is and general advantages and disadvantages of the corporation as it relates to the farm. These publications usually give a warning such as:

"The object of this circular is to show when and how the farmer may use incorporation in his farm business. The following material is not a substitute for professional legal advice and assistance. Adapting the corporation type of organization to the individual farm business will usually require expert legal help." (92, p. 8).

Magazines. In 1953 popular articles began to appear in farm magazines. The first encountered was in Hoard's Dairyman (4). The writer was a lawyer and author of the book Law and the Farmer (3) in which he also devoted a small section to the family corporation. In his magazine article he said, "More and more farm families are asking, 'would it be a good idea to incorporate the farm'?" (4, p. 672). He presented a good general statement of the corporation and its objectives and played up incorporation as a means of obtaining social security for farm operators. This was before self employed farmers were included in the social security law; hence through incorporation a farmer could become a corporation employee and thus eligible for social security. He also brought to the attention of his readers the corporation as a help in estate planning plus certain possible tax disadvantages associated with incorporation.

Following tax law changes in 1958, many farm magazines carried articles or explanations of these law changes which would allow a closely held corporation (10 or less shareholders) to be taxed as a partnership for federal income

tax purposes. This overcame one of the major disadvantages of incorporating most farms. This law change and its implications to the farm-ranch corporation was the subject for many articles which followed.

In many of the popular articles an appeal to the farm family was stressed. "Incorporation in itself won't harm the American family farm. It will often improve it. As a matter of fact, as we have seen incorporation, it may be the very best means of keeping the farm in the family." (45, p. 32).

Incorporation is still considered by some to be for the relatively large farm units. "If your investment is larger than \$100,000 or if there are three or more families involved, it may pay you to consider incorporation." (143, p. 761). Although his \$100,000 figure seems quite arbitrary, there are probably more advantages for larger farms than for smaller farms, although in some situations small farms may also consider incorporating. "Incorporation is the right move for a few large and profitable farm businesses. It is not the answer for a large majority of family farms." (138, p. 84). Although Claud Wickard, a former secretary of agriculture, said, "We can't go on breaking up these family farms every generation, expecting each young farmer to build up again to the size you need today.

Incorporation is a way of sharing today's high cost of capitalizing a farm." (60, p. 25). Another author has said of incorporation, "This has gotten away from the old heart-breaking way of one heir getting the farm and spending the rest of his life paying for it" (83, p. 46). One of the more comprehensive popular articles appeared in the Farm Quarterly, Autumn 1959 (68).

The corporation has been tied in with estate planning by many writers. Particular emphasis was given to the use of stocks as gifts to decrease the estate size in order to reduce estate and inheritance taxes, which in recent years have become very important because size of farm estates have increased.

Certain warnings also began to appear while others continued to be more optimistic. "Creditors will be somewhat more conservative in their loans knowing that there is limited liability," (61, p. 14) or "You can borrow money more easily to expand your operation when you are a corporation. Lenders figure you are more permanent." (60, p. 25).

Taxes of all kinds were given prominent play by almost all writers. Speaking of corporate benefits, one writer says, "Most important, however, it is used to

reduce certain taxes." (102, p. 24). But another author warns, "Nowadays people tend to decide too many questions on the basis of tax consequences alone. This is true in regard to incorporating a farm. Taxes are very important but so are other factors." (144, p. 1).

Pros and cons. Even this era was not without its avid proponents and opponents. Kuthe thinks there is really no basis for family farms except the sublevel exploitation of family labor, which in some cases is not well utilized except in peak seasons. He also thinks we attach too much sentiment to the family farm: "Thus the apparently inevitable growth of the extensive operating methods must mean a widespread shift from the present system of family farms to large, capitalistic enterprises, often taking the corporate form." (94, p. 286).

To look at the other view the Christian Century says:

"What is good for General Motors is not necessarily good for general farming...when industry expands, more people are needed, more housing, more stores, more schools, more churches. When farms expand, we get bigger machines and fewer workers, and homes are taken off the land. Towns lose business and railroads withdraw their trains and soon pull up their tracks. Schools are turned to graneries. Big business may benefit the community; big farming destroys it." (132, p. 609).

But opposition seems to have waned, and fear and superstition have largely disappeared relative to this "souless" industrial giant--the corporation. Bonanza farming did not sweep the country, nor did corporations take over farming.

Anticorporate farming law repeal. Attempts to repeal certain state anticorporate farming laws have failed to date.

Attorney Thomas P. McElroy, of Grand Forks, North Dakota, stated in personal correspondence, February 8, 1962:

"....about the status of North Dakota's Anti-Corporate Farm Law. Legislation to repeal this law was introduced in the 1961 North Dakota legislative session, but the bill was lost in committee and never reached the floor. However, that session did refer to the legislative Research Committee the problem of a bill for submission to the 1963 legislature and that Committee has prepared such a bill. They have had hearings thereon throughout the state. The general nature of this proposed bill would permit corporate farming by domestic corporations only, and where the stockholders of the corporation did not exceed 10 in number, and where active management of the farm would be in the stockholders. The bill is patterned very much after the so-called subchapter "S" provision of the Internal Revenue Code relating to pseudo-corporations and partnerships.

"So far in Committee hearings around the state there appears to be very favorable interest in support of the bill, the only real objection coming from the headquarters of the Farmers Union, although even that group's

antipathy toward corporate farming seems now to be dying out. I feel quite confident that in 1963 our legislature will permit corporate farming in North Dakota by domestic corporations."

In Kansas, where repeal or amendment legislation has also died in committee, the opinion is not so optimistic. James K. Logan, in private correspondence dated February 14, 1962, after discussing hearings on the corporate farming law, stated:

"Absolutely no change was made...A minority of the committee wanted the ban removed entirely, but a majority favored retaining the prohibition in its present form. Therefore, there have been no developments in Kansas, and it is my opinion that no developments are likely to occur in the near future."

People have generally accepted, however, the fact that farms are getting larger and that an economic unit is different than in previous eras. The farm corporation is now being thought of more nearly for what it is: a legal institutional device for owning, operating, and transferring farm property--usually within the family. Farms are still largely family farms, even though they are larger, more complex, and some are incorporated.

CHAPTER III

SCOPE OF FARM INCORPORATION

Farming Corporations in the United States

In order to evaluate the importance of farm-ranch corporations, a general concept is needed concerning their relative place among farms and ranches, both in the United States as a whole and in Oregon. This becomes a consideration of relative numbers, location, various measures of size and length of life.

The only apparent source of statistics on farm corporations in the United States is from income tax returns. The Bureau of Internal Revenue has compiled each year since 1916 an annual report on tax returns (167). But it is impossible to construct a continuous series of comparable data because of the various changes in reporting classifications throughout the years. However, with certain calculated adjustments, a fair estimate was obtained. For classification of data and adjustments see Appendix B.

Number of Corporations

The total number of industrial (including agricultural) corporations in the United States has increased from 341,000 in 1916 to nearly 990,000 in 1958. During the same period the number of farm corporations has gone from about 6,000 to over 12,000 (Table 2, Figure 1). At the same time the number of farms in the United States has declined from about 6.5 million to little more than 4 million (Table 2).

The ratio of farm corporations to total corporations has remained quite constant. But farm corporations as a percent of total farms have increased over $3 \frac{1}{2}$ times since 1916. However, farm corporations are still only about $1 \frac{1}{3}$ percent of total corporations and about three-tenths of one percent of total farms.

Figure 1. Number of corporations in the United States,
1916-1958 ^{/1}

69

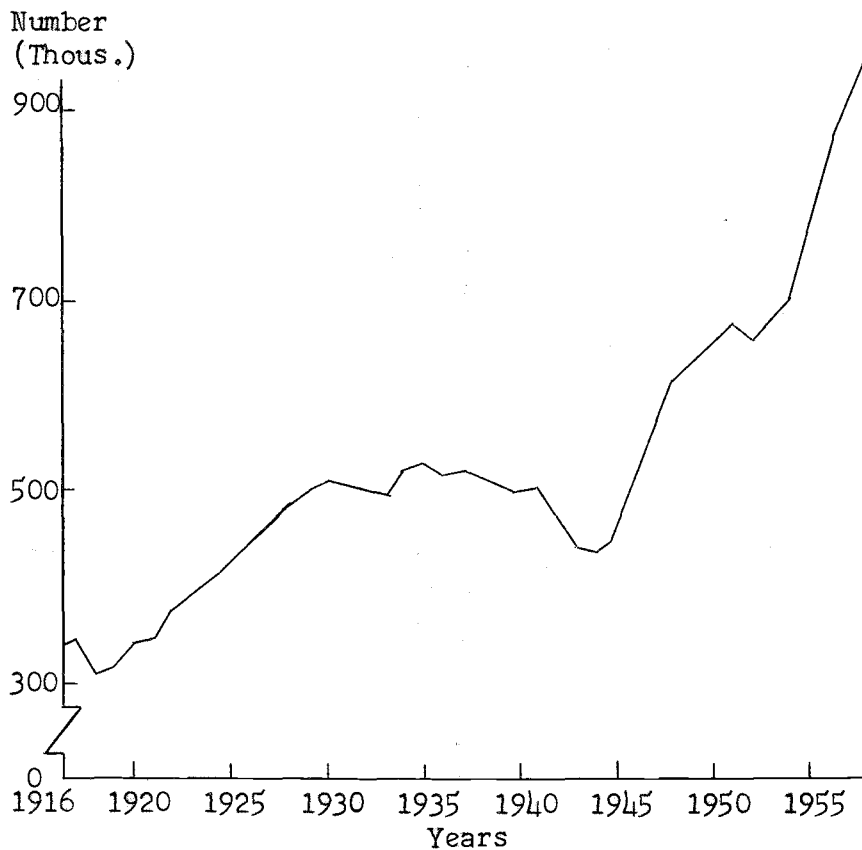
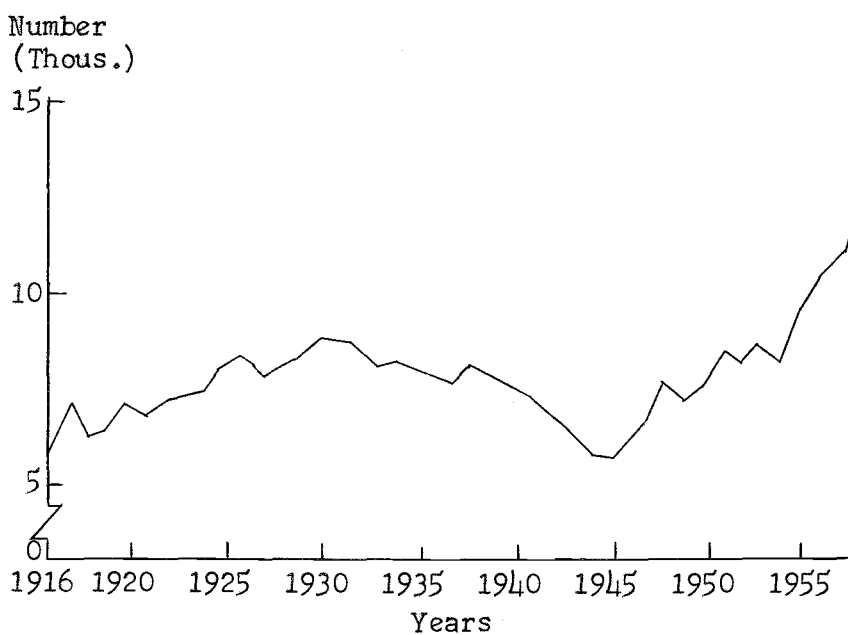


Figure 2. Number of farm corporations in the United States,
1916-1958 ^{/1}



^{/1} For data see appendix B, table 1.

Table 2. Farm corporations in the United States as related to total corporations and total farms for selected years.^{/1}

Year	Corp. in U.S. ^{/1}	Active Farm Corp. as % of Total Corp. ^{/2}	Total Farm Corp. as % of Total Farms in U.S. ^{/3}
1916	341,253	5,499	1.61
1920	345,595	7,074	2.05
1925	430,072	8,228	1.91
1930	518,736	8,777	1.69
1935	533,631	7,865	1.47
1940	516,783	7,540	1.46
1945	454,460	5,639	1.24
1950	665,992	7,561	1.14
1955	807,303	9,421	1.17
1958	990,381	12,773	1.29

^{/1} Complete data in Appendix B Table 1

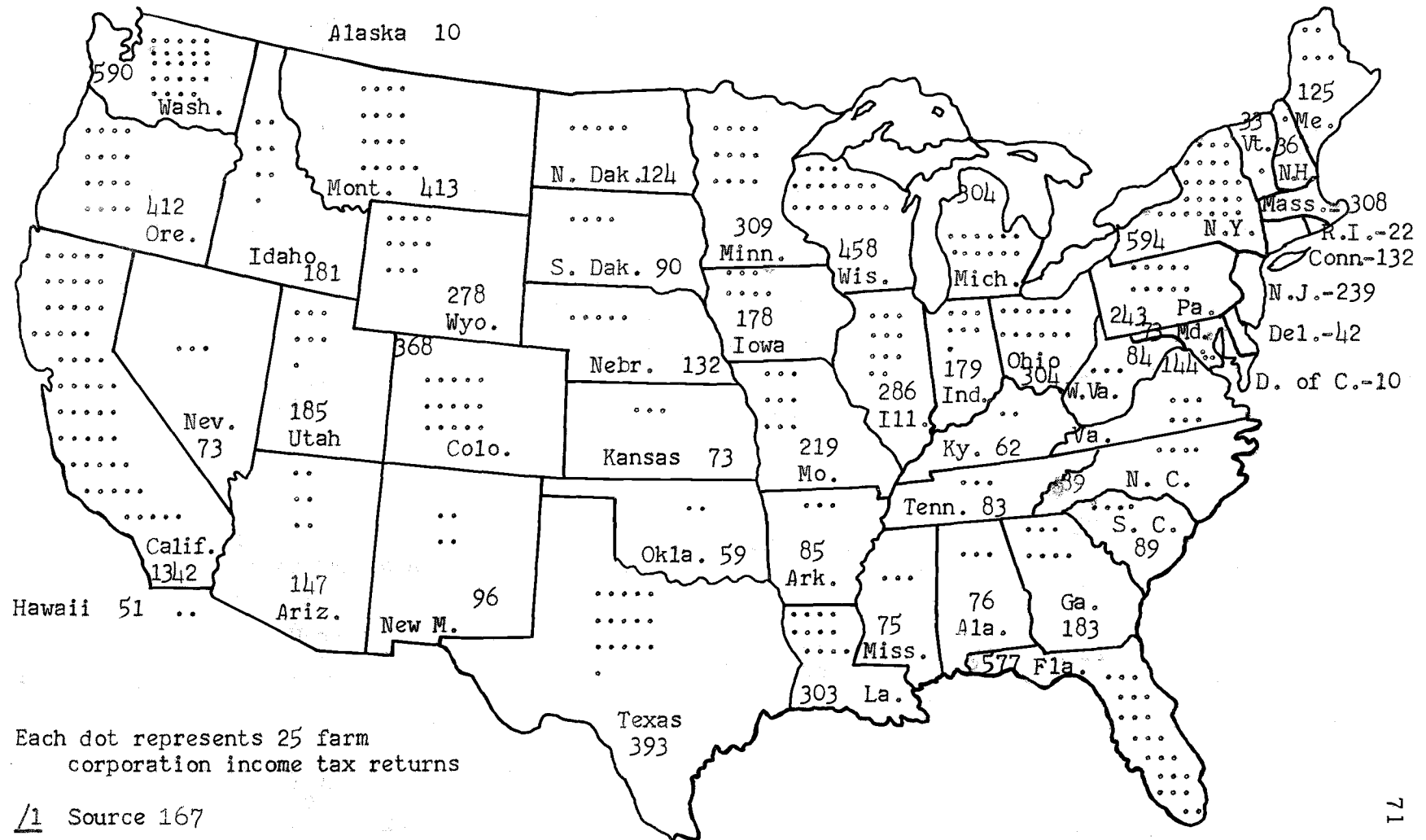
^{/2} Source (167)

^{/3} Source (163)

Location

A relative distribution of farm corporations by states may be seen in Figure 3 based on 1930 data, the last year such data were available. California led all other states with 1320 "agricultural and related industry corporations". This was more than double the second highest state, New York, with 594. Oregon was seventh with 412. It should be remembered, however, that the classification included some non-farms, in the usual sense of the word. (See Appendix B).

Figure 3. Farm corporations by states, United States 1930.^{/1}



Total distribution by states, of course, is quite different today and relative distribution also may be quite different. Kansas and South Dakota, for example, have no farm corporations because statutes there still prohibit them.

Sales and Assets

Farm corporations were, however, relatively more important than numbers alone show.

Corporate farm sales were nearly 8 percent of total farm sales (Table 3). Although still not a large share of the total sales, this is nearly twenty-six times their percentage relationship to total farms. Farm corporations controlled only about 1 1/2 percent of total farm assets in the United States (Table 3). They controlled about five percent of the farmland in the United States in 1945, according to United States Department of Agriculture statistics. (158, p. 2).

The importance of farm corporations in the total structure of agriculture is yet not overwhelming, although the trend appears to be one of growing importance.

Table 3. Farm corporation sales and assets as related to total farm sales and assets in the United States for selected years (millions of dollars). 1/

Year	Sales		Farm Corp. Sales as Percent of Total Sales	Total Assets		Corp. Assets as Percent of Assets of All Farms
	Farm Corp. <u>2/</u>	Total Farm <u>3/</u>		Farm <u>2/</u>	All Farms <u>4/</u>	
1917	777	10,736	7.24			
1920	725	12,600	5.75			
1925	592	11,021	5.37			
1930	551	9,055	6.09		68,400	
1935	517	7,120	7.26			
1940	484	8,383	5.77	1,377	53,000	2.60
1945	744	21,663	3.43	1,359	93,100	1.46
1950	1,507	28,512	5.29	2,114	130,800	1.62
1955	2,005	29,556	6.78	2,470	164,700	1.50
1958	2,610	33,405	7.81		185,800	

1/ For more complete data see Appendix B Table 2

2/ (125) 3/ (157) 4/ (46, p. 294)

Table 4. Chartered Oregon farm-ranch corporations as compared to total Oregon corporations and total Oregon farms for selected years 1/ 2/

Year	Total corps. remaining each year	Total farm corps. remaining each year	Farm corps. as a percent of total corps.	Total farms in Oregon	Farm corps. as a percent of total farms
1880		1			
1890		12			
1900		52			
1910		178		46,400	.38
1920		195		51,200	.38
1930	7,293	240	3.29	58,500	.41
1940	5,069	141	2.78	63,200	.22
1950	6,266	179	2.86	62,600	.29
1960	11,517	384	3.35	53,500 <u>3/</u>	.64

1/ For complete data, see Appendix B Table 3. 2/ To compare with United States data, see Table 2. 3/ Using 1959 census data.

Farming Corporations in Oregon

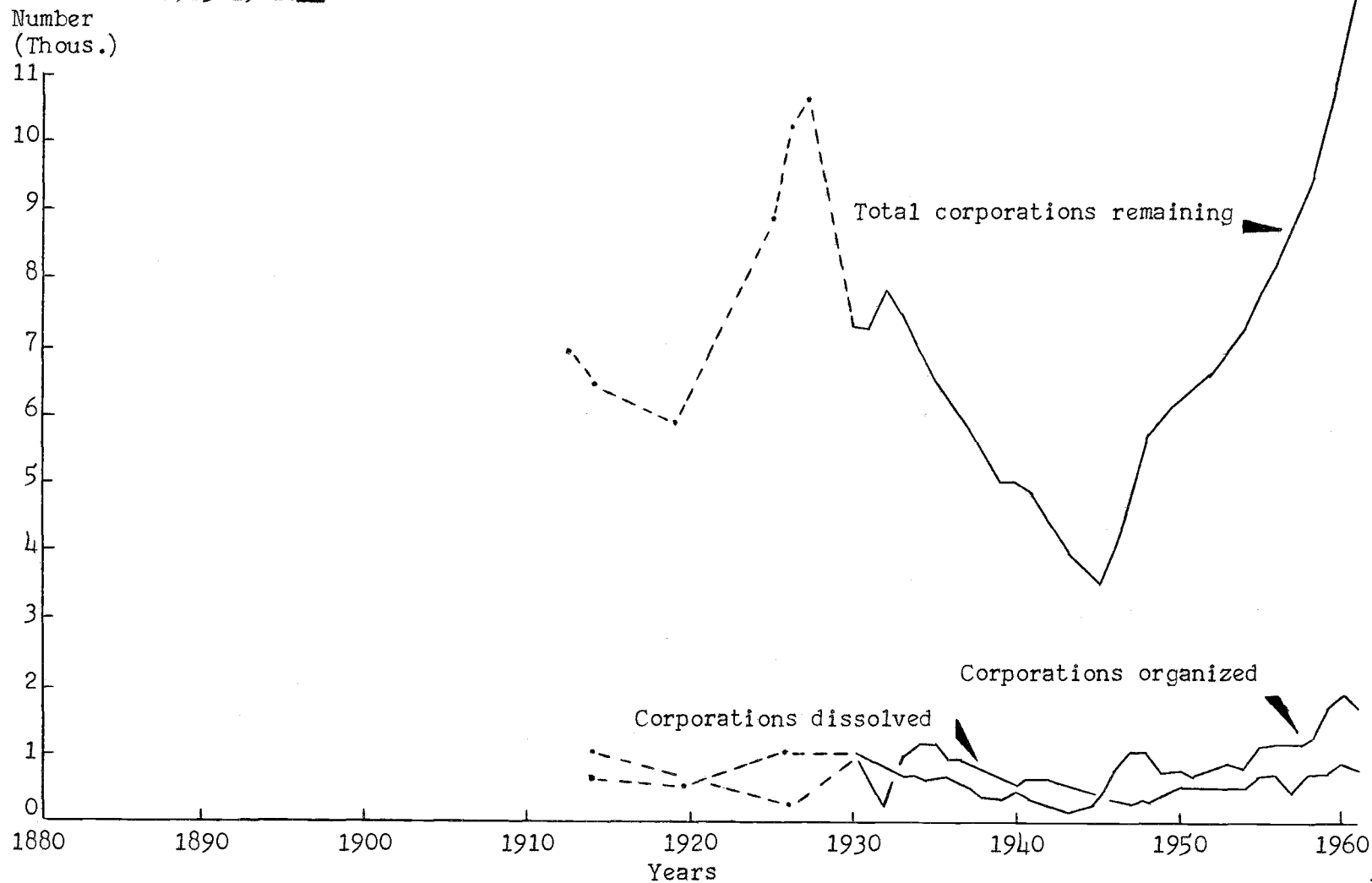
The importance of Oregon farm-ranch corporations in relation to the United States and Oregon agricultural economy can be indicated in some measure by statistical comparisons of relative numbers and relative size, as well as type of farm incorporated and location.

Number of Corporations

Total business corporations in Oregon numbered over 11,500 in 1960. An estimated 384 farm-ranch corporations were chartered in Oregon at the end of 1960 (Table 4). This made chartered farm-ranch corporations in Oregon about 3 1/3 percent of the total number of chartered corporations in Oregon. This relationship was about 2 1/2 times larger than the relationship of farm corporations in the United States compared to total corporations in the United States.

Total farms in Oregon in 1959 numbered about 53,000. This made chartered farm-ranch corporations about .64 percent of total farms in Oregon. When only active corporations are considered as opposed to chartered corporations the relationship is about .6 percent. These relationships, although small, are still about twice the comparable relationships for the United States as a whole (Table 2).

Figure 4. Number of Oregon business corporations organized, dissolved and remaining each year, 1913-1961.^{/1}



^{/1} Data incomplete 1913-1930, see appendix B, table 3.

The relationship of corporation farms to only commercial farms ^{/1} is somewhat different. All corporations in the study were commercial farms. The relationship between the 22,800 commercial farms in Oregon and the 322 active farm corporations is about 1.4 percent. This is still not greatly important so far as numbers are concerned, but importance goes beyond numbers alone.

The first known Oregon farm corporation was a wheat growing company organized in 1880. It continued until 1906. One of the oldest active corporations was a livestock corporation organized in 1891. For an indication of Oregon business corporations and farm-ranch corporations organized, dissolved, and remaining each year, see Figures 4 and 5.

Types of Farm Corporations for Various Periods

Estimates of farm corporations show considerable variation in numbers. A breakdown of farm corporations by time periods and by type of farm shows some of the relative changes for various periods (Table 5). Dairy and fruit farm corporations have decreased in relative importance, while livestock, grain, vegetable farms and nursery corporations have increased in relative importance.

^{/1} As defined in the 1959 Census of Agriculture (155, p.38).

Table 5. Type 1/ of Oregon farm-ranch corporations organized each period as a percent of the total for that period.

Period	Dairy	Livestock	Poultry	Grain	Vegetables	Fruit	Nursery	Specialty	Lease
1880-1899	5.5	27.3	3.6	12.7	7.3	29.1	3.6	9.1	1.8
1900-1909	5.1	25.1	2.6	10.3	5.1	32.3	6.7	10.3	2.6
1910-1919	3.8	19.7	1.9	11.2	6.8	38.8	6.0	8.2	3.6
1920-1929	9.7	30.2	2.2	14.4	6.5	14.0	6.5	14.0	3.4
1930-1939	13.4	24.4	6.5	11.9	7.5	10.9	7.0	14.9	3.5
1940-1949	4.0	21.6	4.8	11.2	16.0	13.6	6.4	16.8	5.6
1950-1959	3.5	29.4	4.7	14.9	11.4	9.0	6.7	17.3	3.1
Over-all average	6.5	25.3	3.5	12.1	8.3	21.3	6.4	12.9	3.7
1960 Corporation Average	3.2	29.5	3.6	14.9	11.4	9.6	9.3	13.2	5.3

1/ Twenty-two dissolved corporations were included in the population from which the sample was drawn. The type of farm for these was known. The type of farm for all other dissolved corporations was estimated from the name of the corporation with adjustments on a proportional basis according to name use and actual type of farm as ascertained from the mail questionnaire.

Figure 5. Number of Oregon farm-ranch corporations organized, dissolved and remaining each year, 1880-1960.^{/1}



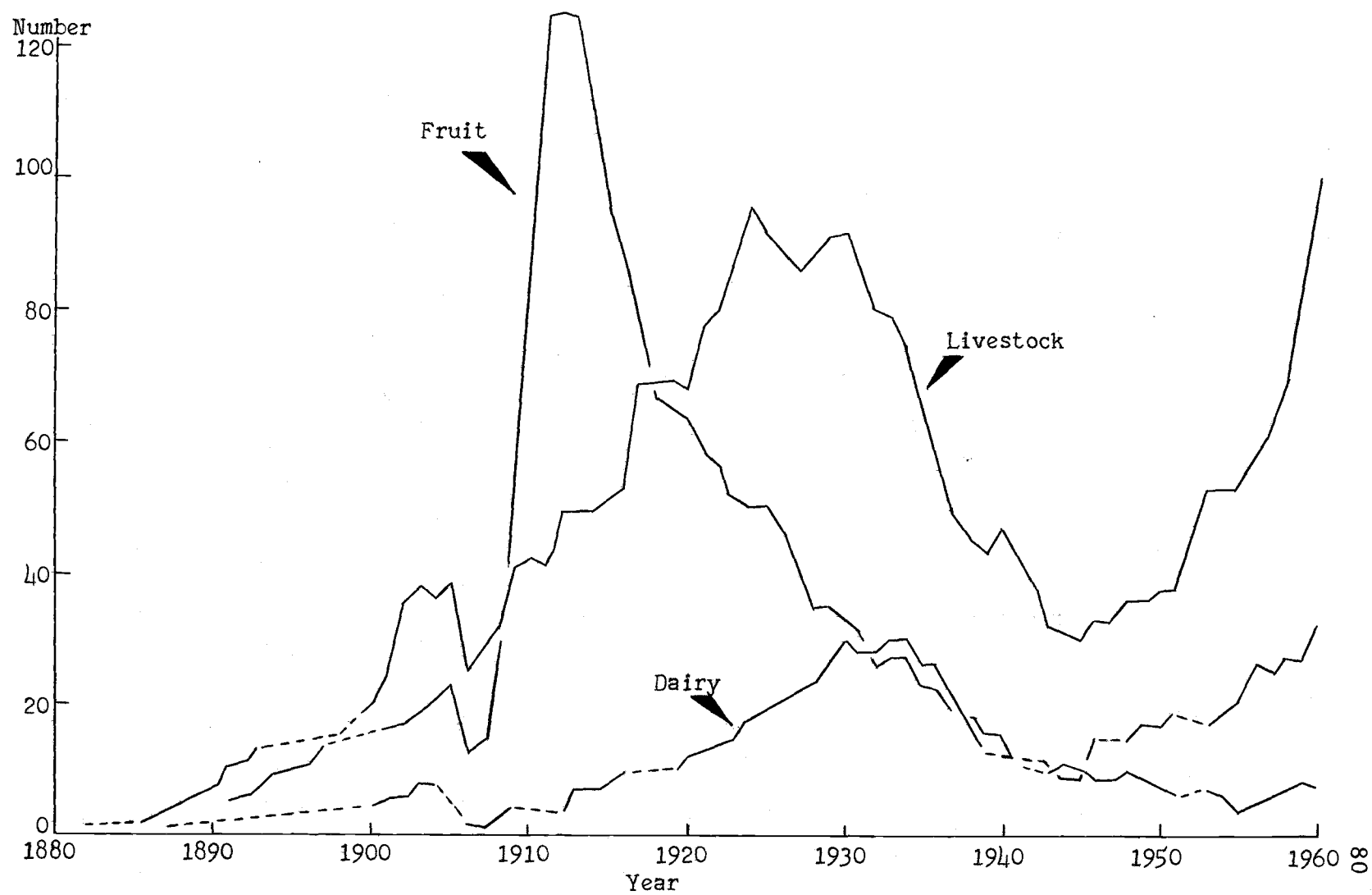
^{/1} For data see appendix B, table 3.

During the seven-year period from 1906 through 1913, the number of farm corporations quadrupled. Nearly 60 percent of the increase occurred in the fruit orchard category. For the shorter period 1909 - 1911, over 90 percent of new incorporations were orchards. Even from 1914 to 1917, when dissolutions exceeded incorporations, orchards still represented 60 percent of all new incorporations. This can probably be explained as being a period of speculative land boom in Oregon. Orchards were planted all over Western Oregon, and corporate securities were sold widely. Many orchards never came into production and many were improperly planted. Many investors became impatient waiting for apple and plum orchards to mature. From 1914 to 1945 corporate dissolutions exceeded new incorporations (Figure 5).

Dissolutions

There were no corporate dissolutions until 1905. Before that there was no apparent need to voluntarily dissolve, and there was no provision in the law for involuntary dissolutions until the governor was given the right to proclaim those corporations dissolved which did not pay fees, file proper reports and fulfill certain other requirements. Most dissolved corporations have been dissolved by proclamation

Figure 6. Number of Oregon fruit, livestock and dairy farm corporations remaining each year, 1880-1960.



of the governor. Dissolution has generally been by the easiest if not the most ethical way. Corporations have simply ceased to pay the annual license fee, and two years hence dissolution was by proclamation. Otherwise a formal statement of intent to dissolve plus articles of dissolution were necessary, both of which required a certain formality and fee.

The decline in number of incorporated orchards was offset from 1920 to 1930 by the increasing number of other types of farm corporations, particularly livestock corporations, which increased rapidly during this period (Figure 6). The period 1930 to 1945 was one of general decline in corporate numbers, and total corporations in Oregon fell to about 3,600, while farm corporations were down to about 108 from a high of 236 (Figure 5).

Location of Farm-ranch Corporations

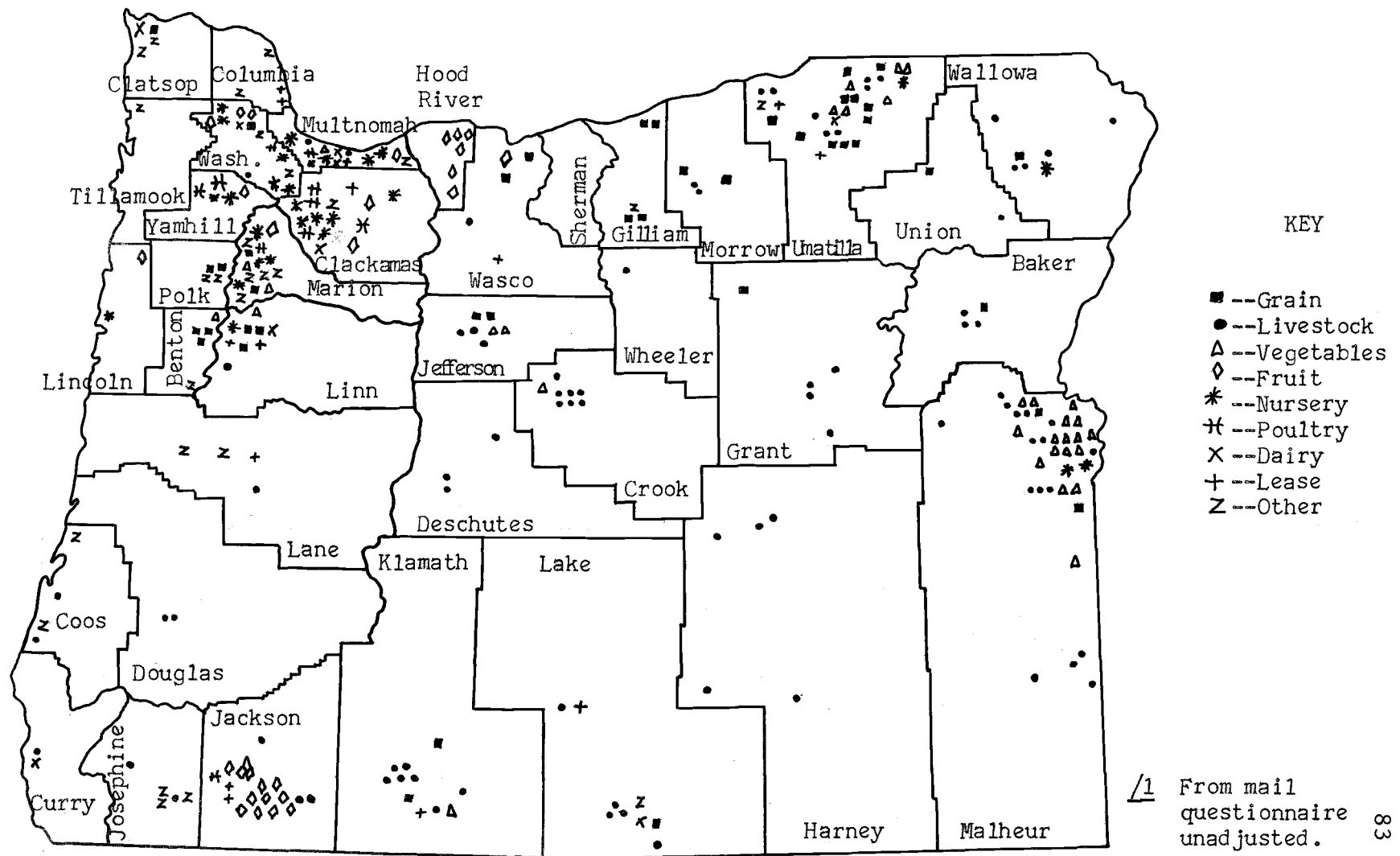
Farm-ranch corporations in 1960 were located in all of Oregon's 36 counties except two: Sherman and Tillamook. However, there was considerable concentration. Forty-six percent of the total farm-ranch corporations were within these 5 counties listed in order of highest number: Malheur, Umatilla, Jackson, Multnomah and Clackamas. Type of

Table 6. Location by county of the type of Oregon domestic and active farm-ranch corporations, 1960, 1/

County	Grain	Live- stock	Vege- table	Fruit	Nur- sery	Poul- try	Dairy	Lessor	Total
Baker	1	3							4
Benton	3		1					1	5
Clackamas				2	6	4	1	1	14
Clatsop	1						1		2
Columbia								2	2
Coos		2							2
Crook		7	1						8
Curry		1					1	1	3
Deschutes		2							2
Douglas		2							2
Gilliam	4								4
Grant	1	3							4
Harney		5							5
Hood River				6					6
Jackson		3		12		1		1	17
Jefferson	2	3	2						7
Josephine		2							2
Klamath	1	7	1					1	10
Lake	1	6					1	1	9
Lane		1							1
Lincoln					1				1
Linn	2		1				1	1	5
Malheur	2	16	17		2				37
Marion	2		2	1	4	1	1		11
Morrow	2	2							4
Multnomah	2	2	1	1	4	1	1	2	14
Polk	2								2
Sherman									0
Tillamook									0
Umatilla	11	8	6		1		1	2	28
Union	1	1							2
Wallowa	1	5			1				7
Wasco	2	1		1				1	5
Washington	1			3	5	1	1		11
Wheeler		1							1
Yamhill				1	2	2			5
Unclassified	2	8	2	3	1	1	1		18
Total	44	91	34	30	27	11	10	13	260

1/ From mail questionnaire unadjusted.

Figure 7. Location and type of Oregon farm-ranch corporations, 1960. 1/



farm, too, showed considerable concentration with livestock and vegetable crops in Malheur; grain, livestock and vegetable crops in Umatilla; fruit in Jackson; and nursery and poultry in Clackamas (Table 6, Figure 7). For location of corporations in the sample see Appendix B, Table 5 and Figure 1.

Length of Corporate Life

The organization and dissolution of 950 Oregon farm-ranch corporations were examined for data relative to length of life. Also examined was the date of organization of Oregon's farm-ranch corporations active in 1960 to see how long they had lived.

Information about active and dissolved corporations was hard to combine and difficult to use separately. How long the then existing corporations would live could not be determined. And without including many long-lived, active corporations an abbreviated average life would result.

Average life

Nevertheless, an over-all average life of all dissolved farm-ranch corporations in Oregon was about eight years, but this excluded many long-lived corporations which were still active. A median life for all dissolved corporations was slightly less than 5 years. About as many corporations

dissolved before 5 years of existence as continued longer than 5 years. For the period 1910 to 1950, a ten-year moving average life varied from a low of 8.2 years to a high of 11.3 years, with the moving average for most years being close to 10 years life.

Incidence of Dissolution

Probably a more accurate means of looking at corporate life would be to examine the incidence of dissolution each year. Because of the passage of time this was done by periods. Table 7 shows the percentage of Oregon farm-ranch corporations dissolved each year as a percent of the total Oregon farm-ranch corporations organized in that particular period. The highest incidence of loss occurred generally in the third and fourth years. Periods prior to 1940 seemed quite similar, with about 10 to 14 percent being dissolved the third year and about 13 to 19 percent being dissolved the fourth year. However, the periods after 1940 seemingly showed less incidence of loss in the early years, with only about 4 to 8 percent in the third year and about 6 percent in the fourth year.

Figure 8 shows the percentage of all dissolved farm-ranch corporations having various years length of life. At four years the peak loss occurred. Three and 5 years were next in order, with a gradual decline thereafter.

Another method of presentation using the same data shows the cumulative percent dissolved at the end of each year (Table 8, Figure 9). For the corporations organized in the period 1910 to 1939, 47 percent were dissolved by the end of 5 years. But for those organized in the period 1940 to 1959, only 23 percent had dissolved in 5 years.

Relative to the years of life a farm corporation existed, there seemed to be no significant difference among the various types of farm corporations. The possible exceptions were poultry corporations, which appeared to have a slightly shorter life than other types. The varying nature of the poultry business itself probably explains this.

An examination of 1960 farm-ranch corporation data shows that over 80 percent had come into existence in the last 15 years; nearly 70 percent in the last 10 years; and over 50 percent in the last 5 years. Figure 10 shows the year each existing farm-ranch corporation was organized.

Table 7. Percent of Oregon farm corporations dissolving each year of corporate life by period of organization, 1900-1959.

Years of Life	Period of corporate organization						Average All Periods	Average 1900-1939	Average 1940-1959
	1900-1909	1910-1919	1920-1929	1930-1939	1940-1949	1950-1959			
	(Percent dissolving)								
1	3.4	3.6	4.9	2.6	3.5	1.3	3.22	3.62	2.40
2	2.7	6.1	4.5	7.7	3.5	5.2	4.95	5.25	4.35
3	9.5	13.0	15.9	14.1	8.8	3.9	10.87	13.12	6.35
4	12.9	19.9	15.9	16.7	6.2	5.5	12.85	16.35	5.85
5	6.8	10.0	5.7	9.6	2.7	3.9	6.45	8.02	3.30
6	6.1	6.1	6.5	6.4	.9	1.0	4.50	6.28	.95
7	2.7	6.5	6.9	6.4	6.2	.6	4.88	5.62	3.40
8	3.4	4.0	5.3	4.5	1.8	.6	3.27	4.30	1.20
9	4.8	2.2	4.9	3.2	.9	.3	2.72	3.78	.60
10	4.8	2.5	7.3	3.2	2.7		4.10	4.45	2.70
11	3.4	2.9	3.3	1.9	3.5		3.00	2.88	3.50
12	5.4	2.5	2.0	1.3			2.80	2.80	
13	4.1	1.8	2.0		.9		2.20	2.63	.90
14	2.7	1.8	1.6	1.3	.9		1.66	1.85	.90
15	2.7	1.4	.8	.6	1.8		1.46	1.38	1.80
16-20	6.2	5.7	4.0	3.2	2.7		4.36	4.78	2.70
21-25	3.4	3.0	1.6	3.8			2.95	2.95	
26-30	4.9	1.5	.8	1.9			2.28	2.28	
31-35	2.8		.8				1.80	1.80	
36-40	.7	1.9					1.30	1.30	
41-50	1.4	.4					.90	.90	

Figure 8. Percent of dissolved Oregon farm-ranch corporations having various years of life, average 1900-1959. ^{/1}

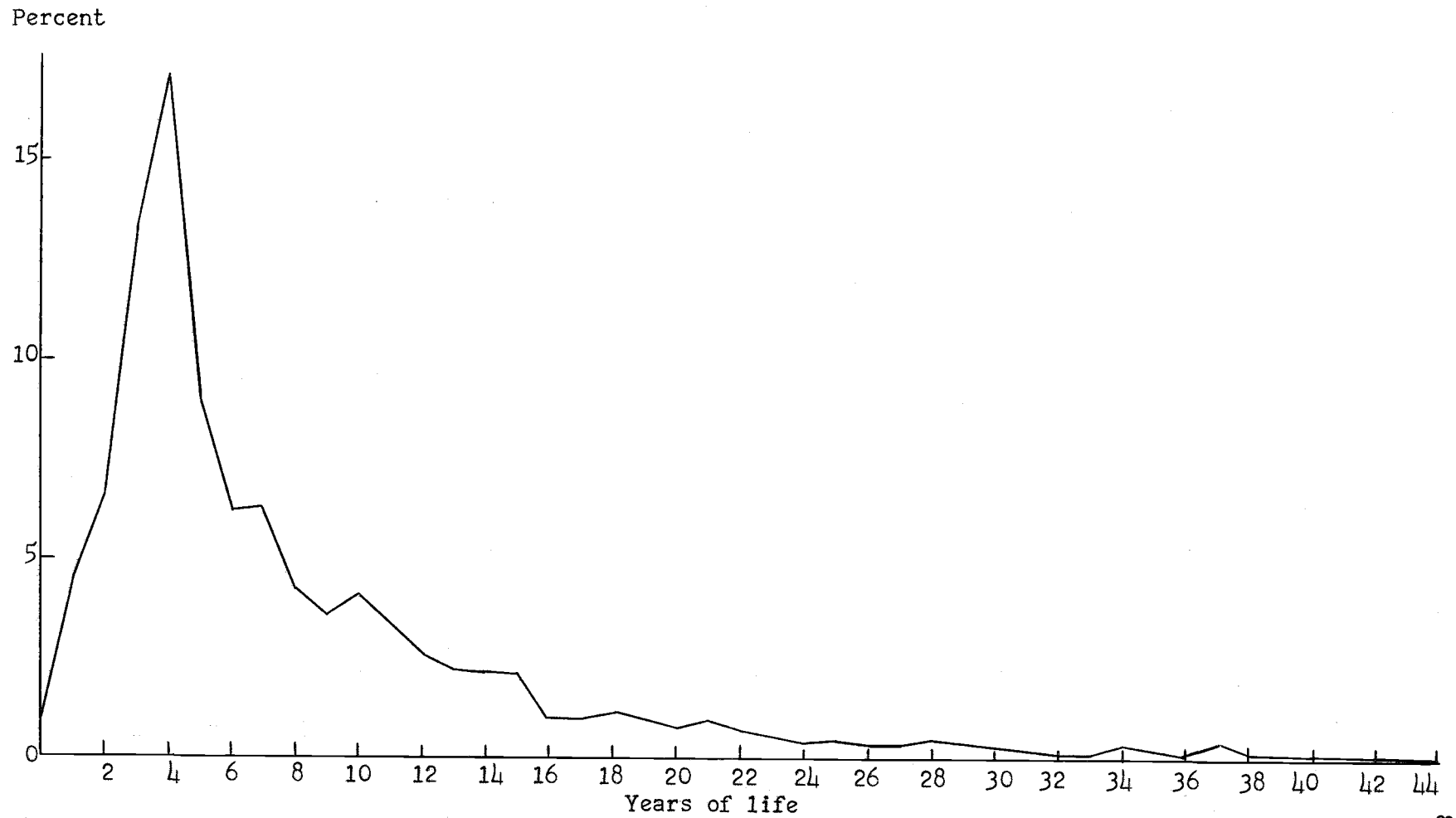
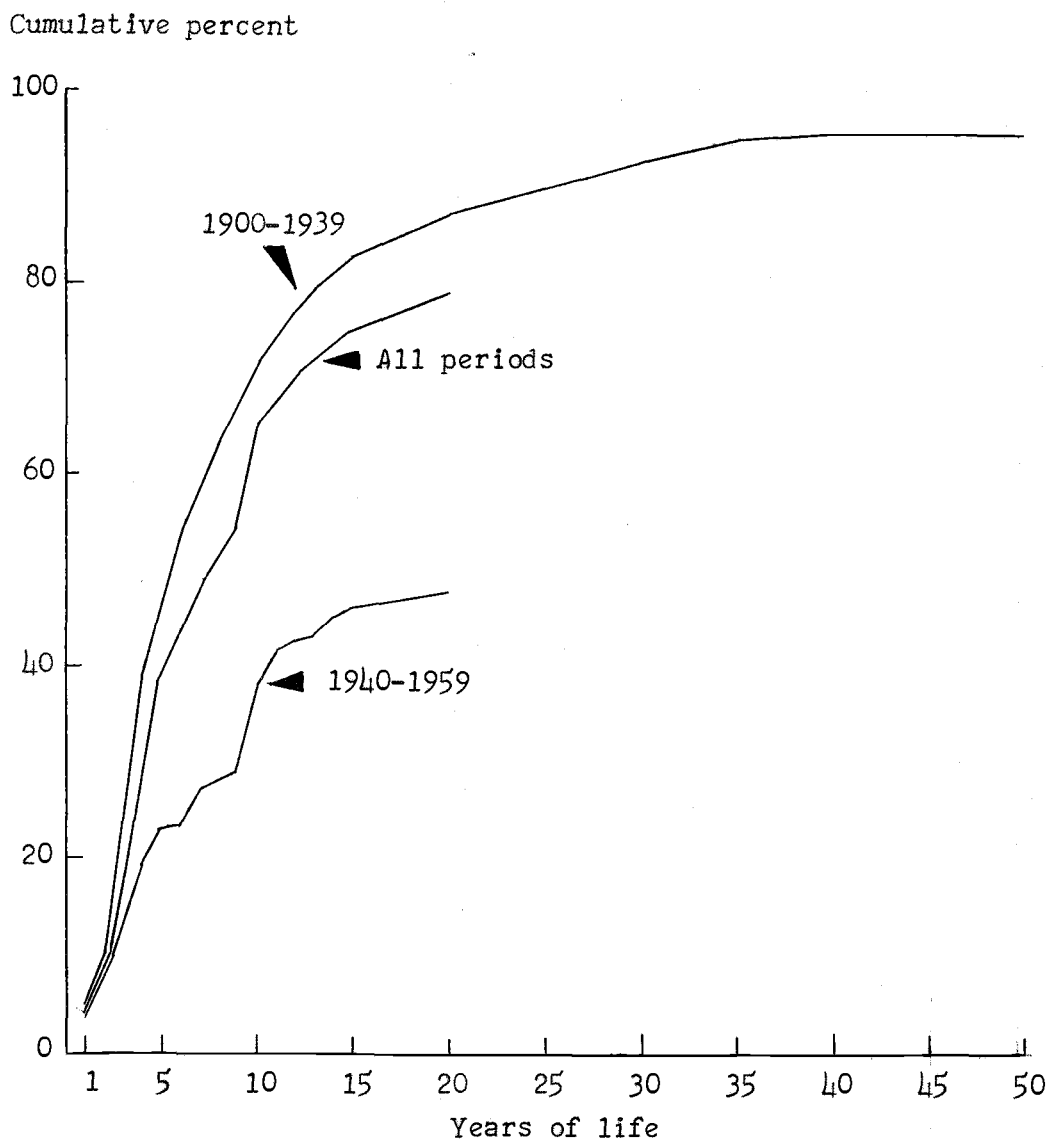


Table 8. Cumulative percent of Oregon farm-ranch corporations dissolving according to years of corporate life, by period of organization, 1900-1959.

Years of	1900- 1909	1910- 1919	1920- 1929	1930- 1939	1940- 1949	1950- 1959	Cumulative Average All Periods	Cumulative Average 1900 - 1939	Cumulative Average 1940 - 1959
Percent dissolved									
1	4.1	4.3	5.3	3.2	4.4	1.6	3.8	4.2	3.0
2	6.8	10.5	9.8	11.0	8.0	6.8	8.8	9.5	7.4
3	16.3	23.5	25.7	25.2	16.8	10.6	19.7	22.7	13.7
4	29.3	43.3	41.6	41.9	23.0	16.2	32.6	39.0	19.6
5	36.1	53.4	47.3	51.6	25.7	20.1	39.0	47.1	22.9
6	42.2	60.0	53.9	58.1	26.5	21.0	43.6	53.6	23.8
7	44.9	66.1	60.8	64.5	32.7	21.7	48.4	59.1	27.2
8	48.3	70.0	66.1	69.0	34.5	22.3	51.7	63.4	28.4
9	53.1	72.2	71.0	72.2	35.4	22.7	54.4	67.1	29.0
10	57.8	74.7	78.3	75.5	38.1		64.9	71.6	38.1
11	61.2	77.6	81.6	77.4	41.5		67.9	74.4	41.5
12	66.7	80.1	83.7	78.7	42.5		70.3	77.3	42.5
13	70.7	81.9	85.7	78.7	43.4		72.1	79.2	43.4
14	73.5	83.8	87.3	80.0	45.1		73.9	81.2	45.1
15	76.2	85.2	88.1	80.6	46.0		75.2	82.5	46.0
20	82.3	91.0	92.2	83.9	47.8		79.4	87.4	47.8
25	85.7	93.9	93.9	87.7			90.3	90.3	
30	90.5	95.3	94.7	89.0			92.4	92.4	
35	93.2	95.3	95.5				94.7	94.7	
40	93.9	97.1					95.5	95.5	
50	95.2						95.2	95.2	
Still Ac- tive 1960	4.8	2.5	4.5	10.9	52.2	77.3			
Total	100.0	100.0	100.0	100.0	100.0	100.0			

Figure 9. Cumulative percent of Oregon farm corporations dissolving according to years of corporate life. Cumulative average 1900-1939; 1940-1959; and all periods.^{/1}



^{/1} See data table 8.

Comparison With All Corporations

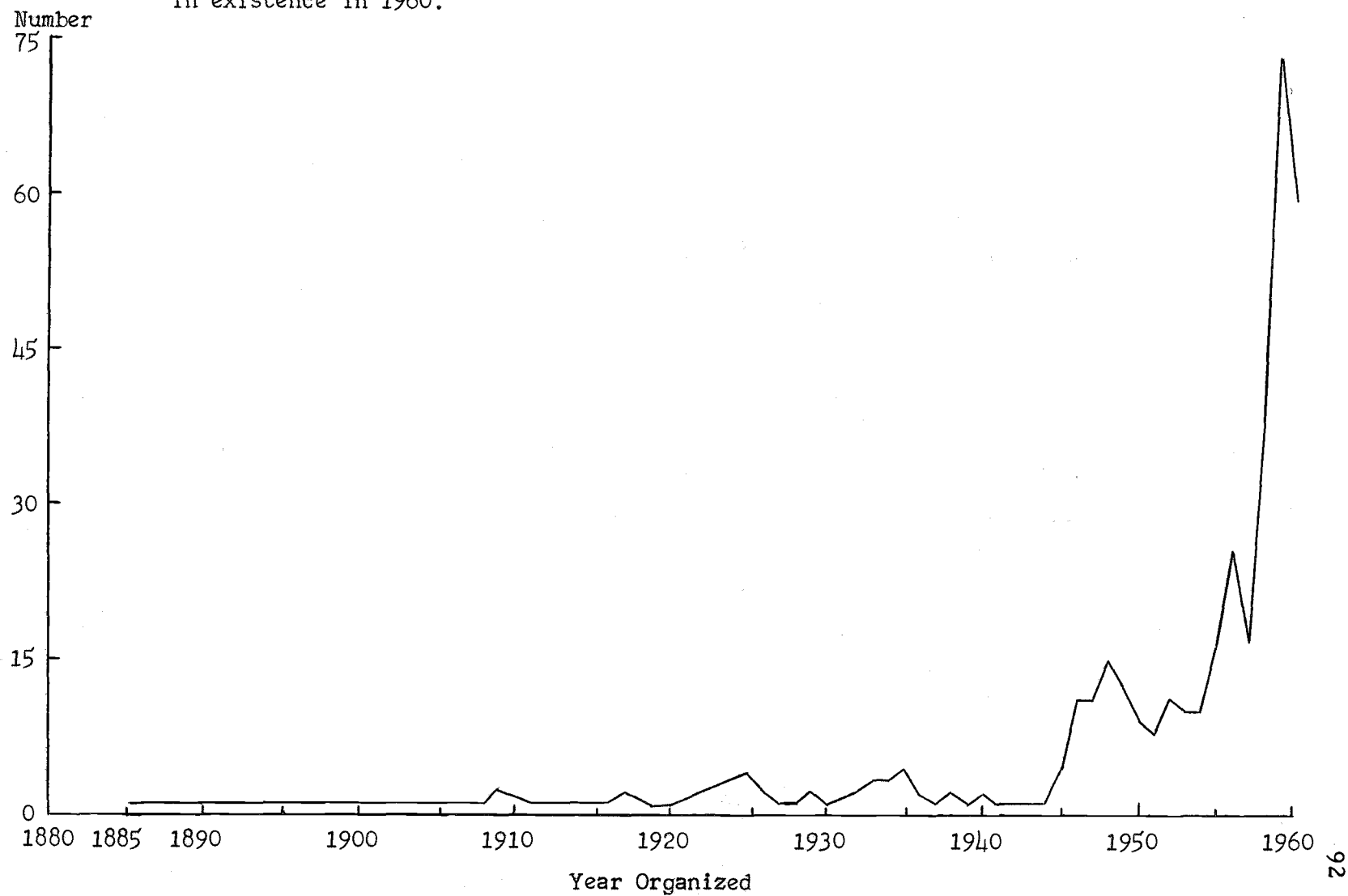
In a study of corporate life made by Crum (34), corporate income tax returns for 1945 and 1946 were studied and data tabulated for length of life. Among other things, the study showed the percentage surviving in 1946 of the total number of corporations in selected years. Table 9 is adapted from this study and presented to compare with Table 8. A relatively close resemblance can be seen between the findings of the two studies.

Lengthening Life

A possible explanation for the lengthening life of farm-ranch corporations in recent years is the seemingly increased numbers of family farm corporations. Previous farm-ranch corporations, particularly during periods of land booms, were speculative in nature and had stockholders of scattered interests. In contrast the family farm, recently incorporated, is a closely knit operating unit organized for productive purposes and continuous life.

Because the corporation can have a perpetual life in most states, many writers about farm corporations have suggested that a corporation can be expected to have a long life. Although length of farm-ranch corporate life seems to

Figure 10. Number of Oregon farm-ranch corporations organized each year, 1885-1960 for corporations in existence in 1960.



be increasing in later time periods, historical data indicate that average corporate life has been quite short.

Table 9. Percentage of corporations in the United States surviving in 1946 in relation to the total number of corporations organized in specified years. 1/

Year Organized	Years of Life	Percent of Population Surviving	Cumulative Percent Dissolved per Years of Life
1945	1	99.2	.8
1944	2	87.9	12.1
1943	3	80.7	19.3
1942	4	73.5	26.5
1941	5	67.4	32.6
1940	6	63.2	36.8
1939	7	59.5	40.5
1934	12	43.5	56.5
1929	17	29.9	70.1
1924	22	24.9	75.1
1919	27	22.6	77.4
1914	32	16.9	83.1
1909	37	15.0	85.0

1/ Table adapted from Crum (34, p. 146.)

CHAPTER IV

PHYSICAL AND FISCAL STRUCTURE OF
CORPORATION FARMS IN OREGONComparisons by Census Economic Class

In this chapter an examination of the physical and fiscal structure of Oregon's corporation farms and ranches is placed within the framework of comparative analysis with census of agriculture data. An explanation of the data used, and necessary adjustments to the data, are found in Appendix C.

Commercial farms are given an economic classification by the Bureau of the Census according to gross sales (Appendix C Table 1). All of the operating farm corporations in the study were commercial farms when subjected to the Bureau of Census classification.

Number of Corporate Farms by Economic Class

Commercial farms in Oregon made up 53.6 percent of all farms in 1959. Economic Class I farms made up 5.1 percent of all farms. About 75 percent of all 1960 operating corporations fell into Economic Class I, and about 15 percent fell in Economic Class II. Farm-ranch corporations

Table 10. Estimated number of Oregon operating farm-ranch corporations by type of farm in each economic class, 1960. ^{1/}

Type of Farm	Economic Class						All Classes	Percent of Total
	I	II	III	IV	V	VI		
Grain	40		5				45	15.0
Livestock	74	20			7		101	33.7
Vegetable	45	5					50	16.7
Fruit	21	7		4	1		33	11.0
Miscellaneous							50	16.6
Nursery	20	7						
Other	11	4	1	7				
Poultry	12						12	4.0
Dairy	3	3	3				9	3.0
TOTAL	226	46	9	11	8		300	100.0
Percent in each class	75.3	15.3	3.0	3.7	2.7		100	
Total farms in each class	2, 154	3, 158	4, 954	5, 518	5, 207	1, 811	22, 802	
Percent farm corporations are of total farms in each class	10.5	1.5	.2	.2	.2		1.3	

^{1/} For data and adjustment see Appendix C.

represented about 10.5 percent of all farms in Class I, about 1.5 percent of all farms in Class II, and about 1.3 percent of the 22,800 commercial farms. A breakdown by type of farm in Class I shows considerable variation. Dairy farm corporations showing the lowest ratio, represented only about 2.1 percent of Class I dairy farms, while over 15 percent of the fruit farms in Class I were incorporated (Table 11).

Table 11. Corporate farms by type as a percent of all commercial farms and Economic Class I farms, 1960.

Type of farm	Percent of all Commercial farms	Percent of Class I farms
Grain	1.8	9.3
Livestock	1.6	13.9
Vegetable	3.0	13.6
Fruit	1.2	15.4
Poultry	.8	7.1
Dairy	.3	2.1

Acreage

Acreage is one extensive measurement of size, although not necessarily an accurate measure of economic magnitude. Particularly is this the case in Oregon where land values vary considerably from high-value land for intensive crops to near-waste land used for occasional grazing. The estimated acreages presented, therefore, are simply general guides to classification and useful when coupled with other means of measurement (Table 12).

Table 12. Size of various classes of farms in Oregon. 1/

Classification of farm	Total acreage	Average acreage per farm	Percent of total farm land
All farms	21, 222, 641	499	100.0
All commercial farms	19, 351, 206	849	91.2
Economic Class I farms	8, 580, 333	3,983	40.3
All corporate farms	2, 090, 000	6,966	9.8
Corporate Class I farms	1, 980, 000	8,765	9.3

1/ Source, see Appendix C.

Farm corporations own nearly 10 percent of all farm land in Oregon and over 10 percent of all commercial farm land. Corporation ownership of total farm land in Oregon appears to be nearly double the 5 percent owned by corporations in the United States as a whole. This probably can be explained by the fact that Oregon has a larger ratio of corporate farms to total farms than the United States, as well as the fact that Oregon has considerable extensive-type farming.

Corporate Class I farms own about 23 percent of the land being operated by Economic Class I farms. The average size of all corporate farms is about 13 times larger than the average size of all farms and about 7.6 times

larger than all commercial farms. The average size of corporate Class I farms is about 2.2 times larger than all Class I farms.

A distribution breakdown by census size shows that about 37 percent of all corporate farms operate two thousand acres or more (Table 13). There is a smaller percentage of medium-large corporate farms (500-1,999 acres) than noncorporate farms of that size. This is probably because these acreages are too small for extensive-type farming and too large for intensive-type farming when both are pursued on a large scale.

Table 13. Size of farms in Oregon measured by acres operated. ^{1/}

Acreage Class	All farms		
	Commercial	Class I	Corporate
	(Percent of Total)		
Under 10 acres	3.9	1.3	1.4
10-49 acres	18.2	3.9	8.3
50-69 acres	6.4	2.1	5.6
70-99 acres	10.2	3.8	5.6
100-139 acres	9.5	4.3	6.9
140-179 acres	8.4	4.2	1.4
180-219 acres	5.2	4.5	2.8
220-259 acres	4.0	4.1	5.6
260-499 acres	12.2	13.3	16.7
500-999 acres	8.2	13.8	4.2
1,000-1,999 acres	5.5	11.6	4.2
2,000 or more acres	8.2	33.0	37.3
	99.9	99.9	100.0

^{1/} Source, see Appendix C.

Table 14. Estimated acreage by type and class of Oregon farms - corporate and non corporate. 1/

Type of Farm	TOTAL ACREAGE				PERCENTAGE	
	Type of Farm				Corporate Acreage of Commerical Farms	Corporate Class I Acreage of Total Class I Acreage
	Commercial	Class I	Corporate	Corporate Class I		
Grain	3, 382, 249	1, 666, 274	221, 000	209, 000	6.5	12.6
Livestock	10, 339, 655	6, 164, 538	1, 710, 000	1, 663, 000	13.2	27.0
Vegetable	300, 427	153, 197	91, 000	90, 500	30.3	59.1
Fruit	235, 774	34, 492	9, 000	7, 000	3.8	20.2
Poultry	113, 291	27, 342	2, 400	2, 400	2.1	8.7
Dairy	533, 186	62, 132	2, 600	1, 300	.5	2.0
Lessor			39, 900			
Nursery			2, 400	2, 300		
Other Misc.			11, 700	5, 400		
Other	4, 446, 624	472, 358				
TOTALS	19, 351, 206	8, 580, 333	2, 090, 000	1, 980, 900	10.8	23.0

1/ For source of data and comparability see Appendix C.

Table 14. (Continued)

Type of Farm	Average Size				Median	Ratio Average Size		
	Type of Farm				Acreage of Sample	Corporation	Corporation	Percent
	Commercial	Class I	Corporate	Corporate Class I		Farms to Commercial Farms	Class I to Commercial Class I	Leased Land Sample Corporation
Grain	1,343	3,866	4,910	5,225	4,784	3.6	1.4	37
Livestock	1,673	11,609	16,930	22,473	5,860	10.1	1.9	34
Vegetable	183	463	1,820	2,010	550	9.9	4.3	96
Fruit	86	290	272	333	250	3.2	1.1	14
Poultry	79	161	200	200	123	2.5	1.2	22
Dairy	155	435	289	433	225	1.9	.99	24
Lessor			1,814		362			
Nursery			89	115	35			20
Other Misc.								
Other								
Average all types	848.7	3,983.4	6,966	8,765		7.6	2.2	35.8

Corporate farms on the average tend to be larger in almost every class in which they are compared. However, a look at Table 14 shows that the median acreage in all cases is considerably below the average acreage. This indicates there are numerous small corporations as well as some very large ones. This is apparently true with livestock farms and ranches and with vegetable farms. In these cases, the median acreage is far below the average acreage, and a few large producers give an overestimate of the importance of corporations in that class.

Variation by type and class of farm. The size relationship varies considerably among various types of corporation farms as does the relationship of corporation farms to non-corporate farms within each class. For example, corporate dairy farms were, on the average, 1.9 times larger than all commercial dairy farms, while corporate livestock farms and ranches were, on the average, 10 times larger than all commercial livestock farms and ranches. Other types of farms varied between these two extremes (Table 14). The variation in the size ratio was not so great for corporate Class I farms compared to all Class I farms of the same type. But again corporate dairy farms had the lowest ratio, actually being just a little smaller than the average of all Class

I dairies, and were the only type where corporate farm size was smaller than all farms of its type. Corporate dairy farms appeared to be relatively small. Only one large producer appeared in the study. Many of the large dairies are incorporated; but most of these purchase rather than produce milk and thus were not considered dairy farms.

Corporate farms in Economic Class I producing vegetables were four times larger than vegetable farms in Economic Class I. This relationship results from the fact that there were several very large corporate green pea producers. Peas are often grown in rotation with wheat on an extensive basis. Three corporate vegetable farms in the sample had respectively the following acres of green peas: 3,500; 2,500; 1,400. There few large farms possibly tended to overemphasize the size of vegetable farms as represented by the sample.

The corporate farm officers interviewed were asked to give their impression of the size of their operation. "How do you consider the size of this farm-ranch business relative to this area?". Officers representing 57 percent of the corporations said they were larger; 28 percent said about average; 11 percent said smaller.

Sales

Sales is another measurement of size. This is the measurement used for the economic classes of the Census of Agriculture (155, p. XXIV).

Commercial farms accounted for nearly 96 percent of total farm sales in 1959, while Class I farms accounted for 42 percent of all farm sales. Operating corporations represented about 8 percent of total sales, while at the same time, they represented only about .7 of all farms. This made the significance of sales ten times greater than the significance of number of corporations (Table 15).

Table 15. Value of farm products sold from various categories of farms in Oregon, 1960. 1/

Category of farm	Total farm sales	Average sales per farm	Percent of total farm sales
All farms	\$416,403,681	\$ 9,786	100.0
All commercial farms	399,089,760	17,502	95.8
All Class I farms	176,136,176	81,772	42.3
All corporation farms	33,421,000	103,790	8.0
Corporate Class I farms	32,051,000	141,818	7.7

1/ Source: see Appendix C.

Farm corporation sales in Oregon were about 8 percent of total Oregon farm sales (Table 15). This was slightly greater than the 7.8 percent for the same relationship in the entire United States (Table 3). But United States farm corporations represented only about three-tenths percent of total farms. This made the ratio of percent farms to percent sales 26 times greater than the numbers. Since total numbers and total sales were the only basis for comparison between Oregon farm-ranch corporations and farm-ranch corporations in the entire United States, generalized relationships are impossible. However, one might hypothesize that because of the extensive nature of much of Oregon's corporation farming, one could expect gross sales to be less in Oregon than where more intensive farming is followed with higher gross sales that would tend to raise the United States average. Likewise Oregon appears to have a considerable number of relatively small corporation farms; however, no data are available elsewhere to make comparisons.

Total sales comparisons in Oregon. Corporate farm sales in Oregon were about 8.4 percent of all commercial farm sales in Oregon. Variation of importance among type of farms was considerable. Dairy corporations again were low, representing only about one percent of commercial dairy farm

sales. Corporate vegetable farms were high for sales, as they were for acreage, representing over 20 percent of all sales for commercial vegetable farms. Other farms varied between these two extremes (Table 16).

In comparing total sales of Class I farms, corporate with non-corporate, the same high and low variations existed, but corporate farm percentages were higher throughout. For example, the percentage of total corporate Class I sales to total Class I sales in each type was as follows: vegetable 36, fruit 21, poultry 19, livestock 16. Farm corporations as a whole represented about 18 percent of all Class I sales.

Average sales comparisons. In comparing the ratio of average sales per farm for corporations and non-corporations, corporation sales were generally much larger. Average sales by corporate poultry farms were comparatively larger by type than others when compared to the average sales of non-corporation farms, being about 11 times larger than average non-corporate poultry farm sales. The relationship for dairy farms was again the lowest, but still corporation dairy farm sales were nearly four times larger than

Table 16. Comparison of estimated sales of farm products by type and class of Oregon farms 1/

	Total Sales				Average Sales			
	All farms by type				All farms by type			
	Commercial	Class I	Corporate	Corporate Class I	Commercial	Class I	Corporate	Corporate Class I
Grain	\$ 60,267,267	\$32,416,717	\$4,485,000	\$4,389,600	\$23,935	\$ 75,213	\$ 99,670	\$109,960
Livestock	106,078,437	54,552,721	9,518,000	8,996,000	17,162	102,735	94,240	121,570
Vegetable	46,120,385	26,247,003	9,786,000	9,644,000	28,019	79,296	195,720	214,310
Fruit	34,946,793	11,101,411	2,615,000	2,377,000	12,713	81,628	79,240	113,180
Nursery			3,230,000	3,087,000			119,630	153,900
Poultry	25,878,463	12,029,216	2,365,000	2,364,000	18,021	70,760	197,080	197,080
Dairy	44,889,598	8,496,627	440,000	268,500	13,053	59,417	48,890	89,500
Misc.			982,000	925,000				
Other	80,900,330	31,292,481						
TOTALS	\$399,089,760	\$176,136,176	\$33,421,000	\$32,051,100	\$17,502	\$81,772	\$103,790	\$141,818

1/ For source and comparability of data see Appendix C.

Table 16. (Continued)

	Percentage of sales All farms by type		Ratio of average sales	
	Corporate of Commercial	Corporate Class I of Class I	Corporate to Commercial	Corporate Class I to Class I
Grain	7.4	13.5	4.1	1.5
Livestock	9.0	16.5	5.5	1.2
Vegetable	21.2	36.7	7.0	2.7
Fruit	7.5	21.4	6.2	1.4
Nursery				
Poultry	9.1	19.6	10.8	2.8
Dairy	1.0	3.2	3.7	1.5
Miscellaneous				
Other				
TOTALS	8.4	18.5	5.9	1.7

commercial dairy farm sales. The over-all ratio of average corporate farm sales to average commercial farm sales was nearly 6 to 1.

In making these comparisons for Class I farms only, corporate Class I farm sales were only 1.7 times larger than all other Class I farm sales, being considerably less than the relationship for all commercial farms. Individual type of farm relationships can be seen in Table 16.

Land and Buildings

Value of assets are another measurement of size.

Table 17 provides estimated average value comparisons of land and buildings for several categories of farms in Oregon. Data on land and buildings are presented in this section and repeated somewhat in a following section under "Assets". This was necessary since land and buildings, as opposed to all farm assets, are the only data provided by the census, and comparisons with the census data were deemed desirable. For source of data, further explanations and comparability of data see Appendix C.

Table 17. Estimated value of land and buildings for various categories of farms in Oregon,^{1/}

Category of farm	Total value	Average value per farm	Average value per farm adjusted to include leased lands ^{2/}	Percent of total (unadjusted)
All farms	\$1,750,803,446	\$41,146		
All commercial farms	1,429,525,786	62,693		81.6
All Class I farms	445,522,590	206,835		25.4
All corporate farms	45,749,024	167,000	371,376	2.6
Corporate Class I farms	43,448,500	202,000	436,451	2.5

^{1/} For source see Appendix C.

^{2/} Adjusted to include the value of lands leased and operated by corporations but not owned

Leased lands. Over one-third of the land used by farm corporations in Oregon was leased. For some types of farms, leased land accounted for much more than one-third. Vegetable farms are an example where an estimated 96 percent of the land used by these firms was leased. In many cases a very large part of this leased land was owned by the stockholders of the corporation as individual property and leased back to the corporation. These lands were not corporate assets, yet were a part of the value of the operating unit, and in order to make the sample data somewhat comparable with census data, sample data were adjusted upward with weighted

estimates of leased land by type of farm. This gave more nearly the value of the operating unit but not values for the corporation per se. Before adjustments for leased lands, corporate farms represented an estimated 2.6 percent of the total value of farm land and buildings in Oregon. After the adjustment for leased lands, this was raised to nearly 6 percent. By comparison, farm corporations owned about 1.5 percent of total farm assets in the United States but represented comparatively fewer farms (See Tables 2 and 3).

Value of land and buildings vary considerably by type of farm. Estimates of the sample values are compared with census estimates in Table 18. For example value of land and buildings for vegetable farms before lease adjustments was far below their comparative importance in other measures--acreage operated and sales. However, in the adjusted category the result of the very large proportion of leased lands is evident. Corporate fruit farms also show up prominently in the Class I category. Relative to value, there are several quite large corporate orchards in Class I.

Table 18. Comparison of estimated value of land and buildings for various types of farms in Oregon 1/

Type of farm	Census Average			Sample Average				Percentage		
	All farms by type			Unadjusted		Adjusted for lease <u>1/</u>		All farms by type		
	All farms	Commer- cial	Class I	All farms by type				Corpo- ration of com- mer- cial	Corpo- rate Class I of Class I	Corpo- rate Adjus- ted <u>2/</u> Class I of Class I
				Corporate farms	Corporate Class I	Corporate farms	Corporate Class I			
Grain		\$120,666	\$308,293	\$285,500	\$305,200	\$439,700	\$468,200	5.0	9.2	14.1
Livestock		66,200	240,320	207,000	261,600	304,200	386,100	8.4	15.2	22.4
Vegetable		70,370	179,158	46,731	46,500	791,900	782,100	2.0	3.5	59.4
Fruit		41,372	146,410	171,300	243,000	193,500	274,600	5.0	25.8	29.2
Nursery				137,400	183,300	155,900	208,200			
Poultry		29,045	57,386	52,500	52,500	58,900	58,900	1.5	6.5	7.2
Dairy		43,807	144,003	107,500	190,800	131,700	235,800	.6	2.8	3.4
Average all types	\$41,146	62,621	206,835	167,000	202,000	371,376	436,451	3.2	9.8	21.1

1/ For source and comparability of data see Appendix C.

2/ Adjusted to include the value of lands leased and operated by corporations but not owned by them.

Summary of United States and Oregon Corporate Relationships.

A summary of the importance of farm corporations in Oregon compared to farm corporations in the United States can be seen in Table 19. The relative importance of Oregon farm corporations to all Oregon farms is, by most means of measurement, nearly double the relationship of U. S. farm corporations to total U. S. farms. The exception is in sales where the total percentage of Oregon corporate farm sales to total Oregon farm sales is just about the same as the U. S. relationship. However, with there being twice as many corporate farms in Oregon by comparison, the ratio of corporations to sales is less than for the United States as a whole. This is possibly because of the extensive type of farming done by many farm corporations in Oregon.

Table 19. A comparison of Oregon and United States farm corporation relationships; percentage of totals.

	Corporation numbers	Percentage			
		Farm numbers	Farm sales	Farm assets	Farm land acreage
United States, 1958	1.29	.30	7.81	1.5	5
Oregon, 1960	3.35	.64	8.00	2.6 <u>1/</u>	9.8

1/ Includes only land and buildings.

The importance of farm corporations in Oregon is summarized in Table 20. This compares Oregon farm corporation data with census of agriculture data for all commercial farms and Class I farms in Oregon. In these categories corporations are quite significant, representing 11 percent of the acreage and 8 percent of the sales of all commercial farms in the state. Corporations are still more significant when considering only Class I farms. In this category corporations represent 23 percent of the acreage and 18 percent of the sales. Corporations generally are among the larger commercial farms in the state.

Table 20. All Oregon corporate farms as a percent of all Oregon commercial farms and all Oregon Class I farms by type of farm.

	Number		Acreage		Sales		Land & Buildings (unadjusted for lease)	
	Com- mer- cial	Class I	Com- mer- cial	Class I	Com- mer- cial	Class I	Com- mer- cial	Class I
Grain	1.8	9.3	6.5	12.6	7.4	13.5	5.0	9.2
Livestock	1.6	13.9	13.2	27.0	9.0	16.5	8.4	15.2
Vegetable	3.0	13.6	30.3	59.1	21.2	36.7	2.0	3.5
Fruit	1.2	15.4	3.8	20.2	7.5	21.4	5.0	25.8
Poultry	.8	7.1	2.1	8.7	9.1	19.6	1.5	6.5
Dairy	.3	2.1	.5	2.0	1.0	3.2	.6	2.8
All	1.3	10.5	10.8	23.0	8.4	18.5	3.2	9.8

No further use of census classification or comparison with census data will be made. The data to follow will represent only active domestic corporations except as data of foreign corporations are brought in for comparative purposes (See Appendix C).

Balance Sheet of Corporate Farming

A balance sheet is an instant picture of a business firm; its assets minus its liabilities equal its net worth--always in balance by definition. Therefore, a consideration of the time of the balance sheet statement is important. The following balance sheet estimates were obtained by interviews primarily in March, 1961. For most farms and ranches this was the time of the year when crop and livestock inventories were at their lowest value, and consequently so were liabilities. Previous production-year crops and livestock had been sold, and current crop year operating credit had not been obtained. therefore, at some other time of year both assets and liabilities might have been considerably higher, although not materially affecting the net worth.

Assets

A list of corporate assets by type of farm is presented in Table 21. Corporate farm assets varied considerably with type of farm; poultry farms had the smallest asset value, and grain farms had the largest. An over-all estimate of average asset value for all corporate farms was \$249,000. The median value was slightly less, being \$222,000, with a range going from less than \$7,000 to over \$700,000 (excluding one very large dairy producer-processor). On the lower scale, about 22 percent of the corporations encompassed in the study had assets of \$100,000 or less.

Therefore, even though the average and median asset value was high compared to other farms, there were still numerous firms that would not be counted as "exceptionally large."

Land composed about one-half of all asset values with an additional 8 to 12 percent in each of the following categories: buildings, equipment, breeding stock, inventories, nonfarm assets. These were strictly corporate assets and not necessarily the value of the operating unit, which may be, and in many cases is, very different, particularly with leased lands accounting for a large amount of the values of an operating unit.

Leased Lands. Some corporations were strictly operating corporations and owned no land or buildings. About 19 percent of the corporations represented by the sample owned no land at all, and about 11 percent owned no land or buildings. The largest ratio of leased lands was by vegetable and grain farms. Vegetable producers, particularly, operated on high-value leased land. Although only about 35 percent of the land used by corporations was leased land, the value of leased land probably exceeded the value of owned land. If an adjustment is made to include leased lands, the estimated value for the operating unit was around \$396,000 per corporate farm. This exceeded the unadjusted average by over \$140,000.

Seventy percent of all corporations had land leased. Cash leases were more predominant; 56 percent of all farm corporations had them. Twenty-nine percent had share-crop leases. Sometimes between the stockholder and his corporation there was a use arrangement where no rent was paid.

Year-to-year leases were most common and accounted for over 40 percent of all leases. Two to 5-year leases were the next most common, while 22 percent had leases of 5-year duration or longer. A few had perpetual or continuing-type leases with no termination date. Only a few corporations

Table 21. Estimated average assets by type of operating domestic corporate farm in Oregon 1/

Type of farm	Land	Buildings	Equipment	Breeding stock	Inventories	Non-farm assets	Total assets	Median asset value
Grain	\$237,600	\$21,600	\$37,000	\$10,900	\$13,400	\$42,700	\$363,200	\$308,500
Livestock	119,900	16,100	26,200	60,100	31,200	20,800	274,300	231,300
Vegetable	40,900	10,100	53,400	11,900	17,900	54,300	188,500	150,000
Fruit	141,600	35,000	30,500	400	23,300	38,900	269,700	263,800
Nursery	74,000	63,400	21,800	300	96,400		255,900	248,000
Poultry	22,800	29,700	48,700	44,600	25,200	300	171,300	134,200
Dairy	76,700	30,800	16,300	22,300	3,000	800 <u>2/</u>	149,900	107,900
Lessor	172,200	14,000		1,000	800	1,800	189,800	134,000
All farm corporations	\$121,400 <u>3/</u>	\$25,000 <u>3/</u>	\$30,000	\$20,900	\$27,200	\$24,800	\$249,200	\$222,000
Percent of total	49	10	12	8	11	10	100	
Foreign	\$572,300	\$50,800	\$67,500	\$381,400	\$64,500	\$368,000 <u>5/</u>	\$1,522,500	
Dissolved <u>4/</u>	60,900	19,600	23,300	17,100	4,500		108,300	

1/ For source and comparability of data see Appendix C

2/ Excludes one large dairy producer-processor

3/ These averages do not include foreign corporations as do Table 18

4/ At time of operation prior to dissolution

5/ Excludes two very large corporations with non-Oregon assets

had written rental agreements with their stockholders. These appeared to have been drafted by lawyers who incorporated the farm and made this a part of the incorporation plan.

A few stockholders leased lands back from the corporation, although most of these were lessor corporations of which four cases out of six leased all their lands back to stockholders. Sometimes, however, the stockholders of the lessor corporation were not identical with those who leased and operated the property. In some cases, this allowed investors to have an interest in real farm-ranch property without being concerned with the actual operation of such.

Individual property. In nearly one-third of the corporate farms, stockholders retained upon incorporation all the land in their individual names. About 14 percent retained all of both land and buildings in their own names. Of those firms where stockholders retained land, about 70 percent was leased back to the corporation. Some others operated this land as separate business property, and some maintained it for personal use or for other reasons.

Homes were most often kept in stockholders' own names, about 70 percent did so. Less than one-third kept autos in their own name. Only occasionally was machinery

or livestock retained in the stockholders' own names. Almost all stockholders maintained some assets in their own names, although many had only negligible amounts. Data are not complete for all corporations, but probably about one-half of the corporations had stockholders who held in their own names 25 percent or less of the combined asset value of the stockholders and corporations. In many cases, this was just the home or home and auto.

Considering all property retained by stockholders in their own names, utilization of this property showed that more property was retained for personal use than for any other reason (Table 22).

Table 22. Utilization of assets retained by individual stockholders in their own names.

Disposition of assets	Percent of corporations to which each answer applies ^{/1}
Maintained for personal use	53
Leased to own corporation	37
Operated as separate business property	36
Leased to others	11
Other	8

^{/1} Does not equal 100 percent since some answers apply to more than one corporation.

To keep assets outside corporate liability was the main reason given for keeping property in the stockholders' own names and outside the corporation. Some stockholders simply wished to keep property in their own names, while others maintained separate property so that they might receive rental income. (Table 23). In some cases this was done to have a fixed source of income independent of corporate net income or as a means of distributing income for various reasons, one of which was to split income into additional taxpaying entities.

Table 23. Reasons why stockholders retained assets in their own names and leased back to the corporation.

Reason given	Percent of corporations to which each answer applies <u>1</u>
To keep property outside corporate liability	76
So individuals could continue to own specific property	55
To reduce income taxes	15
A method of distributing income to individuals	6

1 Does not equal 100 percent since some answers apply to more than one corporation.

No one gave retirement income from rentals as a reason for retaining property in an individual's name. Many writers on the subject of farm corporations have advocated the use of leased property to the corporation so that the individual stockholder or corporate officer could receive rental income to supplement social security payments after retirement. There is a limit to the amount of wages or salary that can be received by an individual before social security payments are reduced, but rental income and interest are generally excluded in any amounts. However, farm stockholders were not particularly interested or concerned with retirement and had done little direct planning toward it.

Liabilities

Corporate farm liabilities have been divided into three types of loans: short term (1 year or less), medium term (longer than 1 year to 5 years), long-term (longer than 5 years). According to these types of loans and by types of farms, estimated average liabilities are presented in Table 24. An over-all estimate of average liabilities per corporate farm was \$63,500. There was considerable variation among various types of farms, with dairy farms having the lowest average liabilities.

Medium-term loans were the least-used type of loan. Only 23 percent of the corporations represented by the sample had medium-term loans, which accounted for only about 9 percent of total loans by volume. Long-term loans were the most predominant, with 63 percent of the corporations having them and accounting for 48 percent of all loans by volume. About one-fifth of all farm corporations had no loans at all, and another 7 percent had loans only with their stockholders. This made about 28 percent of all corporations with no "outside" loans.

Sources of loans varied with types of loans because lending institutions have become somewhat specialized in various types of loans. For example, over 40 percent of

Table 24. Estimated average liabilities, net worth and stockholder loans by type of operating domestic corporate farm in Oregon 1/

Type of farm	Type of Loan			Total liabilities	Net worth	Stock-holders loans	Percentage loans by stockholders
	Short term <u>2/</u>	Medium term <u>3/</u>	Long term <u>4/</u>				
Grain	\$ 28, 800	\$ 15, 700	\$ 65, 100	\$109, 600	\$253, 600	\$11, 600	10. 6
Livestock	18, 600	1, 800	28, 800	49, 200	225, 100	21, 400	43. 5
Vegetable	59, 700	5, 000	44, 400	109, 100	79, 400	16, 900	15. 5
Fruit	47, 200	15, 000	29, 900	92, 100	177, 600	8, 200	8. 9
Nursery	9, 000		10, 400	19, 400	236, 500	1, 500	7. 7
Poultry	20, 000	600	8, 500	29, 100	142, 200	3, 100	10. 7
Dairy		5, 300	10, 500	15, 800	134, 100		
Lessor	8, 800		10, 600	19, 400	170, 400	7, 300	37. 6
All farm corporations	\$27, 100	\$ 5, 800	\$30, 600	\$63, 500	\$ 185, 700	\$11, 400	
Percent of total	43	9	48			18	
Foreign	\$215, 000	\$25, 000	\$302, 000	\$542, 000	\$980, 500	\$25, 000	
Dissolved	31, 700		16, 000	47, 700	60, 600	9, 100	

1/ For source and comparability see Appendix C

2/ 1 year or less

3/ Longer than 1 year to 5 years

4/ Longer than 5 years

the short term credit came from commercial banks, while private nonstockholders provided the largest percentage of long term credit. Production Credit Associations were second most prominent for short-term credit, and The Federal Land Banks were second in importance for long-term credit. This was based on number of corporations with loans and not on volume of loans (Table 25).

Table 25. Source of farm corporation loans in Oregon by type of loan.

Source	Percentage of corporations using each source		
	Short Term <u>1/</u>	Medium Term <u>2/</u>	Long Term <u>3/</u>
Commercial bank	40.9	6.6	4.3
Production Credit Associations	15.0	.6	
Stockholders	10.4	3.1	10.3
Private non-stockholders	2.4	6.8	19.5
Equipment suppliers	2.0		
Commercial suppliers	.7		
Insurance companies		1.8	5.2
Federal Land Banks			13.3
Other		5.0	3.7
Percent of total coporations having each type of loan <u>4/</u>	55	23	63
Percent of each type of loan by value	43	9	48

1/ One year or less. 2/ Longer than 1 year to 5 years. 3/ Longer than 5 years. 4/ Do not equal the sum per type of loan because some corporations had loans from more than one source.

The purpose of corporate loans and the security for loans are as one might expect. The majority of short-term loans were for operating purposes and were secured with notes and chattel mortgages. Long-term loans were for land purchases and were secured by real estate mortgages (Tables 26, 27).

Table 26. Purpose of corporate loans by type of loan.

Purpose of loan	Percentage of corporations having each type for each purpose		
	Short term	Medium term	Long term
General operating	58	4	1
Land	6	7	29
General capitalization	2	7	10
Machinery	2	4	4
Buildings			3
Other	3	1	9

Table 27. Security for corporate loans by type of security instrument.

Type of security	Percentage of corporations using each type of security		
	Short term	Medium term	Long term
Notes only	36	7	5
Note and chattel mortgage	22	4	
Note and real estate mortgage		9	35
Other	1		3

Individual stockholders often had to sign personally for corporate loans. Commercial banks required stockholders of 80 percent of the corporations to sign personally for farm corporation loans. About 40 percent of the insurance company loans were also secured by stockholders' personal signatures. Nonstockholder loans to 38 percent of the corporations were also covered by personal security of the corporate stockholder. Federal lending agencies. The Federal Land Banks loan to farm corporations only if stockholders assume personal liability for the loan. Requirements are as follows:

"Restrictions on eligibility for loans; assumption of mortgage and stock interests by purchaser of land or heir. -- No such loan shall be made to any person who is not at the time, or shortly to become, engaged in farming operations or to any other person unless the principal part of his income is derived from farming operations. In case of the sale of the mortgaged land, the Federal land bank may permit said mortgage and the stock interests of the vendor to be assumed by the purchaser. In case of the death of the mortgagor, his heir or heirs, or his legal representative or representatives, shall have the option, within sixty days of such death, to assume the mortgage and stock interests of the deceased. As used in this paragraph (1) the term 'person' includes an individual or a corporation engaged in farming operations; and (2) the term 'corporation' includes any incorporated association; but no such loan shall be made to a corporation (A) unless all the stock of the corporation is owned by individuals themselves personally actually engaged in farming operations on the farm to be mortgaged as security for the loan, except in a case where the Farm Credit Administration permits the loan if at least 75 per centum in

value and number of shares of the stock of the corporation is owned by the individuals personally actually so engaged, and (B) unless the owners of at least 75 per centum in value and number of shares of the stock of the corporation assume personal liability for the loan. No loan shall be made to any corporation which is a subsidiary of, or affiliated (either directly or through substantial identity of stock ownership) with, a corporation ineligible to procure a loan in the amount applied for." (164, p. 5).

Production Credit Association regulations are very similar:

"To be eligible for a loan, an applicant must be a farmer or rancher. The term 'farmer' or 'rancher' includes an individual or a partnership owning agricultural land or engaged in the business of farming or livestock production; and also includes a corporation as defined in this part.

"To be considered a farmer or rancher a corporation must be engaged in actual farming operations or livestock production and must meet one of the following qualifications:

At least 75 percent in value and number of shares of its capital stock must be owned by the individuals personally actually conducting the farming or livestock operations of the corporation; or

The major portion of the assets of the corporation, must consist of property actually devoted to farming or livestock production and at least half of its gross income must be derived from such operations.

"When a loan is made to a corporation, either the holder or holders of at least a majority of its outstanding shares of voting stock or, with the consent of the Federal Intermediate Credit Bank (hereinafter called the 'Bank' in this part), a principal stockholder or stockholders must (a) endorse, or sign as comakers, all notes evidencing such loan; or (b) execute continuing guarantees of all indebtedness of such corporation to the association. When it is expected that future advances will be made to a corporate borrower, the association will require a continuing guaranty as above mentioned." (18).

Farmers Home Administration administers a variety of loans with varying stipulations. Farmers Home Administration does not offer to corporations their two most common types of loans; Farm Ownership Loans (18) or Production and Subsistence Loans (18). The regulations as defined in the Code of Federal Regulations do not expressly prohibit corporations from receiving loans, but by definition of "family-type farm" they are by fact excluded. However, Soil and Water Conservation Loans can be made to individuals:

"The term 'individual' as used in reference to Soil and Water Conservation loans means individual persons, partnerships that own and operate farms, and corporations that are engaged in farming." (18, paragraph 351).

Requirements are stringent, loans are limited to \$25,000, and "red tape" may be enormous, but corporations can receive this type of Farmers Home Administration Loan. Farm Housing Loans administered by Farmers Home Administration

exclude farm corporations -- "Farm Housing Loans will not be made to (1) a corporation or cooperative association."

(18, paragraph 383). Farmers Home Administration also administers several emergency loans. For Production Emergency Loans and Economic Emergency Loans,

"Any farmer or stockman, operating in the designated area, whether owner, or tenant, including a partnership or corporation, is eligible..." (18, paragraph 381).

Again certain stringent conditions apply. But for Special Emergency loans "Corporations are not eligible..." (18, paragraph 381). For two other emergency type loans, Special Livestock Loans (18, paragraph 384) and Emergency Feed Programs Loans (18, paragraph 388), corporations are expressly included as being eligible, providing other requirements are met.

Farmers depending upon government agency loans would not be encouraged to incorporate, although difficulties generally are not insurmountable. These agencies have an underlying policy of furthering the family-type farm, and as yet the policy is so defined to eliminate any encouragement toward the incorporated farm, whether or not it still in reality may be a family farm.

Stockholder loans. Stockholders loans were found to be an important part of corporate liabilities. About one-third of all farm-ranch corporations had loans from their stockholders. An additional 11 percent at some previous time had such loans. Current stockholder loans accounted to about 18 percent of total corporate liabilities and averaged about \$11,000 per corporation. Loans were about evenly divided between short-term and long-term, with just a few medium-term loans.

In addition to direct loans, some stockholders held a sort of indirect loan for the corporation in that the lands leased by the stockholder to the corporation sometimes carried real estate mortgages. Often these financial arrangements were in existence with the previous partnership or proprietorship and were not changed upon incorporation.

Stockholder loans were made for a variety of reasons, the most predominant being to provide capital not readily obtainable elsewhere (Table 28).

Table 28. Reasons given for borrowing from stockholders.

Reason	Percent of corporations borrowing from stockholders giving each answer
To provide capital not readily obtainable elsewhere	29
To provide capital at a lower rate of interest than obtainable elsewhere	25
To conserve working capital	17
Needed quick funds	8
Investment opportunity for stockholders . . .	8
Avoid regular loan red tape	8
To give stockholders a creditor position . .	4
To reduce corporate tax by way of deductible interest.	4
To provide greater flexibility in the capital structure	4
Other.	8

Stockholder loans appear to be largely a matter of convenience and not a matter of planned forethought to accomplish some particular operational, tax, or estate planning objective. Debt instruments or securities were not used in the permanent capital structure of any of the corporations interviewed. Two of the sample corporations had given some notes to stockholders in the original capital structure, but they had since been redeemed. Harl (64, p. 23 - 5), Hubbard (75, p. 17 - 18), and others point out numerous advantages of using debt securities in the capital structure. They are summarized in the following paragraphs.

Debt securities. There may be income tax advantages for the regular corporation by using debt securities if stockholders desire current income from the corporation in a form other than dividends to avoid double taxation on dividends. The interest expense on a bona fide stockholder debt is an expense of doing business to the corporation and reduces taxable income to the corporation, at the same time while making a distribution of corporate "earnings" to the stockholder. This interest income must be counted with the recipient's other income and is taxable, but it is not first taxed by the corporation and then later by the stockholder as dividend income; the exception is a minor dividend exclusion and tax credit. Some stockholders in high income tax brackets may not wish to withdraw funds to be taxed as ordinary income but may wish to retain earnings in the corporation for capital appreciation, which may be converted eventually into capital gains income at lower income tax rates. This means foregoing current income.

When corporations avoid "double tax" by electing to be taxed as a partnership, the use of corporate debt securities makes no difference in the amount of federal income tax to be paid. Some states, and Oregon is one, do not recognize the "tax-option" corporation for tax purposes.

One other significant feature of debt securities is preference over stock in any eventual liquidation. Stockholder-creditors of closely held corporations may not, however, be treated with the same preference as other general creditors but will have full rights ahead of any return of stockholders equity.

Debt securities also provide a source of constant income independent of the net income of the corporation, although in closely held corporations this may be more theoretical than actual. It is difficult to pay interest on a stockholder's debt securities if it has no earnings. It may borrow from other sources, but doing so merely increases liabilities and reduces the equity value of outstanding stock, although proportional distribution may be considerably different among individual stockholders. Debt securities can be redeemed to provide a nontaxable return of capital, whereas the sale of stock may result in a taxable transaction. Such debt security transactions may fit well with retirement programs and can be effective tools in estate planning. Debt securities can be conveniently sold, traded, given as gifts just as stock or personal property, and have the advantage of bearing a constant rate of return with more security than stock. They are often used in trust funds to advantage.

There are precautions that must be taken to assure a bona fide creditor-debtor relationship when a corporation and its principal stockholders are involved. Excessive debt in relation to equity capital can result in too "thin capitalization" for Internal Revenue recognition of a bona fide relationship. Also a weakened financial picture may result which could impair obtaining loans from other sources.

Only about half of the stockholder loans obtained by Oregon farm-ranch corporations were interest bearing. Interest rates were often about one percent below rates charged by commercial banks. About one-third of the respondents having loans considered their loans on a par with other creditors. However, because of the close relationship between the stockholder and the close corporation, these loans could, in a final test, be considered secondary regardless of the instrument or intent.

Loans to stockholder. A few corporations, possibly 10 or 12 percent, have made loans to their stockholders. These loans were usually noninterest bearing. If these stockholders were officers or directors (and no attempt was made to determine whether they were or not), these loans may have been in violation of Oregon Business Corporate Law which states: "Each corporation shall have power: --- (6) to lend money to

its employees other than its officers and directors, and otherwise assist its employees, officers and directors." (118, paragraph 57.030). Farm corporate officers possibly were not aware of this law.

The lack of debt security use and the manner in which other loans, rentals, and other business devices were used appears to indicate the general lack of detailed planning for optimum use of these instruments and devices of the corporation.

Credit Availability and Use

The ability of the corporation to increase equity or debt capital for the farm-ranch business has been discussed by writers with answers both pro and con, although both answers were usually qualified by subjective assumptions. Krausz and Mann (92, p. 8), Petrie (122, p. 551), and others felt the corporation can give financial strength to the farm business firm. Fair made one of the most positive statements.

"There is a very great advantage in the corporate farm. For a successful business, under incorporation can seek and obtain capital more readily when and where the need arises than the individual or partnership can. Private investors always have a greater confidence in securities of a corporation than they do in other forms of doing business." (51, p. 8).

Others were much more skeptical, such as the Minnesota Law Review (79, p. 320-21), and Smith (140, p. 11 revised). Goetsch (61, p. 12) said, "Creditors will be somewhat more conservative in their loans knowing that there is limited liability." Dorner suggested the hypothesis that the corporate family farm" ... will be too small to go directly to financial markets with corporate stocks and too large for the traditional refinancing each generation by existing credit institutions." (40, p. 6). Harl says" ...no objective factual data have been made available to dispute or support the hypothesis of no change in credit availability from incorporations, or to dispute or support the hypothesis that incorporation enhances credit availability." (64, p. 32).

Changes in business debt. Certain questions in the interview schedule attempted to provide an answer, although of necessity from more a subjective than empirical approach. The question was asked, "What have been the changes in business

loans since incorporating?". The results from this question were tabulated and are shown in Table 29.

Table 29. Changes in farm business firm loans since incorporating; percent of corporations giving each answer.

Changes in loans	Term of Loan		
	Short Percent	Medium Percent	Long Percent
None	58	67	60
Increased slightly	21	10	5
Increased greatly	18	14	22
Decreased slightly	0	2	8
Decreased greatly	3	8	6

The largest proportion of corporations made no changes in business loans, but where changes were made they were primarily in the direction of increased debt. This question did not attempt to discover whether changes were the result of incorporation. Another question, yet more subjective, asked, "Do you think if you had not incorporated the business would have (a) the same amount of debt, (b) less debt, (c) more debt?". Seventy-two percent answered the same amount of debt; 16 percent answered less debt; 10 percent answered more debt. This tends to indicate that incorporation did not

significantly change amounts of debt but that perhaps a few might have increased debts as a result of incorporation.

Other questions were designed to discern whether the ability of the farm firm to obtain credit had been altered by incorporation. Thirty-two percent said incorporation made no difference in obtaining credit; 23 percent said credit was easier to get; 11 percent said credit was harder to get; 35 percent said they did not know, or they gave no answer.

Credit easier to get. Following were some of the reasons given why credit was considered easier to get. Several indicated that because they still signed for loans as individuals, the banks were taking no limited liability risks and that the banks had the added security of the corporation with its continuity of ownership and more highly developed organizational pattern, in addition to previous security for loans. One corporate officer said that the corporation had consolidated the property and obligations of the firm, thus simplifying and strengthening the credit position. Another officer said that because of the older age of the operator and his wife, the corporation seemed to offer additional security to the loan through greater possibility in continuity of ownership. In

another case, the credit rating of the business had been improved through incorporation because a new stockholder-partner, with superior credit rating, was brought into the business.

Although several corporate officers indicated that banks generally liked the idea of incorporation, it was apparent that banks were generally not willing to submit to limited liability on their loans.

Credit harder to get. Of those who said that loans were harder to get, there were two primary objections. Loans were harder for those who wanted to invoke limited liability on their loans. The other reason, while really more of a procedural difficulty than limiting availability, was the added "red tape" and procedural complications involved in processing the loan. Many agencies lending to farmers were not familiar with loans to farm corporations, and this new experience, along with additional regulations, particularly for such institutions as Production Credit Associations and Land Banks, added up to more paper work, more signatures, more verifications, more complicated mortgage procedures, etc. The president of one small farm corporation, which was selected for the schedule pre-test but not included in the final sample, said that a Production Credit Association,

with which they had previously done business, had refused them a loan after incorporation because the additional paper work of a corporation loan would not justify the extra expense where a small loan was involved.

Need for working capital. About half the corporations indicated that they had need for additional working capital. Of these about 74 percent said they could borrow more at current lending rates if stockholders would accept the additional debt. The other 26 percent said they would borrow more if they could do so at current lending rates.

To the questions, "Which of the following do you consider more important at the present time for the well-being of the major stockholders?", 42 percent said to reduce the business debt; 35 percent said to increase working capital; the other 22 percent did not know or had no answer.

Debt attitude. Attitude toward debt was also checked with a question, "Within the lifetime of the major stockholders, what will they try to do with the business debt?". Fifty-one percent would pay it off in full; another 11 percent would reduce the debt; 7 percent would maintain it perpetually as it was; 11 percent would increase it for additional working capital.

Attitude toward perpetual debt was explored with the question, "Would you be opposed to the idea of being always in debt if you could continually pay off an old loan with a new loan?". Forty-nine percent said they were opposed to this; 38 percent said they were not opposed to the idea; 13 percent did not know or gave no answer. Although it appeared to the interviewers that those who opposed were quite positive in their feelings, those who said they were not opposed were far from being very enthusiastic about the idea. There seemed to be among many a moral antipathy toward debt quite separate from its economic and business considerations.

When asked if their attitude toward debt had changed as a result of incorporation, 82 percent said there was no change; 13 percent said they were less fearful of debt, and 3 percent said they were more fearful.

Risk and uncertainty. The idea behind this series of questions was to see if certain subjective factors of risk and uncertainty had been changed or influenced by incorporation.

This reserve of credit held by most incorporators would agree with Bradford and Johnson (8, p. 399) who, in discussing internal credit rationing, said that entrepreneurs in seeking both security and flexibility ration their credit from within and maintain their flexibility in the form of unused credit.

From the answers given it appeared that about half of the corporations had officers who felt they could advantageously use additional working capital. However, the limiting factors for use of additional credit were more internal than external, since many more said they could borrow additional funds at current rates than those who said they could not borrow more. This rationalization appeared largely to have been the result of corporate officers' attitude toward debt; more felt it was important to reduce debt than to incur additional debt for working capital, although nearly half said they had need for additional working capital.

Knight (87, p. 233) distinguished between risk and uncertainty by defining risk as measurable uncertainty;- risk is the distribution of the outcome in a group of instances known either through calculation, a priori, or from statistics of past experience. With uncertainties it is impossible to form a group of instances because the situations are unique to a high degree. Risk and uncertainty are the result of imperfect knowledge.

By alleviating imperfect knowledge the corporation, it might be suggested, may reduce uncertainty and encourage the use of additional credit where the marginal efficiency of capital is still high.

One form of business firm uncertainty may be in the form of discontinuous management. The corporation, with its peculiar organizational pattern, may be a means of bringing its owners to foresee and delineate certain relationships that might reduce uncertainty; formal ownership transfer plans are an example.

The corporation has not, as has been suggested it might do, significantly removed debt aversion from the individual by transferring the debt to this "impersonal, amoral, soulless entity" -- the corporation, although of the 15 percent who did feel differently about debt as a result of incorporation, nearly all expressed less fear. This change, although minor, may be significant because attitudes change slowly. Internal credit rationing is partly a response to risk and uncertainty, and some uncertainties may have been removed through incorporation.

Some corporate officers seemed to believe that the availability of credit is enhanced through incorporation if the debtor does not insist on maintaining limited credit liability. It would appear that borrowers, initially at least, must be willing to endure added procedural difficulties and "red tape" by borrowing as a corporation.

Incorporation has seldom discouraged the use of additional credit but has not significantly encouraged it, although minor changes have been in the direction of increased use of credit with less debt inhibitions.

CHAPTER V

OWNERSHIP STRUCTURE

The Family Farm

Volumes have been written about the family farm. To some the family farm is the keystone or cornerstone of society.

"Both popular and political sentiment have been marshalled to support the thesis that the family farm is an essential ingredient in a democratic society, that small family farms are inherently good, and that the national welfare is promoted by a large number of farm families staying on the land." (55, p. 1).

To others it is an outmoded institution of poverty and squalor held together by false premises. Kuthe (94) says that there is really no basis for family farms except the sublevel exploitation of family labor which in some cases is not well utilized except in peak seasons. He believes there is too much sentiment involved in the family farm.

This author of this dissertation shall neither attempt to extol the virtues of the family farm nor attempt to discredit it. But an attempt will be made to view the corporate farm in light of existing concepts of the family farm. It may be well to examine briefly some of the concepts of the family farm.

Attempts have been made to put a quantitative definition upon the family farm.

"The United States Department of Agriculture tried, for statistical purposes to define (it) in terms of income. They suggested that a family farm is one that grosses a minimum of \$600 and a maximum of \$10,000 a year in terms of 1939 purchasing power.

"Attempts have also been made to define the family farm in terms of size....Some writers have implied that the classification 1,000 acres and over would be a corporate form of agriculture, whereas those under 1,000 acres tend to be family farms...

"Kenneth Parsons defines the family farm in terms of a principle, 'an organization which gives reasonable assurance that the collective will of the family shall not be defeated either by arbitrary acts of other parties or by circumstances of small size or unstable income.'" (99, p. 88).

Zimmerman, a sociologist, gives a view held by many in society.

"A family farm is an organization of agriculture in which home, community, business, land and domestic family are institutionalized into a living unit which seeks to perpetuate itself over many generations." (31, p. 954).

Prior to discussions on the family farm, members of a family farm policy conference heard the following committee report, which gave a more workable definition of a family farm.

"One of our primary needs is to clarify terminology....to be effective here, that definition must permit differences of opinion with respect to detail while bringing us into some sort of focus on the problem. We submit the following definition to meet this objective. A family farm must meet three conditions.

- (1) The farm operator makes all or most of the managerial decisions;
- (2) The farmer and members of his family supply most of the labor needed, and
- (3) The available farm resources are sufficient to provide the family with at least an adequate minimum standard of living." (93, p. 6 - 7).

A dissenting opinion from a member of that conference seems to be significant, particularly in relation to the "family farm" and "corporate family farm."

"I believe that the second condition: 'The farmer and members of his family supply most of the labor needed,' placed limiting conditions on what will be considered a family farm that are not realistic. The family labor supply of a family farm is not fixed over the life of one owner. Furthermore, it would appear that such requirement would reduce the size of farm units to a level that would force uneconomic operation in too many situations. I would favor rewording of this condition to include that the farmer and his family participate regularly in the farm work (as separate from management) and provide a substantial part of the labor required." (93, p. 7).

With no attempt to define a family farm, corporate officers in the study were asked, "Did you consider this a family farm before you incorporated?". Fifty-nine percent said yes and 41 percent said no. In answer to a question as to whether they considered theirs to be a family farm, at the time of the interview, 61 percent said yes, and 39 percent said no. Sixty percent said they planned to keep theirs a family farm. This slight reduction was the result primarily of one or two persons interviewed who were soon to retire from active operation and had no immediate family to take over.

It is interesting to note that the percentage of "family farms" was higher some time after incorporation than before. It is true that some farms which previously were family farms had brought in stockholders not of the immediate family and were not then family farms. But for a greater number of corporations than this, family members had acquired the stock of non-family stockholders, and farms had become family farms that previously were not. Although the marginal change wasn't great, and the concept of a family farm by farm owners probably didn't coincide with some of the stricter definitions of a family farm, nevertheless it was significant that in the minds of farmers themselves the corporation did not seem to be doing away with the family farm.

Stockholders

Farm corporations in Oregon averaged 3.5 stockholders per corporation. There was some variation in number of stockholders by type of farm, but not great. Lessor farm corporations had the highest average number of stockholders with 4.5, while poultry farm operations had the lowest average number with 2.5. More corporations had three stockholders than any other number. Two stockholders was the next most common number. (Table 30).

Table 30. Number of stockholders by type of farm corporation in Oregon.

Type of Farm	Percent with each number of stockholders									Average number of stock holders
	1	2	3	4	5	6	7	8	9	
Grain		22	22	22		33				4
Livestock		33	29	7	7	7		7		3.35
Vegetable	12.5	25	25	12.5		12.5				3.5
Fruit	12.5		50	12.5	12.5	12.5				3.5
Nursery		25	25	37.5			12.5			3.6
Poultry	33.3		50	16.6						2.5
Dairy			50	33.3		16.6				3.8
Lessor		16.6	16.6	33.3	16.6				16.6	4.5
Weighted for all types	4.5	25.3	29.6	17.2	5.1	11.3	3.0	2.4	1.3	3.5

This indicated that farm corporations in Oregon were very closely held. No domestic corporations had over 9 shareholders, and 76 percent had 4 or less, while 93 percent had six or less.

Officers

Stockholder, officer, director relationships were also very closely integrated since 70 percent of all stockholders were officers. Oregon law requires:

"...a president, one or more vice presidents as may be prescribed by the bylaws, a secretary and a treasurer....Such other officers and assistant officers and agents as may be deemed necessary.. any two or more offices may be held by the same person, except the offices of president and secretary." (118, paragraph 57.236).

An officer often held more than one office, possibly because of this law. Actually Oregon farm-ranch corporation officers averaged 1.2 offices per person. Corporations often had no vice presidents, and the offices of secretary and treasurer were often combined into secretary-treasurer. About 12 percent of all officers were not stockholders. Some nonstockholder employees or hired managers were officers. This may have been partially to comply with the law requiring four offices.

Directors

Directors made up a situation similar to that of officers. Eighty percent of all stockholders were directors; this was a greater percentage than for officers. There were more directors than officers for Oregon farm-ranch corporations because Oregon law requires "The number of directors of a corporation shall be not less than three" (118, paragraph 57.185), and each director, unlike the officer, must be a different individual. Apparently nonstockholders were sometimes brought in as directors just to fulfill this requirement. Fourteen percent of all directors were nonstockholders. They sometimes were the incorporating attorney or occasionally the firm's accountant. Directors or officers need not be stockholders or residents of Oregon unless the articles of incorporation so require.

Age of Stockholders

The average age of all stockholders in Oregon farm-ranch corporations was about 51 years. The presidents were a little older and had an average age of 53. Other corporate officers were somewhat younger with an average age of 46. By comparison the average age of farm operators as reported by the 1959 Census of Agriculture was 51.3 for

all farms; 50.4 for all commercial farms; and 47.5 for all Class I farms. This made the corporation presidents on the average a little older than the average Class I operator to which he was probably most comparable. There was some variation in age of the president and stockholders by type of farm as shown in Table 31. Over-all stockholders of corporate grain farms seemed to be the oldest, and corporate vegetable farm stockholders were the youngest.

Table 31. Average age of Oregon farm corporation stockholders and officers by type of farm.

Type of farm	Average age		
	President	Other Officers	All stockholders
Grain	49	42	60
Livestock	53	42	45
Vegetable	44	43	43
Fruit	61	54	47
Nursery	59	45	50
Poultry	50	52	52
Dairy	57	54	51
Lessor	59	52	52
Average of all types	53	46	51

Minor Children

Although 42 percent of the stockholders had minor children, only two corporations in the sample had stockholders who were minors. One corporation had three

stockholders aged 6, 10, 11, who were grandchildren of the president. One other had a six-year-old stockholder who was a daughter of the president. Other nonminor, younger stockholders were also conspicuously absent since only 6 percent of the stockholders were in the 21 to 30-year age range.

Relationship of Stockholders

About 81 percent of Oregon farm ranch corporation stockholders were related to the president by blood or marriage. About 19 percent were not related to the president, and no attempt was made to determine if they were related to stockholders other than the president. About 20 percent of the stockholders, other than the president, were wives of the presidents. Nineteen percent were their sons. Brothers to the president was the next most important relationship. Other relationships by type of farm can be seen in Table 32.

A smaller percentage of officers than of total stockholders was related to the president. Seventy-five percent of the other officers were related to the president by blood or marriage. As seen in Table 33, wife, son and brother held a little more prominent place among the officers than among the stockholders as a whole, showing that the immediate family, generally excluding the daughter but often

Table 32. Relationship of stockholders to the president for Oregon farm-ranch corporations by type of farm.

Type of farm	Percent of stockholders with relationship to president											
	Wife	Son	Daugh-ter	Bro-ther	Sis-ter	Father	Mother	Son-in-law	Daugh-ter-in-law	Husband	Other	None
Grain	15	26	12	14	8	--	--	--	4	--	15	19
Livestock	14	21	11	17	4	4	4	--	--	--	11	18
Vegetable	33	11	6	16	--	6	6	--	--	6	6	11
Fruit	26	11	5	--	--	5	5	--	--	--	11	21
Nursery	21	32	5	--	--	5	5	5	--	--	26	--
Poultry	33	--	--	12	--	--	--	--	--	--	--	27
Dairy	23	23	--	21	29	--	--	--	--	--	6	23
Lessor	7	--	7	--	--	--	--	--	--	7	--	29
All corporate farms	20	19	8	11	5	3	3	nil	1	1	10	19

Table 33. Relationship of other officers to the president for Oregon farm-ranch corporations by type of farm

Type of farm	Percent of officers with relationship to president											
	Wife	Son	Daugh-ter	Brother	Sister	Father	Mother	Son-in-law	Daugh-ter-in-law	Husband	Other	None
Grain	25	25	6	--	--	--	--	--	6	--	6	31
Livestock	19	24	--	19	--	5	--	--	--	--	14	19
Vegetable	40	10	--	20	--	--	--	--	--	10	--	20
Fruit	23	15	7	15	--	7	--	7	--	--	--	31
Nursery	27	40	7	--	--	7	--	--	--	--	13	--
Poultry	37	--	--	--	--	--	--	--	--	--	--	63
Dairy	31	15	--	15	--	--	--	--	--	--	7	31
Lessor	14	--	14	28	14	--	--	--	--	14	--	14
All corporate farms	22	21	4	13	1	3	--	1	1	2	8	25

including a brother, was very prominent among the officers and accounted for 56 percent of the officers other than president.

Education of Stockholders

An effort was made to see to what degree stockholders had completed a formal education. About 30 percent of the mature stockholders were college graduates. Another 30 percent had some college training. All except 10 percent were high school graduates. About 7 percent had college graduate training (Table 34).

Table 34. Average years of formal education completed by Oregon farm-ranch corporate stockholders.

Years of education Completed	Percent of stockholders completing highest year
8	7.5
9	1.3
10	.8
11	.4
12	30.4
13	18.0
14	16.1
15	5.9
16	22.7
17	2.7
18	2.8
19	.9
20	.5

Occupation of Stockholders

Farmers represented the largest group of stockholders, which comprised 36 percent of the occupational group. Their wives comprised the next most important group; housewives represented about 31 percent of all stockholders. Another large group was businessmen, who represented about 21 percent of the stockholders. A few other occupations showed up but were quite incidental (Table 35).

Table 35. Occupation of stockholders of Oregon farm-ranch corporations.

Occupation	Percent of stockholders
Farmer	36
Housewife	31
Business Man	21
Lawyer	2
Doctor	1
Student	nil
Other	9

Residence of Stockholders

Part of the stockholders in 40 percent of the corporations lived on the corporate farm-ranch property. Another 12 percent lived adjacent to the farm-ranch property, and another two percent lived in a nearby town or city. This is a total of 64 percent of the corporations which had stockholders living

on or near the property. Thirty-seven percent had no full-time residents, and 13 percent had no stockholders living on the property at any time.

Other relationships can be seen in Table 36. These figures tend to show the degree of absentee ownership of Oregon farm-ranch corporations.

Table 36. Persons actually residing on Oregon corporation farm ranch property.

	Full time	Part time	Live adjacent to property	Live in near by town
No one	37	13	--	--
All of stockholders	12	--	12	2
Part of stockholders	38	4	--	--
All directors	7	--	12	2
Part of directors	35	4	--	--
All officers	6	--	12	2
Part of officers	33	4	--	--
Hired manager	10	1	--	--

Stock Holdings

For all types of farms, corporate presidents, on the average, held just a little over 50 percent of the stock, although only 28 percent of the presidents by number actually held 51 percent or more of the outstanding stock. Because there were generally few stockholders, stock ownership was quite concentrated.

Stock was generally held as separate property. For the remaining stockholders, about 13 percent of the stock was held as tenants in common; about 6 percent as joint tenants; and 3 percent as partnership property.

Capital Structure

With two exceptions it was found that common stock was the only kind of stock used. Two corporations used preferred stock. One of these was a wholly-owned subsidiary of another corporation, and the other corporation had some stockholders not directly interested in business operations.

Par value stock ^{/1} was the most common; 70 percent used it. One-hundred dollar par value stock was the most popular and accounted for 57 percent of the various types and denominations used. Several also issued their no-par stock ^{/2} at \$100. No-par stock is valued at \$10 for Oregon annual license fee purposes. The next most popular denomination was \$10 for par value stock as well as the issue price for no-par stock. Various denominations of stock used is shown in Table 37.

^{/1} "Par value means that stock carries a stated beginning value on the face of the certificate and on the corporation books." (75, p. 16).

^{/2} "No-par value stock does not carry a stated value on the certificate and may be issued at any price as determined by the board of directors." (75, p. 16).

Table 37. Denominations of par value stock and issue price for no-par stock for Oregon farm-ranch corporations.

Denomination	Percent of corporations using
\$ 1	3
2	2
10	11
20	2
25	1
50	3
100	63
1,000	3
2,000	2
Odd denominations less than \$100	7
Odd denominations greater than \$100	3

The number of shares of stock used by each corporation varied tremendously from 13 1/2 shares @ \$2,000 each to 250,000 shares @ \$1.00 each. The authorized capital stock varied from \$250 to \$300,000, although average authorized capital stock was about \$70,000. Average number of shares of stock per corporation was about 7,000. About one-third of the corporations were fully paid up to their authorized capital stock; the other two-thirds still had stock authorized that hadn't been issued.

Sale of Stock

Stock has not been sold in any significant degree to people other than the immediate corporate principals. No domestic corporation in the sample had made any public offering of stock or registered with the Oregon or Federal Securities Commission. Stock sale in Oregon is permissible without registration if the total number of persons solicited does not exceed 25 or the total number of persons subscribing to the issue does not exceed 10. To remain exempt from registration, all subsequent subscriptions must be to holders of securities previously issued and shall not exceed ten persons (119, paragraph 59.110). Not all stock was acquired, however, in exchange for noncash assets. About 36 percent of the corporations had sold stock, but only about 15 percent of these sales had been to "outsiders." All other sales had been to principle shareholders at the time of incorporation, with some subsequent sales to existing shareholders. Almost all their outside sales were to business acquaintances and an occasional sale to a friend or relative.

Treasury Stock

About 10 percent of the corporations owned some treasury stock. The importance and reasons for the corporations purchase of this stock varied from taking up a few odd shares so all stockholders would have equal shares, to liquidating the balance of a deceased stockholder estate, to buying out a stockholder's interests.

Dividends

Eighty-seven percent of Oregon's farm-ranch corporations had never paid dividends. The other 13 percent had paid some cash dividends, but no corporations had paid stock dividends. About two-thirds of those who had paid dividends did so on a regular annual basis; others had paid just occasionally. Over half the officers interviewed said they did not ever expect to pay dividends, while about one-fourth said they expected to pay them annually; the remainder said they expected to pay them occasionally.

Farm-ranch corporate stock has been used primarily as an ownership device and not a device to partition and transfer income.

CHAPTER VI

RATIONALE AND INCORPORATION PROCEDURE

Rationale of Incorporation

Farmers and ranchers in Oregon became acquainted with the idea of incorporation largely through the efforts of their lawyer, accountant, or from their own off-farm business experience. With nonfarm businesses, incorporation is much more common. There were also other less commonly used sources of acquaintance with incorporation, such as farm publications and college agricultural personnel (Table 38).

Table 38. How Oregon farmers and ranchers became acquainted with the idea of incorporation.

Source of acquaintance	Percent of corporations whose officers received information from each source <u>/a</u>
Lawyer	46
Off-farm business experience	30
Accountant	26
Farm publications	15
Banker or farm loan representative	5
Other incorporated farmers or ranchers	4
Extension or agricultural college personnel	4
Insurance agent	4
Other miscellaneous sources	11

/a Total does not equal 100 percent since some became acquainted through more than one source.

The decision to incorporate was important, and about half of the officers interviewed had taken several months of inquiry and investigation to finalize their decision. Another large portion had taken a year or more to make their decision. Five or six percent took only a few weeks, and about the same number indicated it took just a matter of days. By-and-large, the decision process took a matter of months or years.

Pre-incorporation Information

Prospective incorporators sought many kinds of information. Most prominent were the tax aspects of incorporation. Other types of information sought, such as limited liability and costs and the percentage of corporations whose incorporators sought such information, is summarized in Table 39. They relied heavily upon their attorney and accountant for this information, although more heavily on their attorney. They occasionally relied upon farm publication and agricultural college personnel for information.

Table 39. Information sought by Oregon farmers and ranchers before incorporating.

Kind of information sought	Percent of corporations whose officers received each kind of information ^{/a}
Tax aspects of incorporation	51
Limited liability	40
Property transfers and estate planning	38
Costs of incorporating	29
Legal and technical requirements	29
Finance and credit aspects	25
Operational procedures	23
Records and reports	22
Social Security aspects	14
Fringe benefits	11
Retirement plans and benefits	9

^{/a} Total does not equal 100 percent since some sought more than one kind of information.

Why Farmers Incorporated

The corporate officers interviewed were asked to give three reasons in order of importance as to why their farm-ranch business had been incorporated. The most prominent reason given first was to save income taxes. Including those corporations whose officers gave this as a second and third reason, a total of 41 percent gave saving income taxes as a reason for incorporation. Saving death taxes by distributing the estate while living was another prominent reason given by 23 percent of the firms officers. Incorporation itself

will save no inheritance or estate taxes, but it can simplify the procedural means of making inter vivos distribution. Some officers gave both answers, but officers representing 54 per-cent of all firms gave at least one tax saving reason for incorporating.

Other important reasons given for incorporation were to obtain limited liability and to provide for continuous operation and management of the firm. Other reasons and their relative importance are given in Table 40.

Table 40. Why Oregon farm-ranches were incorporated.

	Percent of corporation whose officers gave each reason			
	1st reason	2nd reason	3rd reason	cumulative
Save income taxes	27	10	4	41
Limited liability	18	13	13	44
Provide for continuous operation and management of the farm firm	15	14	6	35
Distribute estate to save death taxes	12	9	2	23
Method of bringing together several owners	5	8	6	19
A device to separate businesses	4			4
Simplify division of ownership	3	12	1	16
A device to increase equity capital	2	3		5
Strengthen credit position	2	1		3
Facilitate making gifts	2		1	3
Facilitate retirement	1	1		2
Purchased incorporated business	1		1	2
Method of allowing others to par- ticipate in the business		1	9	10
Operate in more businesslike manner		1	4	5
Means of distributing farm income		1		1
Other miscellaneous reasons	10	6	4	20

In addition to those listed, there were other miscellaneous and specific reasons for incorporating. In one peculiar case, two brothers incorporated primarily for the purpose of combining their sugar beet acreage allotments for improved management. One brother had a land acreage history and the other a personal acreage history. Neither could raise beets on the other's property without suffering serious cuts in allotment. For soil fertility they needed to rotate beets on their limited acreage. This they could not do with their given acreages separately, but by combining acreages they could manage their growing program as wished. Therefore, the allotments were combined into the corporation with only slight overall loss of allotment. This allowed them to grow beets where they pleased.

In one other peculiar case two corporations were formed from a single ownership unit in order to obtain for each corporation a Bureau of Reclamation water right under the 160-acre limitation per individual. Each corporation was technically considered a separate "individual."

Other miscellaneous reasons for incorporating were as follows: to simplify subdivision and sale of residential lots; to simplify the proposed sale of the farm business;

to better handle the estate of a deceased person; to simplify estate planning; to increase personal feeling of security for parents distributing property to their children.

Influence of "Subchapter S"

There was a considerable increase in the number of farms incorporating beginning in 1958 following a Federal tax law revision known as "Sub-chapter S." This revision allowed a small, closely held corporation to be taxed as a partnership and eliminated some of the tax disadvantages for small farm-ranch corporations. Publications and written articles increased telling about incorporation and this new tax device. It was commonly implied that this tax law change was directly responsible for the increasing number of incorporated farms.

About 53 percent of the corporations in the sample were formed prior to the 1958 tax law changes. Officers of the corporations organized since then were asked if this tax law change had influenced their decision to incorporate. Only about 12 percent indicated that they would not have incorporated except for "Subchapter S". Twenty-two percent said it was a major consideration (Table 41).

Therefore, incorporators of about one-third of recent farm-ranch incorporations said they were directly influenced by "Subchapter S."

Table 41. Influence of "Subchapter S" on Oregon farm-ranch incorporations since 1958 based on interview response.

Response	Percent
Not considered	31
Major consideration	22
No significance	19
Minor consideration	13
Otherwise would not have incorporated	12
No intent to use	3

Incorporation Procedure

Professional Assistance

Most incorporators used their local, general attorney to incorporate. A few sought an out-of-town attorney, usually from Portland, but only about 11 percent engaged an attorney whom they considered a specialist in corporations (Table 42). One corporation interviewed had used a special tax attorney, and two others had been assisted by an out-of-state accountant specializing in tax matters.

Table 42. Use of attorney to incorporate Oregon farm-ranch corporations.

Legal assistance	Percent
Local general attorney	78
Attorney specializing in corporations	11
Out-of-town attorney	8
Special tax attorney	1
No attorney	1

Just over half of the incorporators were assisted by an accountant. Usually this was the accountant used regularly in the business. Only about 5 percent used an accountant they considered a specialist in corporate matters (Table 43).

Table 43. Use of accountant to incorporate Oregon farm-ranch corporations.

Accounting assistance	Percent of sample
Regular accountant used with former business	46
Accountant specializing in corporate matters	5
Special tax accountant	1
Didn't use accountant	49

About one-half said their attorney and accountant had incorporated other farms and ranches. Less than 10 percent said their attorney and accountant had not incorporated other farm firms, and the remainder said they didn't know.

Attorneys in about 20 percent of the cases acted as incorporators, and in about 4 percent they were even stockholders, though only about 1 percent were still stockholders at the time of the interview. The attorneys had been almost entirely responsible for drafting the article of incorporation, filing all documents, and they had usually paid the incorporation fees and most other costs, which they included in their bill for incorporating.

The incorporating lawyer usually helped with the first stockholder meeting. Sometimes he was assisted by the accountant. In a few cases the accountant assisted in the absence of an attorney. Officers of several corporations of long existence could give no answer, but it is doubtful if any corporation held their first stockholder meeting without professional outside assistance.

The minutes of the first stockholder meeting were nearly always drafted by the incorporating attorney; a few were done by the accountant when the attorney was not present.

The incorporating lawyer nearly always made out the stock certificates and set up the stock transfer register.

Registered Agent

Oregon law requires that each corporation shall continuously maintain a registered office and a registered agent. The address of the registered agent must be identical with the registered office but need not be, and often is not, the same as the business address (118, paragraph 57,065).

The registered agent for about one-half of the firms was the corporate president. A nonofficer was the registered agent for an estimated 19 percent of the corporations. The lawyer who incorporated the business was the most prominently mentioned of those who were nonofficers (Table 44). The reasons given for not using an officer as registered agent were as follows: as a precautionary measure, 42 percent; at the lawyer's suggestion, 27 percent; officers lived out of state, 17 percent; handled by corporate business manager, 7 percent.

Table 44. Persons serving as registered agents for Oregon farm-ranch corporations.

Registered agent	Percent
Corporate president	51
Corporate secretary-treasurer	26
Lawyer who incorporated the business	13
Corporate vice-president	4
Other Lawyer	4
Accountant	1
Other	1

The registered office and address of the registered agent coincided with the corporate business address for 82 percent of the firms. Another 5 percent of the registered agents were in the same city or town but at an address different than the business. Another 5 percent were in a near-by town or city, and about 8 percent were in a town or city distant from the corporate business address.

The actual farm-ranch property was located at the business address for 76 percent of the corporations, and another 17 percent listed a business address in a near-by town or city. For about 7 percent of the corporations, the business address was in a town or city distant from the farm-ranch property. Therefore, except for 7 percent, farm-ranch firms can generally be located by the registered office or business firm address.

Previous Form of Ownership

Only about 21 percent of the corporations in existence in 1960 were new ventures. Essentially 31 percent had come from farm partnerships within the family, and another 22 percent came from farming proprietorships. Other previous business organizations were as presented in Table 45.

Table 45. Oregon farm-ranch corporations business existence prior to incorporation.

Previous form of business	Percent of total
Family farming partnerships	31
Farming proprietorships	22
Entirely new ventures	21
Nonfamily farming partnerships	7
Nonfarming partnerships	5
Corporate reorganizations	4
Farm-nonfarm partnerships	3
Purchased stock of existing corporation	2
Nonfarm proprietorship	2
Farm-nonfarm proprietorship	1
Estate	1
Organized out of bankruptcy	1

About 5 percent had been inactive businesses immediately prior to incorporation, and about 5 percent had been unsuccessful businesses. All others had been active and successful.

Aquisition of Assets

The corporation's physical noncash assets were generally acquired by exchange of common stock, since prior business owners exchanged their individual real and personal productive property for corporation common stock. This was the case (at least to some degree) for 84 percent of the corporations. Only about 30 percent of the corporations had stockholders which purchased stock. There were only minor exchanges for preferred stock or notes.

Assets were acquired from the previous business owners except for three instances in the sample. Two were acquired from creditors. Assets in one case were purchased from an estate (Table 50).

In exchanging stock for assets, the value was determined by agreement among the stockholders in 59 percent of the cases. Thirty-six percent used the tax basis just prior to incorporation, and about 10 percent brought in an independent appraiser.

Table 46. How farm-ranch corporate assets were acquired.

	Percent of corporations using each ^{/a}
Exchange of common stock	84
Purchased	30
Exchange of preferred stock	2
Exchange of notes or bonds	4

^{/a} Total exceeds 100 percent since some corporations acquired assets by more than one means.

Costs of Incorporating

Data are not complete for costs of incorporating. Incorporations have occurred over many years, and many of the older firms could give no answers about costs. Many of the more recent incorporators were not certain of a breakdown of costs. But an over-all average of those giving

information was about \$550. The median at \$343 was considerably less than the estimated average. Since the median was considerably less than the average, there were several with costs considerably more than the average. In fact, the range was from less than \$100 to more than \$2,000. Nearly 60 percent of the estimated total costs were attorney's fees (Table 47).

Table 47. Estimated cost of incorporating farm-ranch corporations in Oregon.

Origin of cost	Dollars	Percent of total
Attorney fee	\$ 325	59
Corporate filing fee	32	6
First annual license fee <u>/1</u>	16	3
Other costs <u>/2</u>	177	32
Total	\$ 550	100

/1 Prior to June 30, 1959, fee was a pro rata share of the annual fee for the fiscal year ending June 30. After June 30, 1959, a full year's fee was payable upon incorporation and due thereafter each anniversary date of incorporation.

/2 Includes special accountant fees; stamp tax; cost of seal, certificate, minute book; and other incidentals.

Filing and annual license fee. The fee for filing the articles of incorporation and the annual license fee are identical in amount and are established by law and based upon the value of authorized capital stock. This is the value of authorized stock to be issued and stated in the articles of incorporation.

It does not necessarily mean the face value of actual shares outstanding. For fee purposes, par value stock is valued at par value. No-par stock is deemed equivalent to shares having a par value of \$10. The filing fee and annual license fee for Oregon are shown in Table 48 for each range of authorized share value. The number of corporations which paid an annual license fee in each amount is shown in Table 48.

A comparison of the authorized capital stock for fee purpose and the estimated real value of corporate assets shows that corporations are very much undercapitalized compared to actual value. One reason for this is to keep the annual license fee to a minimum.

Table 48. Oregon fee for filing articles of incorporation and annual license fee, with percent of farm-ranch corporations to which each fee applies.

If total value of authorized shares exceeds	But does not exceed	Fee	Percentage of corporations to which fee applied
\$ 0	\$ 5,000	10	11
5,000	10,000	15	15
10,000	25,000	20	26
25,000	50,000	30	26
50,000	100,000	50	9
100,000	250,000	75	10
250,000	500,000	100	4
500,000	1, 000,000	125	
1, 000,000	--	200	

Stamp tax. Other costs of incorporating include a federal stamp tax on the original issue and each subsequent transfer of stock. The rate for original issue is 10 cents per \$100 (or major fractions thereof) of actual value of certificate (or of shares where no certificate is issued).

The rate on share transferral is 4 cents on each \$100 (or major fractions thereof) of actual value of shares. In no case will the tax be more than 8 cents per share or less than 4 cents on sale or transfer.

The original issue of certificate of indebtedness (bonds, notes, etc,) is likewise subject to stamp tax at a rate of 11 cents per \$100 or a fraction thereof of face value of each certificate. The transfer tax on these certificates is 5 cents per \$100 or a fraction thereof. Cash consideration in transfer of real property is subject to this tax at the rate of 55 cents for each \$500 or fractional part thereof.

No specific data were obtained on the stamp tax. Often all charges and fees were paid by the attorney and included in his bill.

CHAPTER VII

OPERATION AND MANAGEMENT

Technical Operational ProceduresStockholders-Directors-Officers

Stockholder-director-officer relationships were very closely integrated in Oregon farm-ranch corporations. Eighty percent of all stockholders were directors, and 70 percent of all stockholders were officers. In addition about 80 percent of the stockholders within the corporation were related by blood or marriage (see chapter V). These integrated relationships make the definition and distinction of stockholder-director-officer extremely difficult to make.

Corporate responsibility lies within three distinct groups: stockholders, directors, and officers. With public or widely held corporations, each group has a very definite responsibility and function. Stockholders as such do not participate directly in ordinary corporate management. Stockholders' responsibility is primarily to elect directors. Thus, they indirectly control the corporation by electing directors who will carry out the desired policies of the stockholders.

Directors, entrusted with the interests of the stockholders, establish a general framework of management policy. Directors are responsible for the selection of officers who will manage the business within the limits of the established policies. Officers are employees of the corporation and responsible to the directors.

Stockholders as such normally perform no acts in the name of the corporation. Directors and officers do, and their authorized acts are binding upon the corporation. Directors and officers serve in a fiduciary capacity. Ordinarily they are not personally liable for authorized acts done in the name of the corporation when they have exercised reasonable care, although they are responsible for their own torts.

Close Corporation Problems

There is some feeling that corporate organizational procedures have been developed, and laws have been written primarily for publicly held corporations, not close corporations:

"Publicly-held and closely-held corporations, despite striking differences, are governed by a single statute in every jurisdiction. As a result, laws designated to meet the needs of large publicly-held corporations frequently have produced harsh and unrealistic results when applied to problems which are peculiar to, or accentuated in, the close corporation." (17, p. 345).

"New York seems to be one of the very few states which even recognizes in their law the difference between corporations where the stock is owned by the public with no decisive role in management and a close corporation with relatively few shareholders who also manage the corporation, a difference which businessmen themselves have long recognized. New York's statutes provide that a corporation may require up to a unanimous vote for the election of officers instead of a plurality vote ordinarily required, thus giving each 'partner' in a close corporation an absolute power of veto. And there are more objections obvious in the present statutes. The paper work connected with incorporation and corporate operations is more than substantial for businesses with a small staff or none at all." (59, p. 171).

Unanimous Vote

The advantages described as resulting from unanimous voting by directors presupposes that the stockholder "partners" of the close corporation are all directors. How does a minor stockholder become a director except by the consent of other stockholders? Unanimous voting as described in some cases may also help the major stockholder without bringing in outside "straw men" or "dummies". For example, in the farm-ranch corporation in Oregon, where a minimum of three directors are required, major and minor stockholders are usually directors. Each director had equal vote, so a stockholder with controlling interest of 51 percent of the stock has only one of three director votes. With unanimous voting he at least would not be overruled by a 2 to 1 vote. Unanimous voting could bring deadlocks

unless there were provisions for arbitration. Then the protection of unanimous voting might be made void.

Often a majority stockholder feels a need and right to have control of the corporation. For example, a father in making gifts of stock to his children may wish to maintain control while he lives or until he retires. With the ordinary corporate procedure being followed, he could lose this control unless he brings in "outsiders." With unanimous voting, he would be generally protected but could lose in a deadlock. Arbitration might result in the same situation as would have existed with plurality voting.

This author hypothesizes an alternative plan, although it gives no protection to minor stockholders. Dispense with the function and intermediary responsibility of the director and allow stockholders to assume these functions with voting power commensurate with stock ownership, since stockholders and directors are generally the same person anyway. Thus 51 percent of stock ownership would represent 51 percent of voting power, not just in the election of directors but in assuming the responsibilities of directors.

Voting Trust

No Oregon domestic farm-ranch corporation used a voting trust. Trusts can be formed whereby some stockholders give to others in trust their voting rights while still maintaining complete ownership of the stock. This trust may be helpful,

for example, in estate planning where a father wishes to maintain control of the corporation, but by holding 51 percent of the stock his estate is still larger than desirable for estate tax purposes. With a voting trust he could give to his children an excess of 49 percent of the stock, and they could give him back in trust 51 percent of the voting rights. This apparently disqualifies a corporation, however, from electing to be taxed as a partnership under "Subchapter S". Also this in itself still does not assure him control of the board of directors where policy decisions are made.

Cumulative Voting

No domestic farm-ranch corporation in Oregon used cumulative voting, and only one had such provision in its articles of incorporation. In fact, directors were not elected by formal vote at all in most cases, but they were directors by virtue of common consent or agreement normally being perpetuated from year to year.

Representation of a minority group on the board of directors can be assured by cumulative voting. This allows minority stockholders to pool their votes and be assured of some representation on the board. This seems impractical for the corporations studied. Oregon

farm-ranch corporations averaged only 3.5 stockholders. Even then sometimes nonstockholders were required in order to have a total of three directors. In Oregon cumulative voting for directors is allowed if such provisions are included in the articles of incorporation.

Staggered terms for directors, where not all are elected at one time, were used in only about 5 percent of the corporations. No corporation paid their directors a fee.

Meetings

Corporate meetings were generally informal when held. Many affirmative answers given by corporate officers relative to the annual meeting seemed to be rather "tongue in cheek" answers. Members of an immediate family who were stockholders, directors and officers, often felt little need for formal meetings when their day-to-day associations met their needs. Nevertheless, the answers as given are as follows in Table 49 and Table 50. Written minutes of meetings were similar to the pattern for meetings (Table 51).

Table 49. Description of Oregon farm-ranch corporation meetings.

Best description	Percent of corporations whose officers gave each answer		
	M E E T I N G S		
	Stockholder	Director	Officer
Set up ahead but informal	50	14	53
Informal association	38	52	3
Pre-planned and formal	5	0	6
None held yet <u>/1</u>	3	3	3

/1 Other "none" answers usually indicated no meetings were held.

Table 50. Frequency of Oregon farm-ranch corporation meetings.

Frequency	Percent of corporations to which answer applies		
	M E E T I N G S		
	Stockholder	Director	Officer
Annually	61	13	4
Less than each year	9	-	-
Semiannually	4	5	4
Quarterly	5	11	11
Monthly	4	8	10
Weekly	-	1	4
Day-to-day	2	15	19
None officially held yet	2	7	5
Never	6	29	31

Table 51. Written minutes of meetings.

Frequency	Percent of corporations to which answer applies		
	M E E T I N G S		
	Stockholder	Director	Officer
Always	71	24	9
Usually	16	-	-
Seldom	5	4	4
No meeting held yet	2	2	2
Never	-	20	30

An annual meeting of stockholders as provided in the bylaws is required of each corporation. However, "Failure to hold the annual meeting at the designated time shall not work a forfeiture or dissolution upon the corporation." (118, paragraph 57.145). One of the supposed purposes of these meetings is to elect directors.

Many meetings apparently were "held" and "minutes" recorded simply to fulfill the requirement for which there is no apparent penalty for not fulfilling.

Compliance With Requirements

The articles of incorporation and bylaws were actually used and referred to by officers of only about 42 percent of the corporations. In fact, 40 percent said the articles and bylaws were kept at the lawyer's office and thus were not

readily available to them. Only about 42 percent said they were kept at the corporation office or in the possession of an officer. Therefore, questions relative to articles or bylaws were often not very authoritative. For example, statute requires that the bylaws state a time for annual meetings and that the place shall be the registered office unless stated otherwise. (118, paragraph 57.145). Yet officers of 19 percent of the corporations said their bylaws didn't specify a particular time for meetings, and 30 percent said no specific place was required. About 16 percent said they didn't know what their bylaws stated regarding meetings. It was not known whether bylaws were lacking in such details or whether officers were simply not aware of such provisions. Only about one-half of those who were aware of these particular requirements for meetings indicated meetings were actually held accordingly. Statute requires written notice of stockholder meetings, but only 10 percent indicated such notices were sent.

These references to meetings, elections, and other provisions of internal operational procedure point out that (1) officers were not fully aware of the law, their obligations and the purposes and objectives of certain provisions;

(2) They appear to have ignored many provisions of which they were aware.

To many officers, numerous requirements apparently served no purpose for their closely-held farm-ranch corporations. They were not vital to business success or to the decision-making process. They were nothing more than nuisance requirements to which there seemed to be no apparent penalty for noncompliance.

These findings present the questions. (1) Are these corporate laws written primarily for public corporations and not for closely-held corporations? (2) Is there a need for revision or simplification of many of these substantive provisions of the law when applied to closely-held corporations?

Records and Reports

The corporation president or secretary-treasurer usually received the correspondence directed to the corporation. Another officer was usually responsible for the books and accounts. About 62 percent kept formal, double entry financial accounts. The remainder kept informal checkbook accounts. Only about 25 percent of the firms undertook to do any cost accounting, while another 30 percent attempted

to do some rough enterprise accounting. Generally, records provided only total farm income and expense, although 16 to 18 percent did try to do some breakdown analysis such as costs and returns per acre or income per dollar of expense, etc.

Fifty-eight percent of the corporations used an accounting period to coincide with the calendar year. March and April were the most popular months during which a fiscal year ended. However, there was a fiscal year ending for some corporation during every month in the year. There were several reasons given for using a fiscal year, but usually the normal production and sales cycle was over, and inventories were at their lowest value. Reasons for fiscal year endings were usually consistent with tax planning, but a few indicated their fiscal year ended when they had slack time for book work.

About one-third of the corporations had officers who indicated record keeping had changed significantly since incorporation. Most of these indicated it was a matter of more detailed and precise records. One firm had changed to cash accounting upon incorporation, and one had hired an accountant when previously they had done their own accounting.

Professional Services Since Incorporating

Only about 1 in 5 farm-ranch corporations had not used an attorney since incorporating. About the same number did not regularly use an outside accountant, although several firms with business activities beyond production, such as fruit packing, nurseries, poultry and dairy processors, had qualified business employees who handled the accounting without outside assistance. Practically no firms were without professional services regarding their taxes.

As a result of incorporation, 18 percent of the firm's officers indicated they had increased their use of attorneys, and 23 percent indicated an increased use of accountants (Table 52). The various purposes for which attorneys and accountants were used can be seen in Table 53. Their services were heavily used to keep corporate minutes, to file the annual reports, and to handle almost completely the tax matters for the corporation.

Table 52. Use of attorney and accountant by Oregon farm-ranch corporations since incorporating.

	Attorney	Use of Accountant
	Percent of corporations to which each applied	
Not changed	57	46
Increased some	18	20
Increased considerably	-	3
Decreased	1	1
Don't know or no answer	22	28

Table 53. Purposes for which professional assistance was used by Oregon farm-ranch corporations.

	Attorney	Accountant
Purpose of service	Percent of corporations to which each applied	
Consulted on leases	37	1
Keeps corporate minutes	35	10
Consulted on contracts	31	-
Handles stock transfers	24	3
Files corporate annual report	20	13
Used for liability problems	14	-
Prepares all tax forms	12	78
Consulted on special tax problems only	8	-
For all bookkeeping, accounting, reports	7	33
Consulted occasionally on accounting	-	2
Other	1	-

Management

Eighty-four percent of the farm-ranch corporations depended upon corporate officers, either a single officer or a group of officers, for the firms operational management. Stockholders supplied all the management for nearly 80 percent of the firms. They supplied no management for 5 percent. For the other 15 percent, stockholders supplied part of the management, although 10 percent had hired managers, part of whom were sometimes assisted by stockholders.

Relative to the management criteria of the family farm as presented in Chapter V, "The farm operator makes all or most of the managerial decisions", (93, p. 7), most farm corporations in Oregon would qualify as family farms on that basis .

About one-half of those who operated by group management had divided management responsibility, and each officer had specialized in various aspects of management. Often, for example, one officer would specialize with livestock, while another officer concentrated on the crop production. A particular officer was usually responsible for the business management part of the farm corporation.

Only about 17 percent said that management decisions were made differently since incorporation. The general consensus of reasons given for the difference was that more people were involved, and managers were responsible to more than themselves for the decisions made. A little more group-type management seems to have resulted from incorporation. However, one corporate officer stressed the fact that, as he put it, "each ship can have only one captain". Another corporate officer indicated that upon incorporation "there became more executives than workers."

Table 54. Operational management of Oregon's farm-ranch corporations.

Operational management performed by	Percentage of corporations to which each applies
Group of corporate officers	46
Single corporate officer	39
Single hired manager	10
Other <u>/1</u>	5

/1 Includes management by nonpaid non-officer stockholders and lessor firms where operational management is not applicable.

Some corporate officers served without a salary. About 77 percent received a cash salary, and a few received a

cash bonus in addition to a cash salary; but salary of stock, stock option or stock bonuses had not been used.

Only about one-third of the corporations had officers who said they were solely dependent upon the corporation for income. About two-thirds normally received some income from sources other than the particular corporation in the study.

Operational Changes

Incorporation was not accompanied by significant changes in amount of farm real property operated relative to the previous business. For 70 percent of the firms the farm land operated remained the same upon incorporation, although there were more decreases in the amount of real property owned at the time of incorporation than increases. Some individuals held back title to real property from the corporation, although they often leased it back to the corporation.

There had been some consolidation of farms by the incorporation process, although immediately upon incorporation there were no significant change. Through the years prior to incorporation there had been consolidations. About 12 percent said the farm previously consisted of two farms; about 13 percent said three farms; and 8 percent, four or more farms.

They were almost always operated as a single unit under the corporation. Corporate farms were not considered different than others, and they generally were considered by their officers as typical for the area. The corporate farm generally was not a peculiar type of operation, but one typical to its environment.

Officers of about 40 percent of the corporations said that since incorporation there had been no significant operational changes such as changes of enterprises or magnitude of operations. Most others indicated changes by way of expansion in operations, usually through intensification. Of the 60 percent which had made changes, about 36 percent attributed the changes to incorporation. Generally they indicated that expansion was either made possible or facilitated by incorporation. Relative to funds for expansion, no attempt was made to determine whether these additional funds were the result of additional credit, equity capital, or internal savings; however, farm firms had increased their debts slightly since incorporation as discussed in Chapter IV.

There were no significant operational changes anticipated for 37 percent of the corporations. Most others had expansion plans such as increasing herd numbers or operating more acreage.

Domestic corporations largely confined their business activities to Oregon. The extent of business activity outside the state is shown in Table 55.

Table 55. Oregon farm-ranch business activity outside the state. ^{/1}

Activity	Percent of corporations to which each answer applies
None	69
Frequent product sales	27
Frequent purchase of supplies	14
Owns land	7
Operates farms or ranches	6
Other	2

^{/1} Much of this activity is by corporations which operate near a state line.

Vertical Integration

Excluding nurseries which normally perform a wholesale function, only about 10 percent of the farm-ranch corporations were vertically integrated to perform a function beyond production. The following examples indicate the nature of the vertical integration found. One firm produced grain in connection with operating a feed and seed business; one fruit corporation retailed its production through mail order gift

boxes; another stored and packed fruit; two poultry firms hatched eggs and sold chicks or turks, and one retailed turkeys; two dairy farms processed and retailed milk; and another retailed raw milk.

Vertical integration does not seem to have extended far within individual corporations. In fact, considering the corporation as a separate entity, vertical integration has probably been reduced. Often, for purposes of limiting liability, a separate corporation is created to handle the various phases of the integrated process. For example, among fruit corporations there was often one corporation which produced the fruit while another corporation packed and marketed the fruit. Stockholders of the two corporations often were partially or wholly identical.

The corporation is often the means of delimiting or separating the business functions of an operation rather than, as might be expected for the sake of simplicity, to combine or integrate the business operations. The separate taxable entity of the corporation likewise tends to encourage splitting business activities to prevent the compounding of tax rates upon a single tax paying entity.

Labor

Stockholders supplied some labor for 78 percent of the farm-ranch corporations in Oregon. The amount of labor supplied represented about 29 percent of all corporate farm-ranch labor utilized. About 30 percent of these firms had nonfarm activities for which stockholder labor was usually expended. An adjustment has been made to total labor data to give a more accurate estimate of labor expended only for farm operations. There was considerable variation in man-years required for various types of farms. Corporate dairy farms on an average required the least labor -- 2.4 man-years per farm. Vegetable producers required the most man-years of labor per farm -- 17 man-years. The over-all weighted average was 8.5 man-years labor per farm (Table 56).

Labor and the Family Farm

One of the criterion for defining a family farm was the amount of labor supplied by the family. The definition generally accepted and given in Chapter V reads, "The farmer and members of his family supply most of the labor needed" (93, p. 7). "Most" is a rather indefinite term as is the less restrictive phrase "substantial part" used in the more broad, dissenting opinion definition of the family farm. (93, p. 7).

Table 56. Estimated amount and source of labor by type of farm-ranch corporation in Oregon,
1960 1/

Type of farm	Full time man-years		Part time man-years		Total man-years		Total man- years	Adjusted total man-years	Unadjusted percent of labor by
	non stock- holder	stock- holder	non stock- holder	stock- holder	non stock- holder	stock- holder	all labor	farm labor <u>2/</u>	stock- holders
(Average per corporation)									
Grain	3.6	1.7	1.3	1.0	4.9	2.7	7.6	4.4	36
Livestock	1.8	1.6	1.1	.2	2.9	1.8	4.7	3.4	38
Vegetable	6.4	1.8	9.5	.5	15.9	2.3	22.9	17.0	10
Fruit	4.5	.6	8.3	1.1	12.8	1.7	14.5	9.8	12
Nursery	11.3	2.8	5.5	.5	16.8	3.3	20.1	11.7	16
Poultry	7.0	1.0	3.8	.5	10.8	1.5	12.3	5.5	12
Dairy <u>3/</u>	1.3	1.8	.3	.3	1.6	2.1	3.7	2.4	57
Weighted average all types	5.0	1.9	5.0	.7	10.5	2.4	14.1	8.5	29

1/ Excludes management.

2/ Some corporation had nonfarm business activity. The estimated labor for such activity was removed.

3/ Excludes nonfarm labor of 1 large dairy.

Labor expended by the family was not directly ascertained in this study, but some indirect interpolations can be made from the data obtained.

Eighty-one percent of all stockholders were related by blood or marriage. Therefore any reference to stockholders is largely a reference to related members of a family.

Without defining "most" or "substantial part", over one-half the labor was supplied by stockholders in 21 percent of the corporations. Stockholders supplied 20 percent of the labor in 44 percent of the corporations.

Different from the amount of labor supplied by stockholders for all corporate farms, those which were called "family farms" had a higher degree of labor supplied by stockholders. In considering just the 61 percent of the corporate farms which corporate officers considered family farms, 26 percent of these farms had one-half or more of the labor supplied by stockholders. The number of farms increases to 52 percent when 20 percent or more of the labor is done by stockholders. Eighty-seven percent of the "corporate family farms" had stockholders who supplied some labor. Only 13 percent of these firms had stockholders who supplied no labor. Management in almost all cases was supplied by stockholders.

About 16 percent of all corporate farms in Oregon were vegetable farms, and about 11 percent were fruit farms. Both of these types of farms normally require considerable amounts of labor, making it practically impossible for a family with an economic operation to supply "most" of the labor. Whereas with livestock farms and ranches, 78 percent had stockholders who supplied 20 percent or more of the labor.

Whether Oregon corporate farms are "family farms" depends upon how stringent a definition is placed upon "family labor." The requirement that the farm operator makes the managerial decisions is apparently fulfilled in most corporations claiming to be family farms.

Insurance

All corporations, except one, from which information was obtained had some form of liability insurance. Nearly all had some general blanket-type of liability insurance and vehicle liability insurance. Officers of about one-third of the firms indicated their liability insurance had increased since incorporating, although only about one-half of them felt that incorporation had influenced the increase.

Workmens compensation. Agriculture is classed as a nonhazardous occupation in Oregon, and farm-ranch corporations are not compelled to come under workmen's compensation laws. Farmers may elect to be covered by making the necessary payments, which are a percentage of payroll according to occupational classification. Benefits for injury, disability or death are paid according to established schedules.

Only about one-third of Oregon's farm-ranch corporations have elected to come under state industrial accident or workmen's compensation provisions. About one-third carried employer's liability, which was indicated by several officers to be less expensive for them than workmen's compensation. Although information was not complete, others apparently depended upon their general liability policy for employer liability protection. Some officers were covered, as well as other employees, under workmen's compensation.

Crop insurance. Crop insurance was in some degree used by about one-half of the corporations; the most prominent types of crop insurance were fire and hail insurance. Most all corporations carried fire insurance on their farm buildings, but nearly one-third did not insure their hay and other inventories or supplies.

Life insurance. Farm-ranch corporations had not used life insurance extensively. To partially serve business purposes some life insurance was held by individual stockholders, but about 76 percent of the corporations themselves owned no life insurance on their officers. Eighteen to 20 percent of the corporations owned some key-man insurance. Life insurance, although not extensively used by farm-ranch corporations, has been advocated as a useful tool in overcoming some of the problems connected with business disruptions at the death of an officer. Even with a corporation and with its organizational provisions for continued business activity, the loss of a "key man" can sometimes be serious. Often credit is obtained on the good name and recognition of an individual's prominence in the corporation. Life insurance is also sometimes purchased in connection with stock purchase agreements or to make funds available to pay estate or inheritance taxes. About 17 percent of the officers interviewed said they had some life insurance primarily to pay death taxes.

Only about 7 percent of the farm-ranch corporations had developed group life insurance policies for officers and other employees. These were generally firms having other business activities in addition to farming and having numerous

nonfarm employees. Group life insurance policies are not often sold to small firms. Only approved group life insurance can be purchased by a corporation with the premiums being treated as a business expense but the benefit of the coverage not included as income to the employee.

Insurance can be a useful tool in shifting some of the operating risks of a business firm. The corporation offers certain flexibility for uses of insurance that a noncorporate farm firm doesn't ordinarily have. Respondents seemed to lack a very complete understanding of what the many varieties of insurance plans can do. There are so many varieties of insurance plans sold that corporate officers appeared to have some apprehension about becoming involved with insurance salesmen. When asked what additional information incorporators would like about incorporation, one respondent replied, "I'd like to have someone give us the low-down on insurance for farmers."

Taxes

Corporate officers relied almost entirely upon an accountant or attorney to handle their tax matters. Seventy-eight percent of the corporations had an accountant prepare all tax forms. Another 12 percent had an attorney completely

handle their tax matters. An additional 8 percent had corporate officers who had consulted an attorney for special tax problems. The extent to which some corporations relied upon "outsiders" for their tax matters was indicated by the fact that corporate officers of about 6 percent of the corporations did not even know if their corporation filed its federal income tax return as a "regular" corporation or as a "subchapter S" corporation.

"Subchapter S" corporation. The tax option, "pseudo" or "subchapter S" corporation came into being with the Technical Amendments Act of 1958. Section 64 of this act is known as Subchapter S - Election of Certain Small Business Corporations as to taxable status (125). This law allows stockholders of "small business corporations" to be taxed as a partnership rather than as a "regular corporation." A "regular corporation" is a tax paying entity separate and distinct from its shareholders. The revised law allows corporations which so elect to distribute income to their shareholders without the corporation first paying a tax on income. It also allows them certain capital gains advantages not allowed a "regular corporation."

A "small business corporation" is defined (19, paragraph 1.1371) as a domestic corporation which is not a member of an affiliated group and which does not (1) have more than 10 shareholders; (2) have as a shareholder a person (other than an estate) who is not an individual; (3) have a nonresident alien as a shareholder; (4) have more than one class of stock; (5) receive more than 80 percent of the corporation income from outside the United States; (6) receive more than 20 percent of its gross receipts from rents, royalties, dividends, interest, annuities, or gains on sale or exchanges of stock or securities.

There is no limitation on "size" of the corporation other than number of stockholders. As the law is stated a voting trust would probably disqualify a corporation under rule (2) above.

All stockholders must consent to be taxed as a "subchapter S" corporation and then file an election consent with the Internal Revenue Service. Any new stockholder must consent to the election and then file notification with the Internal Revenue Service.

Seventy-three percent of the corporate officers interviewed said their firm filed its federal income tax as a regular corporation, and 21 percent said they filed as a "subchapter S" corporation. Reasons for not filing as a "subchapter S" corporation are listed in Table 57 along with percent of corporations to which each answer applied.

Table 57. Reasons given for Oregon farm-ranch corporations not filing federal income tax as a "subchapter S" corporation.

Reason given	Percent of corporations to which answer applies
Stockholders have a tax advantage by filing as a "regular corporation"	34
No tax difference to stockholders	21
Not familiar with the "subchapter S" corporation	15
Don't qualify for "subchapter S"	14
Attorney advised against	4
Failed to make proper election	4
Attorney neglected to inform incorporators	3
Accountant advised against	2
Dissenting stockholder	2
Other	1

Lessor corporations did not qualify to file a "subchapter S" return because rental income was more than 20 percent of total income. One firm could not qualify because it had

a stockholder who was a nonresident alien. Another corporation had two classes of stock, and one corporation was a wholly owned subsidiary.

Even with the "subchapter S" corporation, the distribution of income was largely a distribution by salary, although about one-third of the corporation had made some distributions according to number of shares held.

In spite of the availability and number of writings and discussions about the "subchapter S" corporation, relatively few farm-ranch corporations in Oregon have utilized it. Much of the increased farm-ranch incorporation has probably resulted from the added awareness of what the corporation is and what it can do. Much of this awareness has been brought to light as a result of "subchapter S".

Oregon law does not recognize the "subchapter S" corporation for Oregon excise tax purposes, and "regular corporation" tax procedure still applies for the state. This complicates tax procedures since tax planning for a "subchapter S" corporation can be quite different from tax planning for a "regular corporation." However, Oregon's corporation tax rate applying to agriculture is 6 percent, whereas, the federal income tax rate for corporations is

30 percent for the first \$25,000, then 52 percent on all income over \$25,000. Therefore, most tax planning is aimed at federal tax saving.

Nearly two-thirds of the corporations did not have capital gains income. Since they did not need the capital gains advantage of "subchapter S", this may have been one reason why so few corporations are using the "subchapter S" option.

Taxable income. Data on taxable income are not complete, but for those who reported for the years 1958, 1959, 1960, an overall average of 63 percent had taxable income while 28 percent had a net loss. Others had no gain or loss. Livestock and dairy farms apparently fared less well than other types of farms. Nurseries, for example, suffered no losses (Table 58). An average of 37 percent of the corporations had no taxable income in the years 1958, 1959, 1960, and an additional 11 percent had income of \$2,500 or less. Therefore, a significant group of these corporations paid little or no income tax. This verifies the reasons given in Table 57 as to why many corporations did not elect to be taxed as a partnership--there was no tax difference because

there was no tax payable. Some of the gross income to the business had been taken off in the form of salaries to officers, leaving little or no taxable income.

Table 58. Oregon farm-ranch corporations by type of farm which reported taxable income, 1958, 1959, 1960.

Type of farm	Percent reporting		
	Taxable income	No gain or loss	Net loss
Grain	75	--	25
Livestock	30	10	60
Vegetable	77	8	15
Fruit	92	--	8
Nursery	100	--	--
Poultry	64	14	22
Dairy	30	30	40
Lessor	70	30	--

Many corporate officers gave saving income taxes as a reason for incorporating, but not all corporations achieved that result. A comparison of taxes before incorporation and after is not possible for very old corporations or new corporations.

But for those officers with recent experience who answered a question relative to change, 44 percent said the tax was about the same compared to the previous unincorporated businesses; about 45 percent answered less tax was paid since incorporating; about 11 percent answered more taxes were paid since incorporating.

For those corporations whose officers gave income tax saving as their first reason for incorporating, 75 percent to which the question applied said they had reduced taxes.

One interviewed corporation officer said stockholders were considering dissolution after one year as a corporation because of the increased taxes. Increased tax was largely the result of noncorporate benefits for capital gains on breeding stock, since the taxpayers themselves were in a relatively low tax bracket. In this particular case a "subchapter S" corporation probably would have worked well. The corporate officer was not aware of "subchapter S" provisions, and his incorporating attorney had not brought it to the attention of the incorporators.

CHAPTER VIII

ESTATE PLANNING

Among the reasons given for incorporation, reasons dealing with estate planning in a broad sense were prominent. Some reasons were: to provide for continuous operation and management of the farm firm; to distribute the estate to save death taxes; to simplify division of ownership; to facilitate making gifts (Table 40).

According to answers given, 85 percent of the farm firms planned to continue operating beyond the death of the present major stockholders. Eight percent of the farm firms had no plans, and about 6 percent of the firms planned to discontinue, dissolve or liquidate at some particular time. Some estate planning had been done, although the officers of nearly a third of the corporations had not formulated any plans (Table 59).

Table 59. Estate planning done by farm-ranch corporate officers to minimize taxes at death.

Extent of planning	Percent of corporations to which answer applies
Planning is needed but none has been done	31
Estate is not of sufficient size for concern	30
Have wills to transfer at death	18
Formal estate plan has been developed for orderly and timely transfer of stock and other assets from estate	17
Planning is in progress	4

Securities Transfer

There has not been extensive transfer of stock from the original incorporators. Table 60 shows the proportion of the corporations within which stock had been transferred.

Table 60. Farm-ranch corporation stock transfer since incorporating.

Method of transfer	Percent of corporations to which answer applies
None	54
Not by specific plan	29
According to a pre-arranged plan	13
To new owner by sale	4

Table 61. Why Oregon farm-ranch corporation stock had been transferred,

Reason for transfer	Percent of corporations to which answer applies
Desire to make gifts of stock	22
To transfer ownership to eventual new owners	19
To reduce death taxes	15
Stockholder deceased	10
Sold: more preferred use of funds	10
Sold: because of personality differences with other stockholders	6
Sold: lacked adequate return on investment	5
To spread distribution of "subchapter S" earnings	2
To minimize income tax on certain individuals	2
Sold: because of desire for more liquid capital	2
Other miscellaneous	7

Eighteen percent of the corporations had had a deceased stockholder. A little over one-half of these estates had sold the stock to existing stockholders. About 22 percent of the estates had stock held by the heirs; 22 percent had stock which was sold to the corporation; and about 5 percent had stock which was sold to new stockholders.

For about two-thirds of the major stockholders, farm-ranch corporation stock composed the greater part of their estates. This means that corporate stock is an important

concern in estate planning. The anticipated reasons for stock transfer are the same as for actual transfers taken place, but the emphasis has shifted. Table 62 shows the anticipated reasons for transferring stock. The anticipation of reducing taxes at death by transferring stock was found to be considerably greater than the actual use made of stock transfers.

Table 62. Anticipated reasons for transferring farm-ranch corporate stock.

Reason	Percent of corporations to which reason applies/1
To reduce death taxes	33
Desire to make gifts of stock	31
Stockholders will de cease	26
To transfer ownership to eventual new owners	25
Sell: desire for more liquid capital	4
To spread distribution of "subchapter S" corporation earnings	2
To minimize income tax on some individual	2
Other	4

/1 Does not equal 100 percent since several answers may apply.

Stock Transfer Restrictions

Fifty-three percent of the stockholder groups had some form of stock transfer restrictions. Restrictions in the bylaws and buy-sell agreements were the most important

types of restrictions. Some had buy-sell agreements in addition to bylaw restrictions.

Thirty-five percent of the represented corporations had officers who said there would be no objections to replacing a deceased stockholder with one of his heirs as a new stockholder in the business. However, 85 percent indicated that transfer or sale of stock of a deceased stockholder to "outsiders" would be objectionable. Stock was closely held, and most stockholders wanted to keep it that way.

Buy-Sell Agreements

Almost one-third of the buy-sell agreements required that any sale of stock be offered first to the corporation. About one-third called for a first offer to existing shareholders on a pro rata basis. About 19 percent of the agreements called for a first offer to stockholders non pro rata. A few officers knew there was a stock transfer agreement in existence, but they didn't know what it contained. One agreement restricted sales to the stockholding sons living on the farm. Another agreement restricted sales to the immediate family.

Those stockholders who didn't have purchase plans had several reasons for not having them. Stockholders representing about 30 percent of the corporations in this group considered there was no need. About 22 percent of the respondents were unfamiliar with its purposes and objectives. About 12 percent had just never gotten around to it, while 9 percent were planning to develop such a plan. There were other miscellaneous reasons given such as: a verbal agreement exists; only one stockholder; bylaw restrictions are enough; stock will be transferred by will; uninsurable stockholder; too complicated.

The incorporating attorney was in all cases the drafter of the buy and sell agreement. In one case an insurance agent participated in an agreement where life insurance was used.

Use of life insurance. Only about 25 percent of those stockholder groups having a transfer agreement had used life insurance in the purchase plan. When arrangements exist for the corporation to purchase the stock of a deceased stockholder, it often owns the policies and funds this agreement with insurance. When other stockholders are to purchase the stock of a deceased stockholder, a "crisscross arrangement" is usually worked out where the stockholders own policies on the lives of each other. In both situations

the object is to make funds available to affectuate the purchase agreement. The corporation owned the policies for just over half of those that had insurance. The remainder of the policies were held by the stockholders on the lives of each other.

Selling price. Of the methods used to determine selling price in agreements, market value was the most common. However, in the absence of any sort of organized market, this may not be easy to determine. Book value was another prominent means of determining selling price, although book value can be a very inequitable method, particularly on depreciable property, for it can be significantly different than market value. Two agreements called for a sale price fixed by appraisal. One agreement had a stated dollar value in the purchase agreement; another had a formula based on book value plus earnings.

Trusts

The use of trusts among stockholders of Oregon farm-ranch corporations was found to be quite limited. Only two firms in the study had trusts for minor children. One older man, now deceased, had given stock to his grandchildren with a life estate to his daughters. Another had made gifts

in trust to his own minor children. There were two transfer arrangements where stock had been placed in escrow for later transfer. One stockholder buying into a corporation had his proportionate shares of stock placed in escrow by the selling stockholders. The purchaser's share of corporate earnings went into a fund to purchase his stock.

In another situation the gifts of stock to nonfarm heirs were placed in escrow where it was being purchased by farm heirs -- two sons who were operating the farm with their father. This gave the nonfarm heirs a sale for their stock and assured the farm heirs an opportunity to purchase the "whole farm." But the process would have to be slow since purchase funds must come out of farm earnings. The escrow agreement was apparently set up to transfer relatively large blocks of stock, and cash was tied up in escrow -- awaiting a sufficient amount for transfer to be made. This tied up funds, making them unavailable to both buyer and seller.

Tax Planning

One phase of estate planning is to reduce taxes on the transfer of property at time of death.

"There are two methods of taxing property that passes from one owner to another at death.

The federal government levies an estate tax. This is a graduated tax on total property of the deceased regardless of who receives the property. Oregon levies an estate tax and an inheritance tax. These are both graduated taxes. Estate tax is upon the total property in the estate of the deceased. Inheritance tax is an additional tax on the proportion of the the property received by each heir and depending on the relationship of the recipient to the deceased." (75, p. 13).

Only about 12 percent of the corporations had stockholders who had paid Oregon estate tax. About 10 percent had paid Oregon inheritance tax, and about 8 percent had paid United States estate tax.

Reducing transfer taxes at death is basically done by making gifts and thereby reducing the size of the estate. Gifts can be made whether inter vivos or testamentary, but only gifts to accepted charitable organizations will reduce the size of the taxable estate when made testamentary.

Gifts

To reduce an estate for tax purposes, gifts must be made while the giver is living, and the gifts must not be given in contemplation of death. Unless proven otherwise, a gift given within three years of death is considered as given in contemplation of death. Other restrictions apply also; the donor must relinquish any interest or control of

the gift made. A gift tax applies if gifts exceed certain exemptions. Only about 20 percent of farm-ranch stockholders in the study had made any gifts of stock. None had paid any gift tax.

In some instances it may be desirable to make gifts in excess of gift exemptions and pay gift taxes rather than estate taxes. Gift tax rates are about three-fourths the estate tax rates.

On the other hand, officers of one corporation indicated that the estate plan of the major stockholders called for no gifts to be made. The corporate property was in an urban fringe area where subdivisions for residential building was contemplated. This had increased the market values of their property. Realized gains on the sale of such property would be taxable as capital gains. Realized gain is dependent upon the property value basis in the hands of the sellers. In this case sellers would likely be the two sons of the major stockholders. The basis of property acquired by gift is the basis of the donor, or, in this case, it would be very low compared to the market value; whereas, property received by inheritance takes a basis of market value. However, upon inheritance the estate

will have paid an estate tax based upon market values, but the estate tax payable in this case would be less than the capital gains tax.

Estate planning is more than making inter vivos gifts. The desires and objectives of property owners need to be evaluated in light of the results of tax saving or payment of tax. There may be times when payments of tax will more nearly accomplish the planned objectives than the avoidance of tax.

Testamentary Transfer

Intestate transfers of property may meet the objectives of property owners very well and one may plan to transfer his property intestate. On the other hand if he dies without a will the law becomes the "plan" of property transfer whether it would have suited the desires of the deceased or not.

Major stockholders of about one-half the corporations did not have wills prepared specifically to transfer their corporate stock. It was not determined how many of them had no wills at all.

Retirement Plans

Farm-ranch corporation officers, with one exception, had not developed formal retirement plans for corporation employees. One corporation in the study had a retirement compensation plan, and this particular corporation had non-farm activities in addition to farm activities. A labor union had negotiated the pension plan. This lack of retirement planning was in spite of what Hecht said about the corporation for farms:

"Perhaps one of the most important advantages of the corporate form is that stockholder employees are permitted to participate in retirement plans which qualify under the Internal Revenue Code."
(42, p. 633)

Less than 20 percent of the corporations had stockholder employees who had "retired." Stockholder-officers of 88 percent of the corporations planned to continue as directors after "retirement."

To farm-ranch corporate officers, retirement was a vague concept. To many their "retirement fund" was their business itself. Many young officers interviewed said they hadn't given retirement any thought. The older ones usually recognized they would some day relinquish certain responsibilities, but few had a concept of retirement that required withdrawing from the business.

Regardless of this lack of a very precise concept of retirement, the respondents were asked to indicate what their source of retirement income would be relative to the corporation. The results are shown in Table 63. Social security had a prominent place in providing retirement funds. In most cases fringe benefits being received from the corporation were expected to continue after retirement. These fringe benefits are listed in Table 64.

Table 63. Source of retirement income anticipated by stockholder-officers of Oregon farm-ranch corporations ^{/1}

Source of income	Percent of corporations having officers to which each answer is applicable ^{/2}
Social security	84
Salary from the corporation	71
Rental income from the corporation	27
Corporate stock dividends	13
Sale of corporate stock	6
"Subchapter S" income distribution	4
Interest payments from the corporation	3
Other	5

^{/1} Excludes income from sources not related to or resulting from the corporation.

^{/2} Exceeds 100 percent since some answers apply to more than one corporation.

Table 64. Fringe benefits accorded Oregon farm-ranch corporation officer-stockholders.

Type of benefit	Percent of corporations having officers to which each answer is applicable <u>/1</u>
Automobile	39
Housing	35
Some meals	6
Expense account	4
Recreational facilities	1
Other	24
None	7

/1 Exceeds 100 percent since some answers applied to more than one corporation.

CHAPTER IX

EVALUATION BY CORPORATE OFFICERS

The corporate officers interviewed were asked a series of subjective questions designed to evaluate how successful the corporate form of ownership had been for them. Some of the firms were new ventures, and some officers interviewed had purchased the corporate stock from others. Otherwise, the reasons given for not incorporating earlier are given in Table 65. Many of those who previously had no apparent need to incorporate indicated they were single proprietorships and as single owners felt no need for the corporation.

Officers representing about 82 percent of the corporations were satisfied with the amount and kind of information supplied by the publications and persons consulted concerning incorporation, although only about 60 percent considered that information available to farmers was adequate. When asked what additional information they would consider valuable, many officers found it difficult to be specific; but they prominently listed tax information, property transfer and estate planning and legal and technical information.

Table 65. Reasons given by Oregon farm-ranch corporate officers for not incorporating earlier.

Reasons	Percent of corporations to which each answer applies
No apparent need	49
Didn't know about the corporation for farms	20
Knew something of corporations but lacked adequate information	10
Didn't get around to it	8
Other reasons /1	13

/1 (1) Tax disadvantage	
(2) Corporation not designed for small farm business	
(3) Our lawyers were against it	
(4) No legal advice sooner	
(5) Incorporated for special purpose (consolidate beet acreage allotments	
(6) Fear of costs	

Difficulties Encountered

Only about 8 percent of the officers interviewed indicated they had encountered particular difficulties as a result of incorporating. Three-fourth of those with difficulties said their difficulties were tax problems. One officer interviewed said there had been minor legal and management problems; in some other cases there had been stockholder disputes.

Stockholder Disputes

There had been stockholder disputes within only about four percent of the corporations. All were nonfamily corporations except one. In the "family" case a peculiar situation existed which was not necessarily the result of incorporation. In the three nonfamily corporation cases, existing stockholders ended up buying out dissenting stockholders. In one corporation there had been a serious stockholder dispute ending in law suit. However, this was a relationship which commenced in difficulty. A creditor to the previous business firm organized a corporation out of bankruptcy, giving the previous owners stock for their equity, which made them minor shareholders in the new corporation. About 7 percent of the firms had agreements among stockholders to arbitrate differences, but none of those who had disputes had such an agreement.

Law Suits

About 18 percent of the corporate farm firms had been engaged in a law suit since incorporating. Often this was in connection with the corporation's nonfarm business activity on such things as damaged claims on goods shipped or vehicle liability claims. None of these suits were brought

because the firm was incorporated, although one corporate officer felt the settlement of the claim might have been influenced by the "big business" concept attached to a corporation.

Firms in most cases had been protected by insurance, and no officer interviewed considered that the limited liability feature of the corporation had really been tested.

Formalities

When asked if they were bothered by the required formality of the corporation, only 15 percent of the respondents said they were. In fact, nearly two-thirds of them thought the additional meetings and records that were required as a result of incorporation actually had a positive value to the business.

Attitude Toward Incorporation

The attitude of community and neighbors, relative to farm corporations, was sought. In answer to the question, "How many people of your community are aware of the fact that your farm or ranch is a corporation?", 40 percent of the interviewed said that most people knew; 22 percent said many knew; 32 percent said few knew; three percent said none knew; the remainder gave no answer.

Actual attitude was mostly indifference. To the question, "Which of the following words best described the community attitude toward you as a corporation?", the following answers were given: 60 percent indicated indifference; 15 percent indicated interest; eight percent indicated approval; none indicated fear or disapproval. No anticorporate attitude seemed to present itself, and the attitude toward farm corporations in general was considered to be no different than toward the particular corporation.

Personal Attitudes

Personal attitudes of corporate officers were sought in a subjective manner. "Since incorporating do you have greater worries, less worries, or is there any difference?" To this question eight percent said greater worries; 25 percent said less worries, and the remainder considered there was no difference. However, when a similar question was asked relative to their feeling of security, none said they felt less secure with the corporation, while 39 percent said they felt more secure than with their previous form of business ownership. Others considered there was no difference. Personal living of stockholders according to the respondents had not been changed by incorporation.

Degree of Satisfaction

Eighty-three percent of the respondents said they were more satisfied operating as a corporation than with their previous form of business. Ten percent answered the question negatively, and others did not know.

When asked, "Do you think you would incorporate if you had it to do over again?", ten percent said no. Except for a few who did not know, the rest answered affirmatively. The same ten percent who said no to the previous question said yes when asked, "If you could dissolve the corporation and be back to where you were at no cost (attorney or tax, etc.), would you do so?" Other answers were also the same as for the previous question.

Dissatisfaction

There were various reasons for dissatisfaction. In three cases corporate stock had been acquired other than through the incorporation process. In two of these three cases, stock had been purchased, and in the other case stock had been inherited from his father. For these three cases, the corporation was serving no real purpose, and stockholders desired to get out from under its technical responsibilities. One case was a tax problem that would have

been alleviated with a "subchapter S" corporation, but the incorporating attorney failed to inform them of its possibilities. One small dairy farmer had incorporated without exceptionally good reason and needed a Farmers Home Administration loan for which he was ineligible by virtue of having incorporated. In another case, partners incorporated a sawmill business and branched into farming. Since the sawmill business had been sold, they no longer felt a need for the corporation.

Dissolved Corporations

An examination of dissolved corporations in a brief case type way provided reasons for dissolution of seven farm corporations.

- (1) Two brothers and their wives incorporated while one brother was in military service. This seemed the best way to handle and manage the interests of the absent brother. Upon his return when they needed borrowed capital, a state veterans loan seemed to offer them the best available funds and interest rate. However, the veterans loan could not be made to a corporation. They, therefore, dissolved the corporation.

However, after formal application and appraisal the amount of the loan they could obtain was not sufficient for their needs, so the loan was never closed. Other financial arrangements were made, and the former stockholders were again considering incorporation.

- (2) After the death of the farm operator, a corporation was formed out of the estate by the wife, a son, daughters and sons-in-law. Some stockholders managed and operated the ranch; others had independent interests. After some time, the ones operating the ranch wanted their own independent and smaller operations, so the ranch was sold and the corporation dissolved.
- (3) At the death of a major stockholder, stock became scattered and changed hands several times within and without the family. The business, a hop farm, encountered financial difficulty. Finally one nonfarm stockholder acquired all the stock, dissolved the corporation, and, at the time of the interview, had offered the farm for sale.
- (4) Stockholders of a poultry business also owned a feed business. The poultry business was established as an outlet for the feed business.

The poultry enterprise failed, went into bankruptcy, and the corporation dissolved.

- (5) A former orchard owner said, "Taxes, red-tape, and increasing pressure from the big orchards caused us to lose money, so we sold out." He censured lawyers for their "complicated, legal gobble-de-gook" in something that is basically simple --- referring to incorporation and dissolution procedures.
- (6) This corporation was one of two formed to obtain separate 160 acre water rights on a Bureau of Reclamation project. After several years, regulations changed with respect to this project, and when two corporations were no longer needed, this corporation was dissolved and the other corporation made to encompass the entire farm operation.
- (7) This corporation was dissolved to take advantage of a special tax situation where a capital loss by sale of the corporation was used to offset other capital gains.

Officers' StatementsAdvantages

The farm corporation officers interviewed were asked to give in their own words the chief advantage of incorporating. The essence of many answers was synonymous and could be grouped into general statements. Other statements, while quite similar, contained distinct connotations and could not be grouped together. The first five reasons to follow are listed in order of importance. All others are listed at random. As listed by the respondents, the following are the advantages of incorporation which these officers gave: (1) planning for and avoiding estate taxes; (2) limited liability; (3) continued operations--continuity of life; (4) income tax saving; (5) more business-like procedure; (6) easier property transferral (7) better for unrelated partners; (8) keeps the farm in the family; (9) holds family together; (10) third entity helps take brunt of difficulty; (11) legal formality with many owners; (12) smoother operation; (13) better than partnership for tax; (14) cautions the operator about taxes and expansion; (15) combines business operations; (16) brings in capital; (17) distributes ownership; (18) brings together several owners; (19) keeps property together; (20) helps build economic unit.

Disadvantages

The disadvantages listed by corporate officers also contained many points, the essence of which can be grouped together, whereas, others cannot. There were multiple answers for the first six in order of those disadvantages mentioned the most times. Other disadvantages are listed at random: (1) more red tape; (2) possible tax disadvantage; (3) costs more; (4) tax disadvantage; (5) more bookkeeping; (6) original costs; (7) government "people" watch you more; (8) capital gains tax disadvantages; (9) more careful handling of profits necessary; (10) can't use assets for personal use; (11) reduces flexibility for tax purposes; (12) nuisance requirements; (13) limits individual action; (14) too many "chiefs"; (15) double taxation on earnings distributed as dividends; (16) problems of minority stockholders; (17) complicates business procedures; (18) could bring in unwanted strangers.

Conditions to Incorporate

Sixty-six percent of those interviewed said they could recommend incorporation to other farmers and ranchers. About 19 percent said they had recommended it to others. About 10 percent said they would not recommend it. Others did not know.

When asked what conditions they would prescribe when discussing or recommending incorporation to others, those officers interviewed gave a variety of reasons. Some were quite similar but with different connotations. Grouping was difficult, however, there were multiple answers for the first five listed. The first one was considerably more prominent than the others. Individual corporation officers said they could recommend incorporation to others if: (1) there is more than one owner or operator; (2) the farm is large; (3) there are nonfamily owners; (4) individual financial conditions warrant; (5) attorney recommends it; (6) incorporators are a family; (7) need exists for estate planning; (8) need exists for expansion; (9) children will inherit property; (10) there is sizeable operation with several persons; (11) an economic unit exists; (12) for a family type farm; (13) there are children; (14) family situation warrants; (15) precise needs are met; (16) accountant advises; (17) situation with heirs warrants; (18) breeding livestock is kept out; (19) there are several business activities; (20) careful of procedures; (21) size of operation and size of family warrants; (22) more than two persons are involved; (23) farm operations are specialized; (24) careful consideration is given first.

Limiting Factors

Corporate officers were asked, "What do you see as the most limiting factor to incorporation of farms?" The first six factors were given by more than one officer. Others are listed at random. The first factor listed was by far the most prominent one and was given by nearly one-third of the respondents. For farms and ranches the most limiting factors to incorporation were considered to be as follows: (1) lack of understanding; (2) farms too small; (3) lack of information; (4) one man operations don't necessitate; (5) don't realize value; (6) costs of incorporating; (7) farmers won't listen to new ideas; (8) fear of costs; (9) tax problems; (10) farmers too individualistic; (11) think corporation is for big operators and outfits; (12) expense of legal advice; (13) fear of taxes; (14) afraid of legal and technical aspects; (15) families don't need incorporation as much as unrelated groups; (16) lack of adequate capital.

Changes Needed

The officers interviewed were asked, "What changes would you like to see in corporation laws or other business ownership laws to aid farmers and ranchers?" A "spur of the moment" answer to this question was difficult, and only a few made very

concrete comments. Most of the answers given were a concern with taxes in some form, and often the comments were not specifically related to the corporation. Some mentioned that Oregon should accept the "subchapter S" corporation for state taxation procedures. One corporate officer wanted to see the ten stockholder limitation for a "subchapter S" corporation removed or broadened to allow more shareholders, providing they were still a part of the family. He wished to make stock gifts to grandchildren but could not and still remain a "subchapter S" corporation.

Some respondents were concerned with how property taxes were affecting agriculture, and one specific respondent wanted property owners only to vote on revenue bond issues. One other tax suggestion given was to allow taxable farm incomes to be averaged over a period of years -- he suggested five years -- so that good and bad crop years could be averaged out for more uniform tax payable each year.

CHAPTER X

SUMMARY AND CONCLUSIONS

The corporation is a legal entity with economic and social attributes. It is an institution of economic endeavor and one of three primary forms of business organization. It has been used little for agriculture, although widely and successfully used in nonfarm types of businesses. The corporation is not new even to agriculture; it probably commenced in agriculture with joint-stock farming in the latter part of the 19th century. During the early 1920's it was to be the means of an "industrial revolution in agriculture," and men envisioned large corporations taking over all of agriculture. Opposition was nearly always present because the family farm was thought to be in danger of being supplanted by "corporation farming." Opposition became so intense that some states passed anti-corporate farming laws that still exist. But the "family farm" emerged a survivor of the depression. Following the depression the "family farm" evolved as a much larger more dynamic institution with complex economic, legal, tax, and business structural components. Then commenced a search to find business organizational devices to better handle the problems created by

these complexities. The essence of the problem was how to adequately accumulate, effectively operate, and equitably transfer to the next generation a continuously operating, efficient economic unit.

In the early 1950's there was a brief exploration into the corporation as a business organization that might be adapted to this new "commercial family farm." The momentum of constructive thinking increased, and opposition toward this new type of "corporation farming" was not severe. But the adaptation of the corporate form of ownership to farms and ranches has not been rapid or dramatic. However, as the number of farms has declined, the number of farm-ranch corporations has increased. With relative increasing importance of farm corporations and increasing significance to the "accumulation-transfer" problem, the primary objective of this research project was to evaluate the corporate form of business organization as an effective means of approaching a solution to these problems.

An examination of the law revealed that except for certain jurisdictions there was no legal deterrent to incorporating farms. An examination of the theory and concept of the corporation and its attributes revealed a potential approach to a solution of some of the farm business firm's problems.

This research project, therefore, presented a hypothesis that the corporate form of business ownership could be an effective means of delineating and pursuing a solution to certain aspects of the "accumulating, maintaining, transferring" problem.

Following an examination of the scope and characteristics of the corporate farm firm, the experiences of farm-ranch corporate officers were sought to test the hypothesis.

Farming corporations in the United States in 1958 were found to account for about .3 of one percent of all farms, while Oregon farm-ranch corporations were .54 of one percent of all Oregon farms. Farm-ranch corporations increased in Oregon to about .7 of one percent by 1960. Farm corporations represented about 8 percent of both United States and Oregon farm sales, while owning 5 percent of United States farm land and 10 percent of Oregon farm land. Oregon in 1960 had 322 active, domestic, farm-ranch corporations. These corporations included almost every type of farming in Oregon with livestock farms and ranches comprising about 30 percent of the total. Farm-ranch corporations are located generally throughout the state.

An examination of the physical and fiscal structure of Oregon's corporate farms and ranches and a comparison with 1959 Census of Agriculture data showed 75 percent of Oregon's

corporation farms were in Economic Class I and comprised 10 percent of the farms in that class. They represented 23 percent of Class I acreage, over 18 percent of Class I sales, and over 10 percent of the land and building values. Corporate farms averaged twice as large in acreage as all Class I farms and seven times as large as all commercial farms. This made corporations important among the largest farms in the state. Corporate farms in Oregon had an estimated average acreage of over 6,000; average sales over \$100,000 annually; average assets of nearly \$250,000; liabilities of approximately \$64,000; and an approximate net worth of \$186,000.

Although these estimates of average values project the concept of relatively large farm firms, the median values were considerably smaller than the average values. This indicates that in addition to numerous large corporate farm firms there are also numerous small corporate farm firms.

The corporation does not necessarily dissolve upon the death of a major owner. The ability of the corporation to have a perpetual life, coupled with its unique organizational structure, has led some writers to believe that the corporation may

lengthen the ownership cycle of farms. However, historical evidence of dissolved farm-ranch corporations in Oregon does not bear this out. An examination of data showed that the highest incidence of corporate dissolution occurred in the third and fourth years after being chartered and that for the period prior to 1939, 47 percent were dissolved by the end of five years. However, many of these early corporations were orchards involved in a speculative land boom. Many orchards were inappropriately planted and never came into production. These early corporations were primarily speculative in nature with scattered stockholders of diverse interests, whereas, the family farm now incorporated is a closely-knit operating unit organized for productive purposes and continuous life. One will have to wait for the effect of the family farm corporation on the length of farm corporation life, but a period 1940-1955 showed only 23 percent of the farm-ranch corporations had dissolved in 5 years -- considerably less than for the earlier period.

There were several and varying reasons for incorporating, but to save income, estate, and inheritance taxes was a primary concern. Yet on the other hand, fear of taxes was often a deterrent to incorporation. Many firms had saved no

income taxes by incorporating, nor had they made proper plans to save estate or inheritance taxes. A few firms paid more taxes as a result of incorporation. The corporation is a distinct tax-paying entity, unless its stockholders in a small closely-held corporation have elected to be taxed as a partnership. This provision allowing certain flexibility in income taxation for small businesses was enacted by Congress in 1958. The study showed that increases in Oregon farm-ranch incorporations coincided with these changes in the law.

In Oregon, total number of farm-ranch corporations increased 30 percent from 1958 to 1960. But the majority of increases in Oregon farm corporations since 1958 cannot be ascribed directly to this tax law change. Only about one-third of the new incorporators were directly influenced by the "subchapter S" provisions. Only 12 percent indicated they would not have incorporated except for the law changes. There is no doubt, however, that the important publicity given this new tax provision directed many farmers to seek tax-saving measures and, as a result, has increased their awareness of the close corporation and its possible use. Many farmers have been led to investigate and incorporate but in the final analysis have not elected to be taxed under "subchapter S" provisions.

The indirect effects of the "subchapter S" tax law changes have been considerably more important on incorporation than have been the direct effects, and the responsiveness to incorporation indirectly, if not directly, has been brought about by tax-saving motives.

With all this awareness and concern for taxation, the study indicated that corporate officers had not planned well to accomplish tax-saving objectives. Yet nearly all had turned over their tax matters almost entirely to persons they considered tax specialists. Because of the extreme complexity of tax law and its many facets, corporate farm-ranch operators generally do not try to manage their own tax affairs. It is undoubtedly wise to seek assistance on such technical matters, but tax planning is a year around situation bearing upon daily managerial decisions and not just a tax-time chore. Tax-saving decisions often cannot be made by the professional tax accountant ex post at tax time. The principal and advisor need to confer often.

In analyzing the corporation as a tax-saving device for farms, it can be said that the corporation, particularly with the option to be taxed by one of two methods, offers many flexible tools for tax planning, but they must be understood by the firm's decision maker and not relegated to others in a sphere separate

from the ordinary functions of management. The corporation in most cases need not be the means of increasing taxes and, in many cases, can be the means of reducing them.

The preoccupation with taxes seems to over-shadow their true significance and elevate them to a place more prominent than they deserve. The corporation has other more basic values often overlooked or shrouded by tax complexities.

Limited liability is another aspect of incorporation apparently overplayed. To obtain limited liability was the second most important reason for incorporating. Yet stockholders generally cannot limit credit liability because generally they must sign personally for corporate loans. Nearly all corporations carry heavy liability insurance, shifting this risk rather than subjecting to it. Many stockholders have placed all, or appreciably all, their assets into the corporation and thus have no personal property to protect. In reality, much limited liability protection, a significant feature of the corporation, has disappeared for farm-ranch corporation owners.

On the other hand, some corporations were strictly operating corporations leasing all of the land they operated--often from stockholders. This gives their stockholders some limited liability and a source of income other than from corporate

net earnings. Yet this has tended to splinter the economic unit rather than unify it. Therefore, gains on one hand must be weighed against loss of simplicity on the other.

Seeking limited liability may be one reason for an apparent lack of vertical integration within the corporate farm firm. Logic would seem to indicate that by incorporation one could unify and simplify business procedure of related or integrated activities. Incorporation seems to reverse this process as firms seek to limit liability by incorporating each segment of operation separately rather than combining business functions through incorporation. This separation is logical only within the institutional legal framework which exists. About 5 percent of the corporate farm firms had integrated operations, although 30 percent have off-farm business activity not necessarily related to the farm firm. Stockholders were often affiliated with more than one corporation

Although dividends on stock would seem to be a convenient method of allocating earnings from the firm, few Oregon farm-ranch corporations have used it. This is partly because of "double taxation" on dividends. In addition, many farm-ranch corporations had no earnings to distribute, and some stockholders wished to keep earnings in the corporation as a means of converting ordinary income to capital gains. But this is an example where one institutional device has been

created--the dividend -- to be annulled largely by other institutional devices.

The corporation as a means of bringing risk capital into the farm firms studied has not been effective. Corporate resources have been acquired, not through the sale of stock to outside investors, but by exchanging common stock for the assets controlled by the previous business owners--often a family proprietorship or partnership. These resources have arisen from the accumulation of internal savings through the years. The risk capital for Oregon's farm-ranch corporations has almost entirely come from within. This is understandable by virtue of the very nature of the farm firm. Farm earnings have not been sufficient to encourage investment from outside sources, particularly in a family controlled business. In fact many Oregon farm-ranch families did not seek this outside risk capital; they wished to maintain a close family unit.

Permanent-type debt capital is an important part of industrial corporations' capital structure; but farm-ranch corporations have not used it even as an internal debt instrument. These debt instruments are again an

institutional device, often to circumscribe a tax disadvantage of stock ownership and dividends. No corporate farm-ranch firm used debt securities in its permanent capital structure, although there are undoubtedly situations where this type of security, given our present legal and tax structure, would better serve a particular purpose than the alternative common stock now owned.

Concerning other types of credit, corporations have used minutely more credit as a result of incorporating than before. Stockholders themselves are an important source of corporate credit; nearly one-third of the corporations had obtained loans from stockholders. However, this was not necessarily a part of the planned capital structure, but loans were obtained primarily as a matter of convenience.

About one-half the firms indicated a need for additional working capital, but the majority of corporations had not borrowed to the extent of their capacity; they maintained a reserve of unused credit. Internal credit rationing is probably more of a limiting factor to the use of additional credit than is external rationing. The utilization of credit is tied closely to risk and uncertainty--uncertainty being the result of imperfect knowledge. One form of business uncertainty is in the form

of discontinuous management. The corporation with unique organizational structure may be a means of directing its owners to foresee and delineate certain relationships that might tend to reduce uncertainty. This may encourage the use of additional credit where the marginal efficiency of capital is still high.

Data seem to indicate that a firm's ability to obtain external credit may be enhanced with incorporation if the debtor does not insist on maintaining limited liability and if borrowers are willing to endure additional procedural difficulties by borrowing as a corporation.

Corporate farms in Oregon are closely held, averaging only 3.5 shareholders per corporation. Eighty percent of the shareholders are related, and stockholders-officers-directors are often identical persons. Operation and management of the farm have not significantly changed since incorporating. Sixty-one percent of the farm corporations were "family farms" as conceived in the minds of corporate farm officers. Actually a few more farms were "family farms" sometime following incorporation than at the time of incorporation, since family members had purchased the stock held by outside stockholders. Corporate farms are not generally absentee owned; a large proportion of stockholders live on or near the corporation

property. "Family farms" are usually defined in terms of management and labor supplied by the family. Corporate stockholders, most of whom are related, supplied nearly all of the management. By number of corporations, 87 percent had stockholders who supplied some labor, but only about 26 percent of these farms had over one-half the labor supplied by stockholders. Depending upon the strictness of the "labor supplied" definition, 20 to 60 percent of Oregon's corporate farms could be called "family farms." The corporation appears to be a useful tool to keep the family together and to keep capital on the farm that might otherwise be removed.

Interviews indicated that internal organization and operation of Oregon farms and ranches had not changed greatly as a result of incorporation. The procedural laws and internal regulations of the corporation did not seem to have been considerably utilized. Meetings and elections were often disregarded. Corporate documents, such as articles of incorporation and bylaws, were not well understood and seldom served as operational guides. As long as the annual report was filed and fee paid, required, formal procedures appeared to have little significance for the officers of many firms.

According to interviews, there have been very few serious differences among farm-ranch corporate stockholders. However, minority stockholders could be subject to discrimination. Also, a majority stockholder could lose his majority control. In most Oregon corporate farm-ranch situations, the major stockholder has only one vote among several directors. One alternative to losing control would be for the major stockholder to vote in "outsiders" as directors to represent his interests. Another alternative might be to consider unanimous voting by directors to assure veto power at least. Another alternative, although currently not permissible under Oregon statutes, would be to eliminate the function of directors, a function found to be little-used by Oregon farm-ranch corporations, and allow shareholders to assume these responsibilities and voting power commensurate with shares held.

The objective of estate planning by farm and ranch owners should be to transfer the economic business unit to the next generation of operators with minimum costs, minimum loss in productive ability and capital, and commensurate with the desires and objectives of current property holders regarding equitable distribution to their heirs. Saving of estate and inheritance taxes is only one phase of estate planning.

In the broad aspects of estate planning lies an element of strength of the corporate structure; a preconceived and calculated plan to maintain an economic unit with divisible shares representing the indivisible economic unit--the farm-ranch business. The inevitability of death forces property transfers. These transfers can be planned to fulfill an objective or left unplanned to create even a negative value if families and

economic units are divided. The corporation can be a means of keeping the family together through mutual ownership of a unifying entity -- the family farm --even though some family members are off the farm. On the other hand, the corporation has been little used to follow through these objectives to conclusion. Little stock has actually been transferred. The owners of the former proprietorship still own the farm through owning all or most of the corporate stock.

The corporation at times appears to have been a substitute for proper planning rather than a tool of proper planning. Many incorporators lack the full concept of just what it is they have and how it should be used.

At the risk of oversimplifying this statement, it appears that farm operators are searching for someone with whom they can work out these personal, unique, intricate problems of estate planning. This does not mean just making a will to legally pass property or purchasing insurance to pay taxes at death. It means someone to help them see the whole integrated picture with its economic and social implications.

The majority of farm-ranch corporations have evolved, after careful consideration, out of operating farm proprietorships and partnerships. Officers representing 83 percent of the corporations interviewed said they were more satisfied operating as a corporation than with their previous form of business

ownership. Those dissatisfied were primarily those who had acquired the incorporated business through purchase or inheritance and had not incorporated to meet specific objectives. For the dissolved corporations examined, dissolution was, in most cases, brought about by circumstances which likely would not have been altered by the form of business organization.

In conclusion, the corporate form of business organization, with proper planning and utilization in many cases can accomplish the objectives of a business organization for the farm firm. Incorporation can, in some respects, offer considerable flexibility in accomplishing farm business firm objectives. There are definite limitations to what the corporation can do, but the corporate structure has potential qualities to be seriously considered for meeting some needs of the farm-ranch business.

Laws and regulations are subject to change; therefore discussion and interpretation based upon these laws and regulations may also change. The author wishes to inform his readers that he is not a lawyer, and material presented herein should not be construed as legal advice.

BIBLIOGRAPHY

1. Aldrich, Wilbur. Farming corporations. New York, Aldrich, 1892. 255 p.
2. Babson, Roger. First down-first up. Here comes prosperity! Country Home 55(2):11-12. 1931.
3. Beuscher, Jacob H. Law and the farmer. New York, Springer, 1953. 406 p.
4. Beuscher, Jacob H. Should you incorporate your farm? Hoard's Dairyman 98:672. Aug.10, 1953.
5. Big farmer broke. Time 20(19):47. Nov. 7, 1932.
6. Bigness is not enough. New Jersey Agriculturalist 14:4. June, 1932.
7. Black, Henry Campbell. Black's Law Dictionary. 3d ed. Saint Paul, Minn., West, 1933. 1944 p.
8. Bradford, Lawrence A. and Glenn L. Johnson. Farm management analysis. New York, Wesley, 1953. 438 p.
9. Brookings, Robert S. Agricultural corporations. Washington, D. C., Judd and Detwiler, 1928. 20 p.
10. Brookings, Robert S. Farm corporations with methods of industry urged by economists. Coop Manager And Farmer 18:34. Oct. 1928.
11. Burke, Gerald. Why a corporate organization may offer useful benefits to some partnerships. Feed Bag 35(1):46. Jan. 1959.
12. Call, F.M. and J. C. DeJong. Making good land from bad; project to aid Georgia agriculture through the Callaway plan. Banking 39:50. June 1946.
13. Campbell, Thomas D. Ten years experience in manufacturing wheat on 100,000 acres. Agricultural Engineering 10(1):18-20. Jan. 1929.

14. Capper, A. Will big-scale farming last Rotarian 43:17-19.
Oct. 1933.
15. Cavanaugh, J. J. State limitations on the size and existence
of agricultural corporations. Business Lawyer. July 1960.
16. Cherry, R. G. When should a farm or ranch be incorporated
Sheep and Goat Raiser 41(1):44-45. Oct. 1960.
17. Close corporation, the-Symposium. Northwestern Law Review
52:345-352. 1957.
18. Code of Federal Regulations of the United States of America.
Title 6. Agricultural credit. Register, National Archives,
1939-40.
19. Code of Federal Regulations of the United States of America.
Title 26. Internal revenue service. Washington Division
of the Federal Register, National Archives, 1939-40.
20. Coe, Edward J. Father and son farm agreements. Wisconsin
Law Review, March 1950. p. 316-33.
21. Committee for Economic Development. Toward a realistic
farm program. New York, Dec. 1957. 54 p.
22. Corporation Farming. Farmers' Elevator Guide 25(11):14-15.
1930.
23. Corporation farming fights for its life in Kansas. Business
Week, May 27, 1931. p. 20.
24. Corporate farming has advantages. Wallaces' Farmer 84:56.
Oct. 1959.
25. Corporate farming increases; Kansas nervous, starts inquiry.
Business Week, June 18, 1930, p. 22.
26. Corporation farming--is it for you Oregon's Agricultural
Progress, Summer, 1959, p. 4-6
27. Corporation farming would ruin the nation. American Agricul-
turist. In: U. S. Department of Agriculture, Bureau of
Agricultural Economics. Library. Agricultural Economics
bibliography no. 30., 1929. 87 p.

28. Carty, F.L. Should Louisiana farmers incorporate? *Louisiana Rural Economist* 22(4):4-6. Nov. 1960.
29. Coulter, John Lee. Industrial history of the Valley of the Red River of the North. Bismark, N.D. (Tribune), State Printers and Binders, 1910. (Collections of the State Historical Society of North Dakota. Vol 3.)
30. Cowley, Malcolm. Is the small farmer dying? *New Republic* 63:211. Oct. 7, 1931.
31. Crossman, B.D. Research into management problems of corporate farming. *Journal of Farm Economics* 35:953-61. Dec. 1953.
32. Crowther, Samuel. Henry Ford talks about farming. *Country Gentleman* 89(33):1-2. August 16, 1924.
33. Crowther, Samuel. New Agriculture. *Country Gentleman* 93(1):11-12. 1928.
34. Crum, William Leonard. The age structure of the corporate system. Berkeley, University of California, 1953. 175 p.
35. Davidson, R.A. Case against large-scale farming. *American Mercury* 25:213-16. Feb. 1932.
36. Davis, Irving F. Jr. Corporation farming in California. Berkeley, University of California, Sept. 6, 1951. (Unpublished manuscript)
37. Deady, M.P. Organic and other general laws of Oregon 1845-1864. Portland, Ore. Henry L. Pittock, 1866. 1107 p.
38. Dorner, Peter. The family farm: Can it survive? *Better Farming Methods* 33:20. June 1961.
39. Dorner, Peter. The farm problem: A challenge to social invention. *Journal of Farm Economics* 42:811-826. Nov. 1960.

40. Dorner, Peter and August Eckhardt. Methods of research on farm corporations. Madison, University of Wisconsin, Nov. 1960. 128 numb. leaves.
41. Dowell, A.A. Corporate owned farm land in Minnesota, 1936-1940. Minneapolis, 1924. 24 p. (Minnesota Agricultural Experiment Station. Bulletin 357)
42. Eckhardt, August Gottlieb. Family farm corporations. Wisconsin Law Review, July 1960. p. 555-662.
43. Eckhardt, August Gottlieb. Family farm operating and transfer agreements. Ph.D. thesis. Madison, University of Wisconsin, 1950. 220 numb. leaves.
44. Eckhardt, August Gottlieb. Should the farmer incorporate? Practical Lawyer 1:61-70. Feb. 1955.
45. Eckhardt, August Gottlieb. Should you incorporate your farm? Successful Farming 54(1):32. April 1956.
46. The Economic Report of the President. Washington, 1962. 300 p.
47. Eddy, Dwight. Incorporating the family farm. Burlington, University of Vermont, n.d. (Brieflet 1003)
48. Elefson, Don O. and Frank Miller. Equity financing in agriculture. Columbia, 1959. 39 p. (Missouri Agricultural Experiment Station. Research Bulletin 714)
49. Ellis, H.H. Legal problems in father-son farming. Land Economics 27:235-47.
50. Ezekiel, Mordecai and Sherman Johnson. Corporation farming, the way out? New Republic 63:66-68. June 4, 1930.
51. Fair, E. W. Should the average broiler producer incorporate? Broiler Producer 91:8. Oct. 1960.
52. Farm Business units in Kansas. Kansas Law Review 7:347-574. Mar. 1959.

53. Farrell, Jospeh. Big business farming. *Forbes* 27(5):17. 1931.
54. Financing of small corporation debt or equity. *Marquette Law Review* 42:387. Winter 1959.
55. Fischer, L.K., R.S. Harnsberger, and H.W. Ottsson. Some economic aspects of the closed corporation in agriculture. Lincoln, University of Nebraska, Nov. 1960. 27 numb. leaves.
56. Ford, Henry. My philosophy of industry. New York, Coward-McCann, 1929. 107 p. (authorized interview)
57. French, N.D., et al. What about incorporating farms in Kansas? Manhattan, May 1960. 14 p. (Kansas. Agricultural Experiment Station. Circular 376)
58. Gard, Wayne. Agriculture's industrial revolution. *Current History* 34:853-7. Sept. 1931.
59. Gehl, Eugene O. Note. *Wisconsin Law Review*, 1952:p. 171-172.
60. Gifford, Claude W. Keep your farm in the family. *Farm Journal* 86(1):24-25. January 1962.
61. Goetsch, F.L. Should you incorporate the family farm. *Nation's Agriculture* 34:12-14. July 1957.
62. Goldsmith, Gerson. How you going to keep 'em down on the farm? Incorporating may be your answer. *Pacific Northwest Cooperator* 26(5):1-2. 1961.
63. Grimes, W.E. Social and economic aspects of large-scale farming in the wheat belt. *Journal of Farm Economics* 13:21-26. 1931.
64. Harl, Neil E., John F. Timmons, and John C. O'Byrne. Farm corporations. Iowa City, Iowa State University, August, 1961.

65. Harl, Neil E., John F. Timmons, and John C. O'Byrne.
Incorporate the family farm. Iowa Farm Science 14(1):
9-12. July 1959.
66. Harris, Marshall and Elton Hill. Family farm transfer
arrangements. Urbana, April 1951. 39 p.
(Illinois. University. Circular 680)
67. Hartley, J.H. Corporate cattle feeding. Doane's 2(2): 18-22.
Feb. 1962.
68. Henley, Dan. The psuedo corporation. Farm Quarterly 14:88.
Autumn 1959.
69. Hill, E.B. Should we incorporate the farm business? East
Lansing, Dec. 1959. 15 p. (Michigan State University.
Extension Bulletin no. 371)
70. Holms, C.L. Growing pains of the family farm. Country
Gentleman 94(5):25, 117. 1929.
71. Home, E.J. Which is the American way? California Cultiva-
tor 84:713. Oct. 23, 1937.
72. Hubbard, Deon W. Does the farm-ranch corporation solve or
circumvent problems? Journal of Farm Economics 43(5):
1216-1218. Dec. 1961.
73. Hubbard, Deon W. Incorporation of farms and ranches: a
technological breakthrough in agricultural financial-legal
management. Journal of Farm Economics 42:1498-1500.
1960.
74. Hubbard, Deon W. Should you incorporate to save taxes?
Better Farming Methods 34:18-19. March 1962.
75. Hubbard, Deon W. and Grant E. Blanch. The farm-ranch
corporation; a tool for financial planning and management.
Corvallis, Feb. 1961. 31 p. (Oregon. Agricultural
Experiment Station. Bulletin no. 576.

76. Hyde, Arthur M. Long life probable for family farm. In: U.S. Department of Agriculture Yearbook 1932:p18-19.
77. Incorporated farms gain in popularity. Feed Bag 36:88. Oct. 1960.
78. Incorporated farms. Literary Digest 95(1):68-69. Oct. 1927.
79. Incorporating the farm business. Minnesota Law Review 43(2):305-326. Dec. 1958.
80. Incorporating the farm business; tax consideration. Minnesota Law Review 43(4):782-821. March 1959.
81. Incorporating farms: New law offers special advantages to farmers. Western Crops And Farm Management 11(2):48. Feb. 1962.
82. Incorporating techniques. Western Reserve Law Review 12:182. Mar. 1961.
83. Incorporation fit your farm? Wallaces' Farmer 83:46-47. Oct. 18, 1958.
84. It pays to incorporate some family farms. Agricultural Research 8(2):7. Aug. 1959.
85. Jamison, O.M. Tax planning with livestock and farming operations. Southern California Tax Institute. 1961:p. 627-641.
86. Johnson, Glenn L. Are we headed for corporation farming or farming controlled on a contract basis by big business? East Lansing, 1958. 15 p. (Michigan. Agricultural Experiment Station. Bulletin no. 705) (Mimeographed)
87. Knight, Frank H. Risk, uncertainty and profit. Boston, Houghton-Mifflin, 1921. 381 p.
88. Knoop, Fred. Family farm 1957 style. Farm Quarterly 11:35. Winter 1957.

89. Krausz, N.G.P. Corporate organization of family farms. *Journal of Farm Economics* 40(2):1624-35. 1958.
90. Krausz, N.G.P. Corporation farming. *Law on the Farm*. Urbana, 1957. 2 p. (University of Illinois. Extension Circular no. 101)
91. Krausz, N.G.P. Farm Transfer and how to give while you live. *Farm Quarterly* 15:92-3. Winter 1960-61.
92. Krausz, N.G.P. and Fred L. Mann. Corporations in the farm business. Urbana, 1958. 44 p. (University of Illinois. Extension Service Circular no. 797)
93. Kristyanson, Baldur H. (ed). Issue in family farm policy. Fargo, June 1953. 23 p. (North Dakota. Agricultural Experiment Station. Bulletin 384)
94. Kuthie, H.C. For grassland and factory farming. *Land* 12:283-9. Autumn 1953.
95. Laidler, Harry W. The dilemma of American agriculture. *L.I.D. Monthly* 10(2):3-5, 11. Nov. 1931.
96. Livermore, Shaw. Early American land companies. Their influence on corporate development. New York, Commonwealth Fund, 1939. 327 p.
97. Loftsgard, L.D. and H.W. Herbison. Family farming incorporated. Fargo, 1960. 8 p. (North Dakota Agricultural College. Extension Circular no. 321)
98. Lord, W.J. They decided to incorporate. *American Fruit Grower* 79:10-11. Sept. 1959.
99. Marshall, Douglas. What is the future of the family farm? *American Country Life Proceedings* 31:88-98. 1952.
100. Marshal, J. Paxton. Organizing, operating and dissolving family farm corporations in Michigan. East Lansing, Michigan State University, 1961. 282 p. (Agricultural Economics Publication 849)

101. Mayo, Morrow. Goodbye, wheat farmer. *American Mercury* 23:193-199. June 1931.
102. McCracken, Will. Should you incorporate your farm? *Farm Management* 7(11):24-25. Nov. 1958.
103. McElRoy, T.D. North Dakota's anticorporate farming act. *North Dakota Law Review* 36:96-103. April 1960.
104. McLain, Bruce. Family partnership vs. corporation--Income tax aspects. *Vanderbilt Law Review* 2:239-240. 1948-49.
106. Meyers, Max. Keeping your farm in the family. Fargo, Feb. 1950. 24 p. (South Dakota. Agricultural Experiment Station. Bulletin 398)
107. Miller, Frank. Equity financing in agriculture. *Journal of Farm Economics* 38:1537-44. Dec. 1956.
108. Mumford, D. Curtis. Large-scale farming in the United States. Washington, D.C., U.S. Department of Agriculture, April 1938. 52 p. (Mimeoographed)
109. Murray W.G. Corporate land foreclosures, mortgages, debt, and land values in Iowa 1939. Ames, 306-38 p. (Iowa. Agricultural Experiment Station. Research Bulletin no. 266)
110. Nourse, E.G. The revolution in farming. *Yale Review* 8(1): 90-105. Oct. 1918.
111. O'Byrne, John C. Dairying incorporated. *Hoard's Dairyman* 25:181. 1960.
112. O'Byrne, John C. Farm income tax manual...with 1961 supplement. Indianapolis, Allen Smith, 1958. 629 p.
113. O'Byrne, John C. Farm income tax planning. *Kansas Law Review* 7:243. Mar. 1959.
114. O'Byrne, John C., et al. The farm corporation. Ames, Iowa State University, June 1960. 19 p. (North Central Extension Publication no. 11. Pamphlet 233)

115. O'Byrne, John C. and John F. Timmon. Planning farm property transfer within families in Iowa. Ames, 1959. 43 p. (Iowa State College Bulletin no. P125)
116. Oregon. Corporation Department. Annual reports of the Corporation Commission to the Governor. Salem, 1913. (Series 1913 to date)
117. Oregon. Industrial Accident Commission. Annotated laws relating to the State Industrial Accident Commission, amended 1959. Salem, 1959. 146 p.
118. Oregon. Revised Statutes. Sections 56-58. Oregon business corporation law relating to domestic and foreign stock corporations. 1959. 62 p.
119. Oregon. Revised Statutes. Section 59. The Oregon securities law and crimes involving securities. 1957. 23 p.
120. Parsons, Kenneth H. and Wyn F. Owen. Implications of trends in farm size and organization. Journal of Farm Economics 33:893-904. Nov. 1951.
121. Peasant or large scale farming. Magazine of Business. In: U.S. Dept. of Agriculture, Bureau of Agricultural Economics. Library. Agricultural Economics bibliography no. 30. Nov. 1929. 87 p.
122. Petrie, Richard E. Considerations when incorporating the family farm. Nebraska Law Review 39:(3):547. May 1960.
123. Pitkin, Walter B. The great dirt conspiracy. The Forum 86:119. Aug. 1931.
124. Poe, Clarence. Can the little farmer survive, or are we headed for corporation farming with hireling cultivators? Rural America 10:4-6. Feb. 1932.
125. Public Law 85-866, 85th Congress, 2nd Session. "Title I, Technical Amendments Act; Title II, Small Business Revision. (1958)

126. Pugh, C.R. and W.L. Turner. Incorporating the farm business. Raleigh, N.C., 1959. (North Carolina. Agricultural Experiment Folder 174)
127. Raup, P.M., Hal Routhe and Robert Beck. What about farm incorporations? St. Paul, April 1960. 4 p. (University of Minnesota. Minnesota Farm Business Notes. No. 416.)
128. The reaction to Mr. Hoover's stand on corporation farming. Agricultural Engineering 9:324. October 1928.
129. Rhoades, Lawrence D. Family farming corporations. Amherst, University of Massachusetts. n.d. (Mimeographed)
130. Robinson, B.D. and J.A. Smith. Georgia better farms, the Cason Callaway Plan. Soil Conservation 12:150-3. Feb. 1947.
131. Rowley, Scott. Do we need corporation farming? Wallaces' Farmer 53(10):376. Mar. 9, 1928.
132. Schroeder, Martin. Corporation of family farms. Christian Century 71:608-7. May 19, 1954.
- 132a. Shepperd, J.H. Wheat to meat. Bonanza wheat farming gives way to livestock. Fargo, 1931. 8 p. (North Dakota. Agricultural Experiment Station Circular no. 45)
133. Shoemaker, W.J. Incorporation of the family agricultural business. Taxes 36:(7):515-24. July 1950.
134. Shoemaker, W.J. Symposium on legal problems in agriculture. Rocky Mountain Law Review 30:401. June 1958.
135. Should I incorporate my farm? Farm Quarterly 12:76-77. Spring 1951.
136. Shutz, Wally. Corporation farming. Breeders Gazette 124: 14-15. April 1959.
137. Smith, M.G. and R.A. Bailey. Are we headed for corporation farming? Better Farming Methods 32:22. July 1960.

138. Smith, Robert S. Farm incorporation advantages and disadvantages. *Banking* 52:84. Feb. 1960.
139. Smith, Robert S. Incorporation of the farm business. Ithaca, New York, July 1952. 20 p. (Cornell Extension Bulletin no. 831) (Mimeographed)
140. Smith, Robert S. Incorporation of the farm business. Ithaca, New York, Sept. 1958. 14 p. Cornell Extension Bulletin no. 1016)
141. Smith, Robert S. Should you incorporate your farm? *American Vegetable Grower* 7:16. March 1959.
142. Smith, Robert S. Transferring the farm to the next generation. Ithaca, New York, Oct. 1953. 80 p. (Cornell Extension Bulletin 901)
143. You may want to incorporate. *Hoard's Dairyman* 1031:761. Aug. 10, 1958.
144. Smith, William Brandford. Farm corporations. Mimeographed paper from the University of Wisconsin, Madison, Wisconsin, n.d. 2 p.
145. Stockman, Mrs. Dora H. Is family farm obsolete? *National Grange Monthly* 28(8):6. 1931.
146. Stokdyk, E.A. Corporation farms. In: Biennial Report of the Kansas State Board of Agriculture for 1929-30. Topeka, 1931. p. 77-84.
147. Stokdyk, E.A. Corporation farms or peasantry? *Northwest Miller* 153:1092. 1928.
148. Swegle, Wayne E. How this family farm corporation works. *Successful Farming* 58(3):81. March 1960.
149. Tate, L.B. Size of farms in Virginia. *Virginia University News Letter* 6(9):1. Feb. 1, 1930.

150. Taylor, E.H. How many farms can one man run? *Country Gentleman* 93:3-4. Oct. 1928.
151. Taylor, F.J. World's most fabulous farm. *Nation's Business* 42:42-5. Feb. 1954.
152. Timmons, J.F. and N.E. Harl. Incorporation of farms: Advantages and disadvantages. *American Society of Farm Managers and Rural Appraisers Journal* 24(2): 57-67. Oct. 1960.
153. Tolley, H.B. and Holmes, C.L. Large-scale farming in the United States. U.S. Department of Agriculture, Bureau of Agricultural Economics, 1929. 10 p.
154. Turnbull, Roderick. Can production costs be cut by corporation farming? *Implement and Tractor* 11:45-46. 1946.
155. U.S. Bureau of Census. Census of agriculture 1959. Vol. 1, part 47. Oregon. 1961. 227 p.
156. U.S. Congress. Senate. Special Committee to Study Problems of American Small Business. Small businesses and the community--a study in Central Valley of California on effects of scale of farm operations. Hearings. 79th Congress, 2nd Session. Dec. 23, 1946. (Committee Print no. 13)
157. U.S. Department of Agriculture. Agricultural Marketing Service. Crop Registry Board. Number of farms by States 1910-57...with supplements Feb. 26, 1960 and Feb. 23, 1962.
158. U.S. Department of Agriculture. Agriculture Research Service. A statistical summary of farm tenure, 1954. 1958. 62 p. (Information Bulletin no. 200)
159. U.S. Department of Agriculture, Bureau of Agricultural Economics. Library. Agricultural Economics bibliography no. 30. Nov. 1929. 87 p.

160. U.S. Department of Agriculture. Bureau of Agricultural Economics. Agricultural Economics bibliography no. 69. Library. Colvin, E.M. Large scale and corporation farming. Rev. no. 60. April 1937. 121 p.
161. U.S. Department of Agriculture. Farm income situation. Washington, July 1961. 54 p. (Economic Research Service)
162. U.S. Department of Agriculture. New pros and cons in incorporating family farms. Washington, D. C., July 1959. 3 p.
163. U.S. Department of Agriculture. Statistical Reporting Service. Crop Reporting Board. Farm labor. March 9, 1962. 8 p.
164. U.S. Farm Credit Administration. Laws administered by the Farm Credit Administration as amended to Jan. 1, 1957. Washington, D. C., 1957. 229 p. (Revised Circular no. 20)
165. U.S. Joint Economic Committee. Policy for commercial agriculture in relation to economic growth and stability. Washington, 1957. 864 p.
166. U.S. Technical Committee on Industrial Classification. Standard industrial classification manual. Washington, Office of Statistical Standards, 1957. 433 p.
167. U.S. Treasury Department. Internal Revenue Service. Statistics of income, 1916-1958-9.
- 167a. Walker, Thomas J. A trend toward large units. Capper's Farmer 42(3):14. 1931.
168. Weaver, W.O. Let's incorporate Blackacre. American Bar Association Journal 46(7):710-712. July 1960.
169. Weeks, David. Institutions for agricultural production. Agricultural Engineering 12:376-77. Oct. 1931.

170. Wells, David A. Recent economic changes and their effort on the production and distribution of wealth and well-being of society. In: U.S. Department of Agriculture, Bureau of Agricultural Economics. Library. Agricultural Economics bibliography no. 30. Nov. 1929. 87 p.
171. Wheat King's crop sold for rent. Northwestern Miller and American Banker 9:608.
172. White, J.P. Taxation of the family farm corporation. North Dakota Law Review 36:87. April 1960.
173. White, W. B. Corporation farming should increase the feed dealers business. Coop Manager and Farmer 18:66. Mar. 1929.
174. Wickens, David L. Farm land held by corporations. U.S. Department of Agriculture, Bureau of Agricultural Economics. Agricultural Situation 19(6):12. 1935.
175. Yerkes, A.P. Individual or corporation farming. Power Farming 29:11-12. June 1920.

APPENDICES

APPENDIX A

Appendix A Table 1. Disposition of 640 corporations "suspected" of agricultural production in Oregon.

Corporations engaged in agricultural production by major enterprise	
Major enterprise <u>1/</u>	Number of corporations
Livestock	102
Grain	51
Vegetables	34
Fruit	34
Nursery	28
Poultry	15
Leased	15
Dairy	11
Tree Farms	12
Recreation	9
Fur Farms	7
Hops	6
Cranberries	1
Mushrooms	1
Mint	1
Produce but major enterprise unknown	<u>7</u>
Total chartered domestic	335
Total foreign	<u>27</u>
Total chartered domestic and foreign	362
Dissolved	<u>22</u>
Total agricultural corporations	384
Corporations not in agricultural production but engaged in processing or sales of agricultural products	
	Number of corporations
Grain, feed and seed dealers	42
Meat processing and sales	28
Dairy processing and sales	25
Fruit processing and sales	20
Poultry processing and sales	17
Vegetable and row crop processing and sales	13

Appendix A Table 1 (Continued)

Nursery and floristic sales	12
General food processors and distributors	11
Livestock sales	10
Fruit and vegetable processing and sales	7
Agricultural supplies	4
Fur sales	2
Fish farm	1
Agricultural custom work	1
	<u>193</u>

Corporations engaged in nonagricultural activity

	<u>Number of corporations</u>
Real estate and holding companies	27
Retail establishments	7
Logging-lumber	5
Nonagricultural leases	3
Mineral-oil-gas lands	2
Miscellaneous	7
Nonagricultural production otherwise unknown	12
	<u>63</u>

Summary:

Total domestic corporations in agricultural production	335
Foreign corporations in agricultural production	27
Dissolved agricultural corporations	22
Total in agricultural processing and sales	193
Total nonagricultural corporations	<u>63</u>
Total disposition of mail questionnaires	640

1/ According to largest gross sales

Appendix A Table 2. Strata withdrawn to further delimit Oregon corporate farm study.

Production Enterprises	Number of Corporations
Tree farms	12
Recreation (dude ranches, gun clubs, etc.)	9
Fur farms	7
Hop yards	5
Cranberry	1
Mushroom	1
Mint	1
	<hr/> 36

Appendix A Table 3. Adjustments to corporate farm strata prior to drawing sample.

Reason for withdrawal	Number of corporations
Not fully organized or never operated	14
Farms outside Oregon only	14
Production incidental <u>1/</u>	7
Inactive	8
Special and peculiar cases	5
	<hr/> 48

1/ Production was deemed incidental when a corporation received less than 10% of its gross income from agricultural products and operated less than 100 acres.

APPENDIX B

Source of Data and Adjustments for Chapter IIIClassification and Adjustments to Statistics of Income Data

Statistics of Income classifications (167) relative to corporate agricultural firms have undergone many changes. The first major classification started as "Agricultural and Animal Husbandry" with subclasses of farming, florist and fruit, and stock raising. This classification and breakdown was extended to each of the states. However, the following year the major classification was changed to "Agriculture and Related Industries" with no subcategories. From 1918 through 1924 "farming" was added as a subclass with subclasses of cotton farming, grain farming, fruit, livestock, and all other farming. The subclass "Related Industries" was broken into logging, fishing, ice harvest, and all others. Only the major classification "Agriculture and Related Industries" was carried to the states and then discontinued after 1930. From 1925 through 1937 all subclasses below "farming" were dropped. From 1938 through 1947 the major classification was "Agriculture, Forestry, and Fisheries" with a subclass "Agriculture and Related Services." In 1948

the subclass was changed to "Farms and Agriculture Services".

In 1953 existing state data were replaced with Internal Revenue regional and district data reported on a gross basis in alternate years. In 1958 the subclassification was dropped, and since then only combined data for agriculture, forestry and fisheries was reported.

Classification since 1948 has been from Standard Industrial Classification Manual. The edition revised in 1957 states:

"Agricultural operations consist of the production of crops or plants, vines, and trees (excluding forestry operations); or the keeping, grazing, or feeding of livestock for animal products (including serums), animal increase, or value decrease. Livestock, as here used, includes poultry of all kinds, rabbits, bees, and fur bearing animals in captivity, in addition to mules, asses, burros, horses, cattle, sheep, goats, and hogs. This division also includes activities such as dry lot or farm dairies; nurseries; greenhouses; sod farms; bulb, flower, and vegetable seed crops; mushroom cellars; cranberry bogs; apiaries; poultry hatcheries; and fur farms. The classification of agriculture also includes agricultural services, animal husbandry services, horticultural services, and other operations such as hunting, trapping, and game propagation, when carried on as business enterprises. (166, p. 11)."

Under the subclassification of "agricultural services and hunting and trapping" are such things as cotton ginning and compressing, grist mills including custom flour mills, corn shelling, hay baling and thrashing services, contract sorting, grading and sorting of fruit and vegetables for the grower, crop dusting, fruit picking, grain cleaning, harvesting and plowing, veterinary medicine and

animal hospitals, poultry hatcheries, feedlot operations, commercial kennels and stables (166, p. 12).

A Senate committee report to the 85th Congress made reference to farm corporate statistics and said in a footnote:

"The category 'farms and agricultural services' clearly contain firms not engaged wholly in conventional farming, and they inflate the apparent importance of corporation farming. On the other hand, some processing corporations producing farm products may be included in such categories as 'manufacturing: food and kindred products' rather than in 'farms and agricultural services.' It is believed that the first factor outweighs the second. (165, p. 163)."

In the data where "related services" were included, there was no attempt to adjust for those firms not traditionally considered to be farms. In answer to an inquiry relative to unpublished data or information that would lead to a further breakdown or estimate of nonfarms in this category, the Internal Revenue service replied in a letter dated March 6, 1962.

"..... There are no unpublished data either showing any further industry detail within the farms and agricultural services group for the years prior to 1958-59, or any detail at all for the division, agriculture, forestry, and fisheries for years beginning with 1958-59. Therefore, we have no basis for estimating the percentages of nonfarm and ranches."

In order to make data more comparable as a result of the

changes in data classification, some adjustments have been made using certain proportional relationships of one time period to interpolate data for another time period. The adjusted data appears in Appendix B, Table 1.

Classification and Adjustment to Oregon Corporation Data

Data acquired from the Oregon Corporation Commissioner's office and from mail questionnaires were adjusted with information obtained from the survey interviews in order to further approximate the types of farm-ranch corporations in Oregon. There are two ways of classifying corporations: (1) those officially and legally chartered; (2) those actually doing business. To make Oregon data comparable with U.S. data from the Statistics of Income (167) the following adjustments were made to Oregon data: (1) Inactive corporations were removed from Oregon's total corporations. (2) Foreign corporations were removed, since they would have been counted in another state. (3) Lessors, tree farms and recreational farms (gun clubs, dude ranches) were removed, since they are not classed as farming enterprises. The resulting adjusted classification is shown in Appendix B, Table 4.

Appendix B Table 1. Farm corporations in the United States as related to total corporations and total farms, 1916-1958.

Year	Corpora- tions in U.S. <u>1/</u>	Active Farm Corpo- rations <u>1/</u>	Farm Corpora- tions as Percent of Total Corpora- tions	Total Farms in U.S. <u>2/</u>	Farm Cor- poration as Percent of Total Farms
1916	341,253	5,499	1.61	6,463,300	0.085
1917	351,426	7,303	2.08	6,477,600	0.013
1918	317,579	6,148	1.94	6,487,500	0.095
1919	320,198	6,470	2.02	6,506,000	0.099
1920	345,595	7,074	2.05	6,517,500	0.109
1921	356,397	6,737	1.89	6,510,700	0.103
1922	382,883	7,026	1.84	6,499,600	0.108
1923	398,933	7,253	1.82	6,491,800	0.112
1924	417,421	7,505	1.80	6,480,100	0.116
1925	430,072	8,228	1.91	6,470,600	0.127
1926	455,320	8,437	1.85	6,470,600	0.130
1927	475,031	7,708	1.62	6,458,100	0.119
1928	495,892	8,093	1.63	6,469,700	0.125
1929	509,438	8,283	1.63	6,511,600	0.127
1930	518,736	8,777	1.69	6,545,600	0.134
1931	516,404	8,735	1.69	6,608,500	0.132
1932	508,636	8,685	1.71	6,686,750	0.130
1933	504,080	8,193	1.63	6,740,750	0.122
1934	528,898	8,165	1.54	6,775,900	0.121
1935	533,631	7,865	1.47	6,813,700	0.115
1936	530,779	7,737	1.46	6,739,150	0.115
1937	529,097	7,539	1.42	6,635,850	0.114
1938	520,501	8,227	1.58	6,526,700	0.126
1939	515,960	7,834	1.52	6,440,900	0.122
1940	516,783	7,540	1.46	6,349,800	0.119
1941	509,062	7,098	1.39	6,293,250	0.113
1942	479,677	6,639	1.38	6,201,800	0.107
1943	445,894	6,259	1.40	6,089,000	0.103
1944	446,796	5,830	1.30	6,003,400	0.097
1945	454,460	5,639	1.24	5,966,750	0.095
1946	526,363	6,041	1.15	5,925,650	0.102
1947	587,683	6,660	1.13	5,870,950	0.113

Appendix B Table 1. (Continued)

Year	Corpora- tions in U.S. <u>1/</u>	Active Farm Corpo- rations <u>1/</u>	Farm Corpora- tions as Percent of Total Corpora- tions	Total Farms in U.S. <u>2/</u>	Farm Cor- poration as Percent of Total Farms
1948	630,670	7,621	1.21	5,803,000	0.131
1949	649,957	7,336	1.13	5,722,250	0.128
1950	665,992	7,561	1.14	5,647,800	0.134
1951	687,310	8,628	1.26	5,427,600	0.159
1952	672,071	8,155	1.21	5,197,500	0.157
1953	697,975	8,693	1.25	4,983,600	0.174
1954	722,805	7,971	1.10	4,798,200	0.166
1955	807,303	9,421	1.17	4,653,800	0.202
1956	885,747	10,182	1.15	4,514,100	0.225
1957	940,174	10,787	1.15	4,371,700	0.247
1958	990,381	12,773	1.29	4,232,900	0.302
1959				4,097,300	

1/ (167)2/ (157)

Appendix B Table 2. Farm corporation sales and assets as related to total farm sales and assets in the United States, 1916-1958.

Year	Sales		Farm	Total Assets		Corp.
	Farm	Total	Corp.	Corp.	All	Assets as
	Corp. <u>1/</u>	Farm <u>2/</u>	Sales as	Farm <u>1/</u>	Farms <u>3/</u>	Percent of
			Percent			Assets of
			of Total			All Farms
			Sales			
(Millions of dollars)						
1916		7,746				
1917	777	10,736	7.24			
1918	524	13,467	3.89			
1919	791	14,533	5.44			
1920	725	12,600	5.75			
1921	676	8,058	8.39			
1922	561	8,575	6.54			
1923	615	9,545	6.44			
1924	642	10,225	6.28			
1925	592	11,021	5.37			
1926	709	10,558	6.72			
1927	681	10,733	6.34			
1928	685	10,991	6.23			
1929	715	11,312	6.32			
1930	551	9,055	6.09		68,400	
1931	417	6,381	6.54			
1932	329	4,748	6.93			
1933	341	5,332	6.40			
1934	479	6,357	7.54			
1935	517	7,120	7.26			
1936	627	8,391	7.47			
1937	674	8,864	7.60			
1938	422	7,723	5.46	1,317		
1939	424	7,872	5.39	1,290		
1940	484	8,383	5.77	1,377	53,000	2.60
1941	538	11,111	4.84		55,100	
1942	603	15,565	3.87	1,270	62,500	2.03
1943	671	19,620	3.42	1,290	73,300	1.76
1944	739	20,536	3.60	1,322	83,800	1.58
1945	744	21,663	3.43	1,359	93,100	1.46

Appendix B Table 2. (Continued)

1946	927	24,802	3.74	1,445	102,200	1.41
1947	1,266	29,620	4.27	1,574	113,900	1.38
1948	1,398	30,227	4.63	1,717	125,200	1.37
1949	1,436	27,828	5.16	1,809	132,100	1.37
1950	1,507	28,512	5.29	2,114	130,800	1.62
1951	1,793	32,958	5.44	2,335	149,600	1.56
1952	1,909	32,632	5.85	2,195	165,600	1.33
1953	1,846	31,126	5.93	2,222	162,900	1.36
1954	1,712	29,953	5.72	2,443	159,700	1.53
1955	2,005	29,556	6.78	2,470	164,700	1.50
1956	2,076	30,564	6.79	2,590	168,000	1.54
1957	2,256	29,824	7.56	2,786	176,200	1.58
1958	2,610	33,405	7.81		185,800	
1959		33,452			201,900	
1960		34,706			202,900	
1961		36,239			204,100	

1/ (167)

2/ (158, p. 41)

3/ (46, p. 294)

Appendix B Table 3. Oregon business and farm corporation organized, dissolved and remaining each year with percentage relationships.

Year	All Business Corporations <u>1/</u>			Farm Corporations <u>2/</u>			Farm Corporations As a Percent of Total Corps.	Total <u>3/</u> Farms in Oregon	Farm Corporations As a Percent of Total Farms
	Organized and Reinstated	Dissolved	Remain- ing	Organized and Reinstated	Dissolved	Remain- ing			
1880				1		1			
1881				1		2			
1882				1		3			
1883						3			
1884						3			
1885				1		4			
1886				1		5			
1887				2		7			
1888				2		9			
1889				1		10			
1890				2		12			
1891				8		20			
1892				5		25			
1893				4		29			
1894				3		32			
1895				2		34			
1896				3		37			
1897				5		42			
1898				3		45			
1899						45			
1900				7		52			
1901				9		61			
1902				14		75			

Appendix B Table 3. (Continued)

Year	All Business Corporations			Farm Corporations			Farm Corporations As a Percent of Total Corps.	Total Farms in Oregon	Farm Corporations As a Percent of Total Farms
	Organized and Reinstated	Dissolved	Remain- ing	Organized and Reinstated	Dissolved	Remain- ing			
1903				13	3	85			
1904				4	4	85			
1905				9	3	91			
1906				8	44	55			
1907				14	6	63			
1908				24		87			
1909				46	1	132			
1910				54	8	178		46,400	0.38
1911				57	15	220		46,800	0.47
1912				30	24	226		47,200	0.48
1913			6,877	30	20	236	3.43	47,500	0.50
1914	693	1017	6,553	25	39	222	3.39	48,000	0.46
1915				14	23	213		48,400	0.44
1916				13	19	207		49,000	0.42
1917				33	27	213		49,500	0.43
1918			6,020	8	23	198	3.29	50,000	0.40
1919	529	640	5,909	19	20	197	3.33	50,500	0.39
1920				20	22	195		51,200	0.38
1921				26	22	199		52,200	0.38
1922				17	15	201		53,200	0.38
1923				27	25	203		54,200	0.37
1924				33	23	213		55,000	0.39
1925			8,981	25	23	215	2.39	55,900	0.38

Appendix B Table 3. (Continued)

1925			8,981	25	23	215	2.39	55,900	0.38
1926	1026	242	10,249	25	19	221	2.16	56,000	0.39
1927			10,636	18	25	214	2.01	56,000	0.38
1928				26	27	213		56,500	0.38
1929				35	18	230		57,900	0.40
1930	975	907	7,293	27	17	240	3.29	58,500	0.41
1931	881	907	7,267	16	30	226	3.11	59,600	0.38
1932	790	228	7,829	32	40	218	2.78	61,100	0.36
1933	628	956	7,501	26	22	222	2.96	62,500	0.36
1934	667	1166	7,002	15	15	222	3.17	64,100	0.35
1935	637	1164	6,475	18	38	202	3.12	64,800	0.31
1936	647	931	6,191	8	23	187	3.02	64,500	0.29
1937	530	893	5,828	11	30	168	2.88	64,300	0.36
1938	388	783	5,433	6	23	151	2.78	63,600	0.24
1939	384	652	5,165	6	16	141	2.73	63,200	0.22
1940	446	542	5,069	8	8	141	2.78	63,200	0.22
1941	358	601	4,826	5	20	126	2.61	63,700	0.20
1942	216	595	4,447	2	9	119	2.68	64,000	0.19
1943	152	563	4,036	7	15	111	2.75	64,300	0.17
1944	185	488	3,733	6	9	108	2.89	64,500	0.17
1945	249	403	3,579	5	5	108	3.02	64,000	0.17
1946	772	299	4,052	20	5	123	3.04	63,500	0.19
1947	1,109	255	4,906	14	6	131	2.67	63,100	0.21
1948	1,048	301	5,653	31	6	156	2.76	62,800	0.25
1949	729	377	6,005	19	8	167	2.78	62,600	0.27
1950	769	508	6,266	19	7	179	2.86	62,600	0.29

Appendix B Table 3. (Continued)

1951	679	530	6,415	19	7	191	2.98	61,800	0.31
1952	782	524	6,673	18	11	198	2.97	60,900	0.33
1953	867	508	7,032	25	6	217	3.09	60,000	0.36
1954	793	491	7,334	15	5	227	3.10	59,200	0.38
1955	1,127	636	7,825	22	25	224	2.86	57,800	0.39
1956	1,146	684	8,287	32	4	252	3.04	56,300	0.45
1957	1,110	435	8,962	20	11	260	2.90	55,000	0.47
1958	1,181	701	9,442	43	11	292	3.09	54,000	0.54
1959	1,682	710	10,414	76	25	343	3.29	53,500	0.64
1960	1,923	820	11,517	60	19	384	3.33		
1961	1,679	742	12,454						

1/ Fiscal year ending June 30 each year; source, (116)

2/ Calendar year

3/ Source, (157)

Appendix B Table 4. Types of farm-ranch corporations in Oregon December 31, 1960 adjusted from interviews and to coincide with internal revenue and census of agriculture classifications. 1/

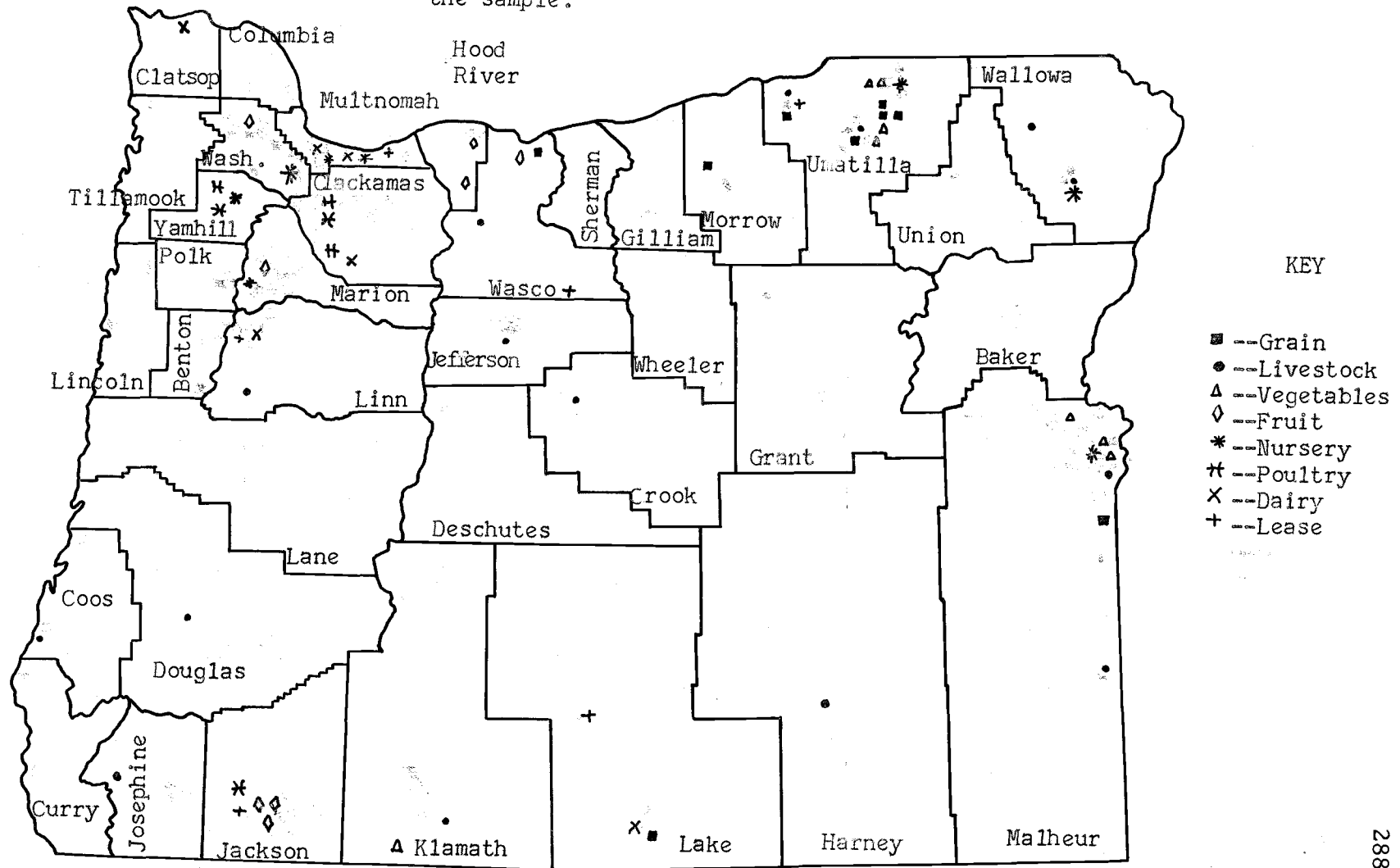
Type of farm-ranch corporations	Chartered corporations adjusted from interviews <u>2/</u>	Active corporations adjusted to Internal Revenue classifications	Operating corporations adjusted to census classifications
Livestock <u>3/</u>	93	101	101
Grain	43	45	45
Vegetables <u>4/</u>	38	43	50
Fruit <u>5/</u>	30	32	33
Nursery	27	27	8/
Poultry	12	12	12
Dairy	9	9	9
Lessor	22	7/	7/
Tree farms	13	7/	8/
Recreation	11	7/	7/
Fur farms	8	8	8/
Hops	6	6	8/
Cranberry	1	1	8/
Mushroom	1	1	8/
Mint	1	1	8/
Foreign	18	8/	8/
Farms outside			
Oregon only	15	15	7/
Never operated	14	7/	7/
Inactive	8	7/	7/
Production incidental	8	7/	7/
Special cases	6	7/	7/
Miscellaneous <u>6/</u>	<u>6/</u>	<u>7/</u>	<u>50</u>
	384	301	300

- 1/ The classifications by types which are identified by footnotes to table continue throughout presentation.
- 2/ Includes corporations organized in last half of 1960, excludes any dissolved.
- 3/ Includes census classification "Livestock farms other than poultry and dairy farms" and "Livestock ranches".
- 4/ Includes census classification "Other field crop farms" and "Vegetable farms" hops and mint.
- 5/ Includes nuts and cranberries. 6/ Includes nurseries, tree farms, fur farms, mushroom farms. 7/ Omitted from category. 8/ Classified elsewhere within category.

Appendix B Table 5. Location by county of sample farm-ranch corporations by stratum.

County	Grain	Live- stock	Vege- table	Fruit	Nur- sery	Poul- try	Dairy	Lessor	Total
Baker									0
Benton							1		1
Clackamas						3	1		4
Clatsop							1		1
Columbia									0
Coos		1							1
Crook		1							1
Curry									0
Deschutes									0
Douglas		1							1
Gilliam									0
Grant									0
Harney		1							1
Hood River				2					2
Jackson				3		1		1	5
Jefferson		1							1
Josephine		1							1
Klamath		1	1						2
Lake	1						1	1	3
Lane									0
Lincoln									0
Linn							1		1
Malheur	1	2	3		1				7
Marion				1	1		1		3
Morrow	1								1
Multnomah					2		1	1	4
Polk									0
Sherman									0
Tillamook									0
Umatilla	5	2	4		1			1	13
Union									0
Wallowa		2			1				3
Wasco	1	1		1				1	4
Washington				1	1				2
Wheeler									0
Yamhill					1	2			3
Total	9	14	8	8	8	6	6	6	65

Appendix B, Figure 1. Location and type of Oregon farm-ranch corporations included in the sample.



APPENDIX C

Source of Data and Adjustments for Chapter IVClassification and Adjustments for Census of Agriculture Data

The 1959 Census of Agriculture (155) was used for noncorporate farm data. Corporate farm data in Oregon was acquired primarily by personal interview during spring of 1961. Data was acquired for the 1960 crop year with balance sheet data at time of interview. The 1959 Census of Agriculture data and the 1960-61 Oregon corporate farm data are therefore not entirely comparable by years. Census of agriculture data are not available for 1960. The difference in data that might exist in the different years are not considered to be serious for the purposes of gross estimates and comparisons made in Chapter IV.

In comparing corporate farm data with census data, recognition also needs to be made of the fact that census data includes corporate farm data. Thus to a minor degree, corporate farms are being compared to themselves when corporate farm data is compared to census data.

Appendix C Table 1. Bureau of the Census economic class of farms according to gross sales.

Class of farm	Value of farm products sold
I	\$40, 000 and over
II	20, 000 to 39, 999
III	10, 000 to 19, 999
IV	5, 000 to 9, 999
V	2, 500 to 4, 999
VI 1/	50 to 2, 499

1/ Provided the farm operator was under 65 years of age, and (1) he did not work off the farm 100 or more days, and (2) the income that he and members of his household received from non-farm products sold. (155, p. XXIV)

Number of Corporate Farms

Adjustments were made to the total number of chartered farm-ranch corporations in Oregon to make the number by type of farm comparable with census classification. These adjustments appear in Appendix B, Table 4. The adjusted strata were grouped by census economic class as appears in Table 12.

Population Estimates

The farm corporation data representing the population, appearing throughout this chapter and the remaining chapters,

were developed by extending the weighted sample data to the entire population. Since the sample was disproportionate, weighted multipliers were used to arrive at estimates of the population (Appendix C, Table 2).

Appendix C Table 2. Multipliers used to extend data from the disproportionate sample to estimates of the entire population

Sample strata	Multiplier
Grain	4.77778
Livestock	6.64286
Vegetables	4.75
Fruit	3.75
Nursery	3.375
Poultry	2.0
Dairy	1.5
Lessor	3.66667

Acreage, Sales

For the subsections "Acreage and Sales" some data was used from sources other than the sample. Specialty and miscellaneous farms were excluded from the delimited farm ranch corporation study (Table 1), but census data includes them (Appendix B, Table 4). Therefore, in order to make farm-ranch corporation data and census data more comparable, data from the mail questionnaire for specialty and miscellaneous farms were added to the weighted and

extended sample data to arrive at estimates of the population.

Land and Buildings

The only balance sheet data supplied by the 1959 Census of Agriculture (155) is value of land and buildings per farm. Comparative data for corporations in this section are rough estimates because of the nature of the data, and the population from which the sample was drawn did not include 23 miscellaneous and 8 specialty farms (Table 1 and Appendix B, Table 4). Adjustments have not been made for the comparisons in this section to exclude these farms from the census data or to include them with the sample data. However, the lack of adjustments in this respect is not considered serious for a concept of general relationships presented here.

Foreign Corporations

Foreign corporations have been included in all comparisons with census data, since they would have been enumerated with the census and included as farms. Because foreign corporations were generally larger than domestic corporations, their inclusion in the corporate farm data presented in Chapter IV tended somewhat to inflate corporate farm data. However for purposes of general comparisons which have been made, this inflation is not considered

serious, since foreign corporations made up only about 6 percent of the total operating corporations.

Since no further comparisons with census data was made, and because foreign corporations were to a high degree unique in size and operations, and since major concern was with active domestic corporations, foreign corporation data were not included in the section, "Balance Sheet of Corporate Farming," or in chapters thereafter, except occasionally to bring in data separately on a comparative basis.

Dissolved Corporations

The dissolved corporations studied were, to a high degree, unique. Because of primary interest in active corporations, data from dissolved corporations have not been included except where encountered separately for comparative purposes or for case type presentation.