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Output Management for Agriculture?

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Why Important?

The importance of a liquid financial position for the estate and heirs at death of the owner was borne out by another part of the study in the same county. In addition to studying the probate records of 113 estate settlements, we interviewed 76 living land owners and examined their estates. We assumed that each land owner died on the day that he was interviewed.

We found that 91 percent of the estates wouldn't have had sufficient liquid assets to pay estate settlement costs and taxes. If liquid assets held in joint tenancy

and life insurance payable to named beneficiaries were used to pay costs and taxes, half of the estates still wouldn't have had enough liquid funds. These assets, however, don't pass to the executor or administrator; they could have been used only if the surviving joint tenant or life insurance beneficiary made them available.

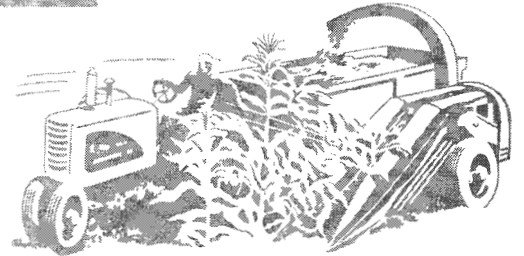
Whether these people would allow such funds to be used to pay estate expenses might depend on the extent of their interests as beneficiaries in the rest of the estate. A surviving joint tenant can be compelled to pay his inheritance tax on joint-tenancy prop-

erty, and the insurance beneficiary can be made to pay his share of the estate tax. Otherwise, they're not subject to compulsion except under very unusual circumstances.

In 12 percent of the situations analyzed, farm land would have had to be sold and converted into cash to pay costs and taxes. Remember, too, that debts have to be paid in addition to settlement costs and taxes. In the sample studied, about 40 percent of the cases had outstanding debts. Generally the failure of liquidity was complete in these cases. That is, the cases with insufficient liquidity to pay costs and taxes were also the ones with outstanding debts.



Output Management for Agriculture ?



Could agriculture learn to manage its output from some other industries? Some industries have experience in managing excess capacity. Agriculture might want to look at the alternative methods and their consequences.

by **Arnold Paulsen, Earl O. Heady and L. B. Fletcher**

THE CORE of the commercial farm problem is surplus capacity. Over the last 30 years generally, the productivity of our land and of the resources used with it has increased tremendously.

When we use agriculture's full productive capacity for the conventional mix of crops, we now either produce surplus crops which must be stored or we market so

much that farm prices and incomes are low. We've been doing both of these in recent years.

The same thing tends to happen in some other industries if they use their full productive capacity when demand is limited. But not all industries produce at maximum capacity. Some tend to fit their output to market conditions rather than to the capacity of their plants.

"Output Management"?

Our farm industry—now more than ever before—has a productive capacity greater than the

quantity demanded at satisfactory prices. The industry must either face the consequences of full-capacity production or face a problem of "output management" just as do some other industries with short- or long-run excess capacity. Total farm output generally has been expanding, and individual producers market this production regardless of the price-depressing effects.

In contrast, price has been more constant in many nonfarm industries. The firms sell what they can at the price established. Their prices have been relatively stable. The large variation has been in

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output or the percent of capacity at which an industry operates.

The steel industry, for instance, ran at less than half of capacity during part of 1960. It frequently operates at 80-90 percent of capacity. A price for steel is established by leading producers in the industry—without the aid of a government regulating agency.

Producers offering steel at above the going price can sell little, if any. If a producer cuts the price below the going rate, others are likely to match the price, and the price cutter gains little, if any, new sales. As a result, he finds that the total dollar value of his sales is lowered. Also, he might expect various sorts of retaliation, such as price wars, from other producers. As a result, each producer sells what he can at the established price or makes only a few “quiet” concessions from established prices. He tries to produce just what he can sell at prices he will accept because any additional production goes into inventory to be held at a cost.

The petroleum industry, too, has had excess capacity and surplus inventories over the past several years. But it hasn't operated at full capacity and thrown its surplus on the market to take whatever price it could get. Crude oil production has been held below capacity for several years, and the low prices of “full capacity production” have been avoided.

To do this, the industry has enlisted the aid of federal and state

regulating agencies. National demand for crude oil at the desired price is estimated a month ahead. In several major producing states, state agencies set “allowable production” for all producers each month. Production above this level is prevented to avoid waste of natural resources.

Once the allowable production is established, the price for each month is determined by the competition of buyers for the supply available. But because production has been brought forth to meet expected demand for the month, crude oil prices have been quite stable. If the demand is less than expected and prices weaken, the level of allowable production would be cut in the next month to restore prices.

Firms still compete vigorously with one another in these nonfarm industries. Each tries to produce more cheaply than his competitor so that he can make more money at the going price or sell at a lower price, if necessary, and still cover costs. Each firm tries to please the customer with a more desirable product to help gain a greater share of the market for the firm.

Neither of these two example industries go full-speed-ahead in production. In both cases, the adjustments to excess capacity situations usually are made in output—in relation to amounts that can be sold at established prices—rather than by maintaining output and letting prices adjust to full-production levels.

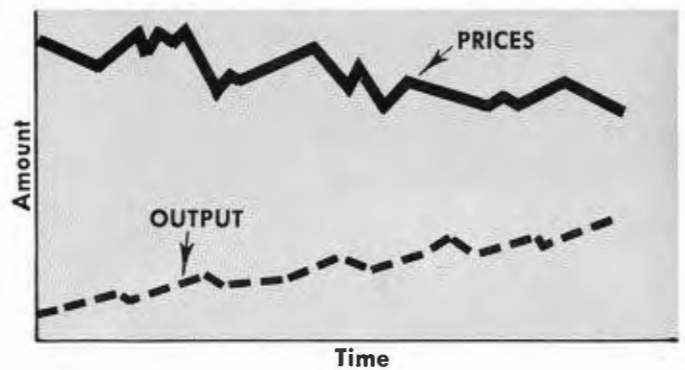
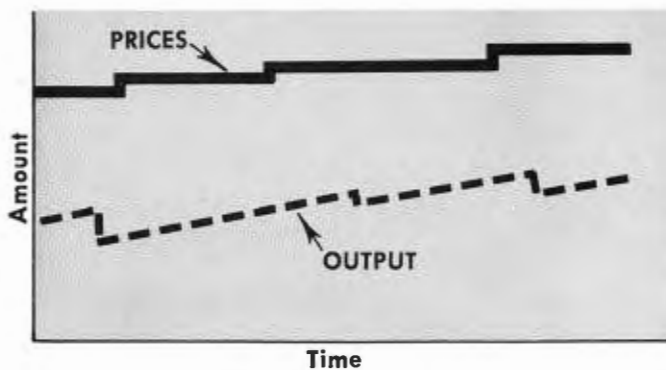
With What Result?

What are some of the results of variable output or less than full-capacity production? Don't be mistaken. There *is* some pain associated with managed output.

Profits of the steel and oil industries drop sharply when production falls below capacity. Thousands of workers also are laid off when output falls and, thus, are hurt by production control. Many would rather keep on working at a cut in wages rather than be laid off by shutting down a steel mill or by reducing the pumping rates of oil fields. But constant full-capacity production and accepting a lower price on a larger output and a lower return to labor and investment isn't permitted in industries where production is variable to keep prices more stable. Apparently the consequences of full-capacity production among these firms are more painful than is a reduced production.

What About Agriculture?

Could the agricultural industry adopt some sort of behavior to work along these lines in keeping output in line with demand? Interest is high in the possibilities of handling farm surplus capacity in a parallel fashion. In terms of American business traditions, many believe that agriculture should follow the lead of these other industries—with competition



Some nonfarm industries that have chronic problems of too much capacity, vary their output according to market conditions and manage to keep prices relatively stable (left). Farm output, on the other hand, has expanded almost constantly, and most of the variation has been in prices (right).

among producers in lowering costs, in improving products and in obtaining maximum market returns, but with output managed so as to achieve desired prices. Agriculture, in this way, would correspond more closely to other major industries.

Let's consider three broad types of output management possibilities for agriculture:

(1) Could agriculture manage its own output like the steel industry—with no government regulating agencies—and bring forth its output to meet demand at relatively stable prices?

(2) Could it manage output more like the oil industry—perhaps asking federal and state agencies to estimate demand for the coming year at desired prices and to distribute “allowable production” levels to all producers in each state and to prevent excess production for “conservation” purposes?

(3) Could a land-retirement program make it possible for the federal government to “buy up” the excess capacity that has been created—leaving the rest of agriculture free to operate on an open market and still achieve satisfactory prices?

Manage its own output? Some farmers are saying, “If we're to manage output, we'll have to do it ourselves, like the steel mills.” Could agricultural producers band together into groups, decide on a price and sell only what they could at these prices? Could they, by persuasion or contract, prevent producers from selling for less than the agreed-upon price? Could they get producers to “inventory” or destroy excess production that couldn't be sold at the agreed-upon price? Could these producers stay together as friends and neighbors without resorting to retaliation and violence against a producer who flagrantly ignored the rules?

We don't know the answers to these questions. For it to work, a producer would have to give up

some of his rights to make decisions about what and how much to produce. He'd have to let the group decide some of these things. He'd probably find this painful. But, like other industries, he might find the pain of output management to be less than the pain of full-capacity production. Some method of keeping “maverick” producers in line would be necessary. The courts might be used if the contracts were signed by producers. If not signed, would physical force, violence and fear of retaliation be the only means of enforcing compliance with group decisions?

Manage with just a little government help? Agriculture has millions of producers. It's very difficult for them to act together. Could agricultural producers, like the oil industry, enlist the aid of government? Could state or federal agencies estimate the demand for the next year at present or “fair” prices and then distribute “orders” for this output among producers? It seems that it would be possible to go this far.

There'd be some quarrel about what “fair” prices are, about how much should be sold at those prices and about how to distribute the demand among producers. Still, the estimates could be made and the demand distributed. Then, to obtain a “more stable price” and a “more variable output,” producers would have to follow the allowable production levels given them.

Could producers be made to want to produce just this amount? Possibly, but no sure ways of doing it have been worked out. What's necessary is to make it attractive to produce the allowable amount but unattractive to produce more.

It would be necessary to have a zero price or a heavy penalty for production over the allowable amount. The price wouldn't be determined by government buying but by buyer competition for the total amount produced and sold.

Producers would be free to dispose of their production at the most profitable time and place. Costs to the government would be only those for administration.

Manage excess capacity by land retirement? Before World War I, land placed a major physical limit on total agricultural production. All land was used. Full-capacity production sold at prices high enough to provide what was called the Golden Age of Agriculture. Now, with better production methods and added resources, it's just as though we'd added much more land. This suggests the possibility of buying up enough land to match this excess capacity.

Perhaps for the sake of higher price levels for farmers, the government could do this in the form of a land-retirement program. With enough land out of production, the excess capacity would be gone, and land would be reinstated as a major physical limit on production. Remaining producers could then go ahead and produce and sell in a constricted but open market.

Is it really this simple? Perhaps not. There'd be quarrels as to what are satisfactory prices and quarrels over how much excess capacity there is for satisfactory prices. There'd also be quarrels about where the excess capacity is and who has it, and there might be some trouble about buying up the excess capacity because it would cost a lot of money.

Summing Up: We can't say that there's any “best” way to put agriculture into the category of other industries with “prices more stable and output more variable.” There are many questions to be answered. It's possible that output management could be achieved with no help, with a little or with a lot of help from the government. It wouldn't be painless. But it might be less painful for agriculture over time than accepting the consequences of a mounting full-capacity production.