

# “Which farmers consider profit a dirty word?”

**UNIVERSITY PARK —**  
Why is profit considered a unspeakable word by some groups of farmers? asks H. Louis Moore, Extension Economist Penn state.

Webster defines profit as a gain or valuable result or the excess of returns over costs in a business. Certainly nothing there to imply that profit is a four letter word. But some farmers treat it like a four letter word.

Let's look at some agricultural enterprises and see how they respond to profits or losses.

Hog producers were happy in 1978. They made money (profits). During the first half of the year their margin over break-even ranged from \$3 to \$10 per hundredweight. They were proud of their profits and openly talked of expansion.

Profits were high enough to eventually bring about an increase in pork production of 15 percent in 1979 and 7 percent in 1980. A weak economy and cautious consumers coupled with a record pork supply resulted in heavy losses for hog producers in 1980.

How do they react to such bleak economic news? They openly talk about losses and their plans to cut back on hog output. By March, 1981, pork producers had reduced their inventory 8 percent from a year earlier and planned to cut farrowings by 11 percent.

This is a typical reaction expected from hog producers. They openly admit their current problems resulted from profits which were too high in 1978 and in early 1979.

Cattle feeders have always admitted their business is highly risky. There are always the hopes of profit, but losses are as likely to come to the cattle feeder.

Cattle feeders had heavy losses in 1977, but they came back and made excellent profits early in 1979. By May 1979 some cattle feeders bragged about clearing nearly \$14 per hundredweight for each animal sold from the feedlot.

They reacted by expanding. To expand they had to bid higher prices for feeder cattle, but they didn't mind because they thought profits would continue. But the same weak economy which hit pork producers hit the beef in-

dustry harder. In addition, consumers turned more to pork and poultry because they were reasonably priced compared to beef.

Cattle feeders still talk about profits, but they haven't seen any since July, 1979. Many have let their lots stand empty or have cut back sharply on the number fed. Like hog producers they seem to be reacting in a rational economic manner.

Beef and hog producers expand when there is good profit potential and cut back when they begin to lose money. But dairy producers are different.

At first glance the current situation of huge government purchases of milk products and increased herd size and increased production would seem to be a reaction to good profits in dairying. But no, dairy producers are reluctant to use the word profit.

Even dairy economists shy away from the use of the word. They tell us that the current surplus is not the result of profits in dairying but rather a reaction of dairy producers to hold their own in a log rolling contest between increasing costs and returns.

When I ask why output is up so much, the answer seems always to be "Dairy producers always increase production when times are tough so they can cover their costs."

Doesn't sound right does it? When beef, hog and grain producers lose money, they cut back on production. When dairy producers lose money, they expand production? I wonder if the analogy goes on to say, "When profit prospects look good, beef, hog and grain producers expand, but dairy producers cut back on production?"

It still doesn't sound right for some reason.

It is possible that, because dairying is our most stable farm enterprise, the milk check is taken for granted and part of it isn't considered profit? Or is it partly a persecution complex whereby dairy producers feel so badly about having to milk two times a day, seven days a week that they feel no return could be considered profit?

Then my associate said, "It is important to be efficient that dairy producers keep their barns full all the time regardless of profit prospects."

I replied, "I am still confused because that doesn't explain all of those new additions recently built onto the end of the barn to double the milking herd or all of those

heifers being kept on the back forty for 'herd replacements.' You don't hardly need to have a replacement heifer on line at all times to replace every cow in the herd, do you?"

Then he added insult to injury. He said, "Lou, you might understand beef and hog economics, but you need a refresher course in dairy economics."

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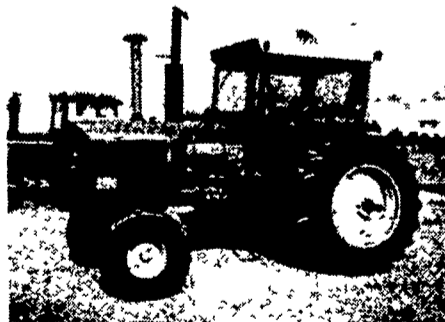
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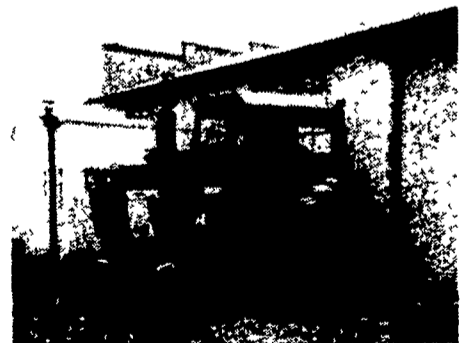
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