

Production costs

(Continued from Page D17)

costs of sideline revenues would be in the same proportion to total costs that sideline revenues were to total revenues. In this way, sideline revenues would be assumed to be neither more nor less profitable than the main source of revenue, milk sales.

A direct critique of the estimates of the cost of producing milk, made annually by the U.S. Department of Agriculture since 1974, received a great deal of emphasis. The difficulty of this agency's task, and the restrictions under which it has had to operate, were recognized.

Primary criticism was directed at:

(1) Its use of the enterprise rather than the whole farm approach

(2) Charging home-grown feeds to the dairy enterprise at market prices rather than at cost of production.

(3) The way land charges were handled

(4) The use of replacement reserves in lieu of depreciation for depreciable capital assets

(5) The arbitrary inclusion of a cost for owner management at seven percent of total costs.

The appropriateness of using cost of production as the basis for setting minimum prices was examined in two different contexts. With the continuation of the price support purchase program, cost of production would not necessarily be any better or worse than continuing to set prices on the basis of parity. If the price support

program were to be discontinued, it is difficult to see how cost of production pricing could work very well for very long, if at all. It totally ignores the demand side of the dairy industry, one-half of the market equation.

If cost of production is to be used as a replacement for parity, it must be coupled with some other program or instrument. Direct payments to dairy farmers, consumer subsidies, or marketing quotas are seen as possibilities, but it may be that the continuation of support purchases would be the least objectionable. In any case, a relatively substantial modernization of the parity formula would seem to hold as much promise as cost of production pricing.

ADDENDUM

The most recent U.S. Department of Agriculture estimates of the cost of producing milk were issued July 1982 (6). Rather than restructure this bulletin to incorporate all the changes in estimation procedures reported in that publication, the major ones are summarized here. Although preliminary 1979 and projected 1980 estimates of the cost of producing milk were published in earlier reports, these were revised in accordance with the findings of the new survey of costs conducted in 1980. The revised estimates of costs for the earlier years also were included in the 1982 report.

The estimates of 1974 costs depended almost wholly on data obtained from personal interviews of dairy farmers. The estimates

for 1979 still relied to an important degree on personal interviews, but the USDA drew more heavily from a variety of other data sources. Generally, the philosophy guiding the development and use of the second farm survey was to limit questions to those not already being asked regularly by the Crop Reporting Board of the Statistical Reporting Service. Thus, information on agricultural prices, production inputs, and production outputs that were regularly published elsewhere by the U.S. Department of Agriculture was not sought during the survey of 1979 costs of production.

A potential weakness of the procedures arising out of the foregoing philosophy is that two different populations were used to obtain data that were later merged for analysis. Farmers included in the special survey were selected to represent all dairy farmers. Those responding to the questionnaires mailed regularly by the Crop Reporting Board are not necessarily representative of dairy farmers, because information is sought from voluntary farmer-reporters of all enterprise specializations. Thus, the elements of cost of production estimates that depend on this latter source of information might have been different had they been based on a representative sample of specialized dairy farmers.

The July 1982 report generally provides more insight into the pros and cons of the several alternative procedures and uses of cost of production studies than the earlier reports in the series. A useful and relevant distinction between the

costs that a new entrant to the industry would face, and those of a continuing dairyman, is made (6, page 10).

On page 11 of the 1982 report the reader is properly cautioned about making too much of the study results to infer profitability of dairying or farmer well-being at any one point in time. The authors acknowledge it is more appropriate to use their data to evaluate geographic advantage at a given point in time, or of changes in farmer well-being over time.

The format of the tables in the 1982 report is simpler and more straightforward than all earlier ones. Specific references in footnotes 4 and 6 to interest, or returns to equity capital, are helpful. They seem to suggest there might be reason to differentiate between borrowed and owned capital, although there is no way to separate them in the data that are published.

Finally, the way management is

handled in the 1982 report (page 31) now coincides with the biases of this writer. That is, management is treated as a residual claimant of income, rather than as a specific item of cost of producing milk. I would yet argue that the cost of equity capital should be treated in like fashion.

Overall, the 1982 report is stronger in both its format and interpretation of data than the earlier reports. It is probably weaker, however, in the quality of its basic data because of the methods used and sources from which they were obtained.

Again, no personal criticism of workers involved in the tedious and difficult development of the USDA cost of production estimates is intended. Where they have been granted increased freedom to carry out the work as they see fit, the results have been improved. Where less freedom or resources were provided, the quality of the results may have been reduced.

Md. market line service begins

ANNAPOLIS, Md. — The "MDA Market Line" telephone news service featuring timely crop, weather, price, availability, grain and livestock market information, started this week, according to Bradley H. Powers, of the Maryland Department of Agriculture's Marketing Services Section.

Each day during the week, Powers explains, a new three-minute tape recorded message will be put on a telephone answering machine at about 4 p.m. Persons interested in the reports can then call at anytime by dialing (717) 841-5763 and listen to the message.

The schedule for the reports will be:

Mondays - a weekly Crop Weather Report prepared by the Maryland Delaware Crop Reporting Service.

Tuesdays - a Crop and Livestock update also prepared by the Crop Reporting Service.

Wednesdays - The Baltimore Retail Food Price Report prepared by MDA's Marketing Services Section based on in-person survey of prices in area food stores.

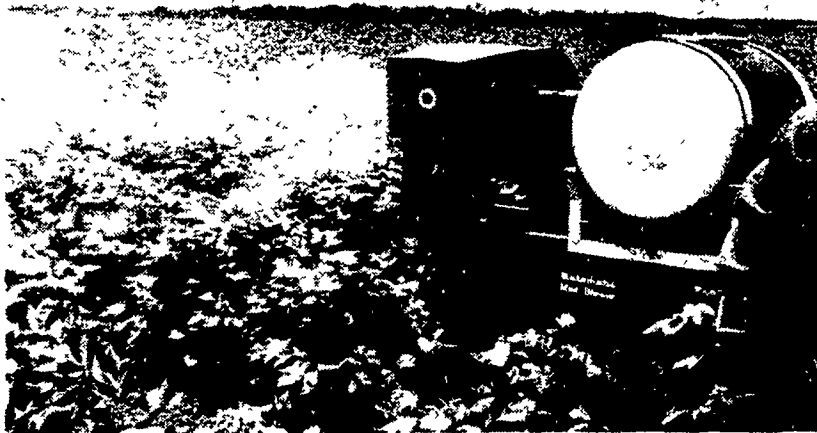
Thursdays - The Maryland Feed, Grain and Livestock Report prepared by MDA's Marketing Services Section.

Fridays - A Fresh Produce Update, based on an MDA survey of growers, designed to update the buying public on local fruits and vegetable harvest and supply situations along with product prices from the Wholesale Food Center at Jessup.

"The MDA Market Line is an expansion of the former 'Produce Hotline' report which we have offered in season in cooperation with the Maryland Wholesale Food Center in Jessup", Powers said.

"Our new service will feature much more information and make the reports available to the public faster. The telephone number we are using for the service this season, (301) 841-5763, is toll-free for the Baltimore metropolitan area and reaches into major portions of Anne Arundel, Baltimore, Harford, Carroll and Howard counties. It was not possible this year to have a statewide toll free number but if demand for it is strong we will consider it," Powers concluded.

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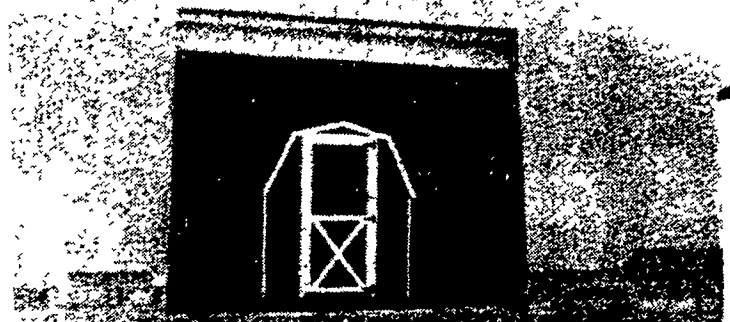
The Automatic Micro-Mister can offer effective coverage up to 250 feet, depending on application, and can operate at speeds up to 12 m.p.h., with no dangerous overspray or drift.

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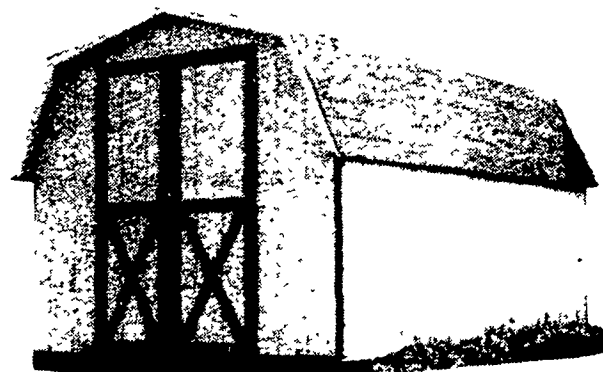
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