Controlling an Imported Disease in California Lettuce: A Dynamic Structural Econometric Model of Short- vs. Long-Term Decision-Making

Christine Carroll  
Ph.D Candidate  
Department of Agricultural and Resource Economics  
UC Davis  
carroll@primal.ucdavis.edu

Colin Carter  
Professor  
Department of Agricultural and Resource Economics  
UC Davis

C.-Y. Cynthia Lin  
Associate Professor  
Department of Agricultural and Resource Economics  
UC Davis


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**OBJECTIVES**
- Model farmers’ dynamic crop choice and fungicide decisions.
- Estimate the underlying profit structure for long-term growers (“owners”) and short-term growers (“renters”).
- Evaluate the impact of renting versus owning land on the spread of the disease and on welfare.

**INTRODUCTION**
- $1.4$ billion of lettuce grown in California in 2012, much of it in Monterey and Santa Cruz counties.
- *Verticillium dahliae* affects hundreds of plant species, causing Verticillium wilt.
- First detected in lettuce in the Pajaro Valley in California in 1995.
- By 2010, more than 175 fields were infected with Verticillium wilt, amounting to nearly 4,000 acres.
- No control method is available once plants are affected.
- Fungus mainly enters fields carried on spinach seeds.

**Control Options:**
- Spinach seeds are the vector of disease introduction.
- No control method is available once plants are affected.
- The level of microsclerotia in the soil can be reduced by:
  - Fumigation with methyl bromide
  - Planting broccoli
  - Not planting spinach

**DATA**
- Pesticide Use Reporting Data for Monterey County from 1993 to 2011
- Price, yield, and acreage data from the Monterey County Agricultural Commissioner’s Office
- Biological model data from Krishna Subbarao, his colleagues, and their published work

**METHOD**
- Dynamic structural econometric model
- Compares decision-making of growers with different time horizons
  - Long-term growers (‘owners’): infinite horizon
  - Short-term growers (‘renters’): finite horizon
- Generates parameter estimates with direct economic interpretations
- Parameter estimates used to simulate counterfactual scenarios regarding renting and owning

**Why Use a Dynamic Model?**
- Control options (fumigation with methyl bromide, planting broccoli, not planting spinach) are investments that require long-term planning for future gain
- Investment under uncertainty
  - Irreversible investments
  - There is uncertainty over future rewards from investment
- Farmers have leeway over timing of investment
  ⇒ There is an option value to waiting

**RESULTS**
- Actual Welfare
  - Owner Welfare
    - Early: 108 (5.0957)
    - Late: 117.3475 (19.2088)
  - Renter Welfare
    - Early: 25.1943 (3.4884)
    - Late: 23.1382 (3.5649)
  - Price, yield, and acreage data from the Monterey County Agricultural Commissioner’s Office
  - Biological model data from Krishna Subbarao, his colleagues, and their published work

**Simulation Results:**
- When using the renter parameters, which reflect differences in incentives faced by owners versus renters, differences in the degree to which the intertemporal externality is internalized by owners versus renters, the severity of Verticillium wilt, the effectiveness of control options, and rental contracts:
  - growers are less likely to engage in control options such as planting broccoli that require incurring current costs for future gain.
  - When owners plan over a finite horizon problem rather than an infinite horizon, they no longer plant broccoli and tend to fumigate less.
  - Thus, when growers face a short-term planning horizon rather than a long-term one, they are less likely to engage in control options such as planting broccoli or fumigating with methyl bromide that require incurring current costs for future gain.

**CONCLUSION**
- For long-term growers (‘owners’):
  - Methyl bromide and broccoli are an effective control options, but require growers to incur costs for future gain.
  - For short-term growers (‘renters’):
    - Contracts only partially internalize the intertemporal externality
    - The long-term decision-making of long-term growers yields higher average per-period PDV welfare and more use of the control options, likely due to: differences in incentives faced by owners versus renters, differences in the degree to which the intertemporal externality is internalized by owners versus renters, the severity of Verticillium wilt, the effectiveness of control options, and rental contracts, and/or a longer planning horizon

**REFERENCES**

**FUTURE RESEARCH**
In future work, the simulation model will be refined and we will consider different definitions of short- and long-term growers.
We will also connect the model to the source of the Verticillium wilt fungus–spinach seed companies.

**CONTACT INFORMATION**
Christine Carroll
Email: carroll@primal.ucdavis.edu
Phone: (602) 334 5916