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In This Issue

The first two articles in this issue discuss costs-of-production (COP) estimates, the first highlighting conceptual problems and the second proposing an approach that resolves some, but not all, of the problems The difference between the proposed approach and most other research proposals is that legislation requires that estimates be calculated, whether or not the conceptual issues have been resolved

The main conceptual issue arises in assigning a value to agricultural land, an important component in COP estimates Economic theory indicates that the opportunity cost of specialized inputs cannot be calculated independently of demand, and thus, of product price However, if the product price is set to cover the cost of the specialized input, the following three issues which Harrington identifies in the first article arise (1) circularity (do production costs determine product prices or vice versa?), (2) potential cost-price spirals, and (3) escalating land values Harrington further illustrates the distortions that inflation, income tax considerations, and the use of credit may introduce to land values, to interest costs, and, consequently, to COP estimates

Hoffman and Gustafson, in the second article, address Harrington's second set of issues by proposing that COP estimates separate current costs and returns from longrun costs and returns However, they do not resolve the valuation of land issue, but instead apply the longrun real rate of return on assets invested in agriculture to the current market price, which could be influenced by the forces Harrington identifies But, Hoffman and Gustafson's format clearly isolates this imputation and others from cash incomes and expenditures

In COP estimations, as in some other economic applications, analysts attempt to remove the effects of inflation and temporary fluctuations from the nominal interest rate One line of economic reasoning, that of employing the rational expectations hypothesis, does imply small fluctuations in expected real interest rates However, high real interest rates, by historical standards, have persisted for some time

In the Research Review section in this issue, Sundell summarizes the literature on the determination of real interest rates He concludes that real interest rates have been quite variable because of slow adjustments of wages, prices, and output to changes in the nominal money supply

Lorna Aldrich

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