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OPPORTUNITIES IN COMMERCIAL AGRICULTURE
IN NEW YORK
FOR THE MID 1970's

by

B. F. Stanton

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Inflation, economic uncertainty and political instability seem to dominate today's headlines. We are learning to accept the reality of these forces. Wishing won't make them go away. Much of what has been said today has been directed to understanding these basic forces, why they exist, how they relate to each other, and how they affect us and our daily lives.

This is a forum, a place to exchange ideas. Hopefully we can ask some of the right questions and help you to think about some of the possible ways to respond to them. My comments are constructed around four basic questions.

(1) Are we in a new age with respect to farm prices and the demand for farm products?

(2) What is likely to happen to supplies and prices of key production items like feed, fertilizer, fuel, hired labor, building materials and machinery?

(3) How much different is agriculture from other industries in responding to inflation and economic uncertainty?

(4) Is this a favorable time for well-managed family farms?

It's generally easier to pose questions than provide answers. The real world is complex and interdependent. Uncertainty provides both challenge and opportunity.

^{1/} New York State Agricultural Leader's Forum, March 18 - 27, 1974.

^{2/} Professor of Agricultural Economics, New York State College of Agriculture and Life Sciences, Cornell University, Ithaca, New York.

Commodity Review

Before looking at each of the four basic questions a brief statement about the status of production in each of the major commodity groups in the State should provide perspective. Outlook is a continuous process. About five years ago we tried to encourage discussion of the future of agriculture and the food industry by making some projections - toward the year 1985. This is an extension of that effort. Insofar as possible these comments reflect judgments of other economists in the Department as well as my own.³

Dairy - The down trend in milk cow numbers will continue, but the recent sharp decline in milk production will slow. Milk production per cow will recover from the 1973 decline as dairymen gain time to make adjustments to increased feed prices. Small units will continue to go out of business; land will be combined into larger dairy units, be used as pasture for beef, or go into recreational or forest uses.

Commercial milk production will be concentrated on farms ranging in size between 40 and 200 cows. The ratio of milk prices to feed, fuel, fertilizer and labor prices will remain critical and will encourage changes in management practices to achieve greater efficiency in controlling costs. Efforts to rent cropland or acquire more resources to produce feed grains will occur on farms with good soils as long as feed prices stay relatively high. Businesses that have relied on purchasing "cheap" feed grains will be disadvantaged relative to those producing a larger share of their total feed supply. Greater emphasis will be placed on improving roughage quality, controlling rates of feeding grain, and culling the milking herd.

The Federal Milk Order and Price Support Programs will be major topics of policy discussion. So will decisions with respect to imports of manufactured dairy products. National emphasis on free trade for agricultural products has led to reducing protection against dairy imports. Competition from imported butter, skim milk powder, and other dairy products will have a downward impact on prices of these products in the United States so long as stocks of such products continue large, particularly in western Europe, and so long as countervailing duties are not used to offset export subsidies. Consistency

³Basic historical data and background materials for these projections are summarized in "New York Economic Handbook, 1974, Agricultural Situation and Outlook", A.E. Ext. 73-24, Department of Agricultural Economics, Cornell University, December 1973.

between the domestic price support and import policies will be important in making sure that imports and their impact on prices do not encourage further declines in domestic milk production. In the long run, however, the United States has a clear comparative advantage over Western Europe in dairy production.

Improved communication and cooperation among producer groups in the Northeast will be important in improving market efficiency. Further consolidation of markets and market orders will be dependent on such cooperation. Dairy production will continue to be the most important source of agricultural income in the Northeast. Even with today's high feed prices, milk production with good management can be as profitable as in the "good" years of the early 1970's. With less stability and more uncertainty likely in the years ahead the returns to good management will be even greater than in the past.

Meat Animals - Cattle numbers will increase as interest in cow-calf operations and dairy-beef expands. Capital outlays relative to net returns are greater than for most farm enterprises. A wide range of experimentation with part-time commercial operations is likely. Use of pasture and rough agricultural lands by cattle is likely to have comparative advantage in some areas if combined with other sources of income. Specialized hog and cattle feeding operations for local markets will survive. However, corn-hog and corn-beef ratios favor production close to feed supply in the Mid West and the Plains. Sheep and lamb numbers will continue to decline despite the high prices of wool and lamb. Turkey and broiler production in the Northeast must rely on development of specialized local markets. Concentration of sales outlets and slaughter facilities for meat animals and cull dairy cows is necessary and may become a key market problem in a number of communities.

Eggs - Concentration of production in the hands of a few producers with 20,000 hens and up, will continue. Current egg-feed ratios relative to transport costs give no significant advantage to one section of the country. Management ability, environmental issues, market contacts and the capacity to provide assured supplies plus existing investments in specialized facilities are in the dominant factors in determining where eggs are produced. Instability in prices and producer incomes are likely to continue. Primary competition for New York producers comes from the South Central, South Atlantic and Midwestern States. Good opportunities continue to exist for poultrymen with efficient systems of production and distribution combined with excellent management.

Field Crops - Current prices are attracting cropland back into corn for grain and wheat. Expected net returns per crop acre are high relative to more intensive, high risk crops. Some shift out of hay or forage production into grain is likely; idle cropland is now more likely to be planted and harvested with the net effect to slow the decline in total acres of cropland harvested. Modest increases in the acreage of corn and wheat are likely to be sustained even though winter wheat acreage in New York is up 46% over a year ago. The long term shift from hay to corn and hay crop silage will continue. More emphasis will be placed on year-round feeding from silos and bunk feeders. Cropland moving out of production comes largely from hay on small farms in marginal production areas. Interest in soybeans is high currently but acres harvested is much smaller than most vegetable crops. Corn is a more profitable alternative.

Vegetables - Demand for processed vegetables is strong nationally; contract prices will increase to compete with corn for grain and wheat. Market outlets are critical for both fresh market and processed crops. Production for processing will be concentrated on larger farms specializing in a few crops where supplemental irrigation is available. Red beets for canning, snap beans for processing, cabbage, onions, potatoes and fresh lettuce have the greatest comparative advantage in adapted areas. Individual producers will have very profitable operations for other vegetables where they develop markets and the capacity to supply them consistently. Interest in roadside markets and market garden operations for a few basic crops will increase. The shift in acreage from fresh market vegetables to those for processing will diminish. Total acreage in the State should hold steady with a sharp increase in the total value of production.

Fruit - Demand for fresh and processed fruit and fruit products continues to increase nationally with rising incomes. The specialized fruit areas compete successfully in national markets for apples, grapes, and red tart cherries. Apple production and processing will be concentrated even further in terms of numbers of growers and plants. Orchard blocks planted and handled for specific market commitments will become dominant emphasizing size-controlled rootstock and high density plantings. Mechanization of harvest for all processing fruits will become feasible. A substantial increase in grape plantings can be expected with emphasis on hybrid varieties for wine. Specialized operations for berries and soft fruits will be profitable in a few locations.

Ornamentals - Production of flowers, ornamental plants, shrubs and turf continues to grow near urban centers. Specialization of production for a limited number of species is most common. Garden

centers and market outlets for flowers and ornamentals produced in other regions are an important part of this sector of commercial agriculture. Rising incomes suggest further increases in demand for plant materials and the services associated with them.

Forestry and Other - Substantial areas in the Northeast are wooded. Some larger tracts are harvested by corporate giants and smaller private companies for paper and wood products. Commercial harvest of trees for lumber and/or pulp will become increasingly feasible on small privately owned areas. Most such harvests will allow only periodic additions to income for rural land owners.

Maple products, horses and honey are among the many other agricultural enterprises of major commercial importance in the region. Horses now probably use more forage, feed grains and labor than do beef cattle. More resources, open space and cropland will be committed to this enterprise in the future.

Summary - Well-managed, family farms will provide the bulk of commercial agricultural output in New York in this decade. They are best adapted to respond to changing economic and technical conditions. Location with respect to markets, access to capital and strong net worth positions, good managerial ability and substantial experience in working in an urban environment all combine to provide a positive outlook for agriculture in the region.

Prices and Demand for Farm Products

Prices, received by farmers increased more in 1973 than in any peace time year in history. Agriculture was big news. Crop reports and exports made headlines. While wheat, corn, cotton, soybeans and beef dominated the news New York farmers shared in the price rises along with everyone else. A quick comparison of New York farm prices in February during recent years tells part of the story.

(Table 1.)

Table 1. AVERAGE FARM PRODUCT PRICES
NEW YORK, FEBRUARY 1971, 1973, 1974

Commodity	Unit	February 1971	February 1973	February 1974
<u>Livestock:</u>				
Milk	cwt.	\$ 6.20	\$ 6.79	\$ 8.83
Milk cows (replacements)	head	365.00	440.00	555.00
Steers and Heifers	cwt.	21.40	35.10	43.80
Eggs	doz.	.34	.41	.62
<u>Crops:</u>				
Wheat	bu.	1.58	2.15	5.38
Corn	bu.	1.56	1.64	2.92
Dry beans	cwt.	12.30	16.20	29.40
Hay	ton	29.60	38.00	34.50
Onions	cwt.	1.45	12.00	10.00
Potatoes	cwt.	2.49	4.73	8.15
Apples	bu.	2.76	5.29	6.90

Nationally, crop prices were 40 percent higher in 1973 than 1972. Lifestock prices were up 35 percent. Increases in New York were more modest on the average (about 25%) but still substantial. Nationally 1973 was a banner year for crop producers if they had a crop to sell. And the same was true for the most part in New York. The picture was more complex for livestock producers locally and nationally. Much depended on feed supplies along with purchase and sale prices for live animals. Most livestock producers made profits but the size of returns were less impressive and more favorable than on crop farms.

Costs and Supplies of Production Inputs

During the 1960's wholesale prices generally increased but much more slowly than consumer prices. This was true not only in the United States but in the rest of the world. Fertilizer prices fell relative to other prices. Fuel and feed prices were remarkably stable. Production inputs with a large element of labor cost increased - like farm machinery. But most raw materials were plentiful relative to

demand. Stockpiles were common. Do you remember those years when nitrogen prices fell because we had overbuilt production capacity around the world and competition pushed prices down and down?

The imperfect markets and low prices of the 1960's sent signals to raw material producers to be cautious and wait for demand to catch up with production capacity. Now that has happened in a number of basic industries - lumber and paper, oil and natural gas, fertilizer and minerals, metals and mining. Inelastic supply in the short run was matched against increasing incomes and rising world demands for production goods. The result has been wild commodity markets and instability in wholesale prices at a new higher level.

No set of prices paid by farmers in New York is more important than those for feed and feed grains. A careful study of the national balance sheets for corn, feed grains, wheat and soybeans helps to explain both the price rises of 1973 and the uncertainty surrounding 1974 and the year to come. After 25 years of public stockpiling of storable agricultural commodities, the Commodity Credit Corporation of the United States is essentially out of the market. Storage of grains now rests either in private hands or that of government agencies in other countries. (Tables 2 and 3.)

As Max Brunk explained so well, the demand-supply balances for wheat and soybeans precipitated the upward shift of world price levels for food and feed grains in 1972-73. The United States has been the world's largest exporter of both commodities. Together with Canada we have held the major reserve stocks to even out world needs. Projected carryovers for wheat and soybeans at the end of 1973-74 are a study in contrasts. Soybeans stocks will be an all time high; wheat at an all time low. And as you recognize there is great debate about the validity of the official figures for wheat stocks. My personal opinion, despite the comments from the bakers and milling industry, is that the U.S.D.A. estimate of exports and carryover is not too bad. Here is one place where the future's market is really helpful. In a time of uncertainty one can buy or sell a contract for future delivery. Prices reflect the total judgment of everyone in the market about future supplies and prices. Changes during the last month for corn and wheat indicate something about expectations.

Traders in March 1974 conclude that wheat supplies will not be quite as tight as they thought in February. Moreover most people hope and expect that supplies in 1974-75 will be more nearly adequate to meet national and world demands. This is reflected in the crop balance sheets as well.

TABLE 2.

CORN AND FEEDGRAIN BALANCE SHEETS

CROP YEARS^{1/} 1965-1974

	1965-69 average	70-71	71-72	72-73	73-74 ^{2/}	74-75 ^{3/}
<u>CORN (mil. bu.)</u>						
SUPPLY						
Carryover	1,020	1,005	667	1,126	709	608
Production	4,454	4,152	5,641	5,573	5,643	6,674
Imports	1	4	1	1	1	1
Total	5,475	5,161	6,309	6,700	6,353	7,283
UTILIZATION						
Domestic	3,892	3,977	4,387	4,733	4,620	5,075
Exports	591	517	796	1,258	1,125	1,050
Total	4,483	4,494	5,183	5,991	5,745	6,125
Carryover, end of year	992	667	1,126	709	608	1,158
Price received by farmers	\$1.13	\$1.33	\$1.08	\$1.60	---	---
<u>FEEDGRAINS (mil. tons)</u>						
SUPPLY						
Carryover	46.5	48.6	33.2	48.4	32.4	26.6
Production	166.9	160.1	207.7	199.9	205.0	234.8
Imports	.2	.4	.5	.4	.4	.4
Total	213.6	209.1	241.4	248.7	237.8	261.8
UTILIZATION						
Domestic	145.6	155.2	165.7	173.2	171.4	182.2
Exports	22.8	20.7	27.3	43.1	39.8	36.7
Total	168.4	175.9	193.0	216.3	211.2	218.9
Carryover, end of year	45.2	33.2	48.4	32.4	26.6	42.9

SOURCES: USDA Feed Situation, USDA Crop Production and USDA Agricultural Supply and Demand Estimates.

^{1/} Beginning October 1 for corn and sorghum, July 1 for oats and barley.

^{2/} Indicated, based on data available February 1, 1974.

^{3/} The 1974-75 projections in these tables are rough approximations based on presently available data. They are mainly indications of change. Each of the numbers should be considered as representative of a fairly wide range rather than as a precise estimate.

TABLE 3.

WHEAT AND SOYBEAN BALANCE SHEETS

CROP YEARS^{1/} 1965-1974

	1965-69 average	70-71	71-72	72-73	73-74 ^{2/}	74-75 ^{3/}
<u>WHEAT (mil. bu.)</u>						
SUPPLY						
Carryover	626	885	731	863	438	178
Production	1,426	1,351	1,618	1,545	1,711	2,060
Imports	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
Total	2,054	2,237	2,350	2,409	2,150	2,239
UTILIZATION						
Domestic	709	768	855	787	772	760
Exports	<u>705</u>	<u>738</u>	<u>632</u>	<u>1,184</u>	<u>1,200</u>	<u>1,000</u>
Total	1,414	1,506	1,487	1,971	1,972	1,760
Carryover, end of year	640	731	863	438	178	479
Price received by farmers	\$1.37	\$1.33	\$1.34	\$1.76	\$3.90	--
<u>SOYBEANS (mil. bu.)</u>						
SUPPLY						
Carryover	130	230	99	72	60	240
Production	<u>998</u>	<u>1,127</u>	<u>1,176</u>	<u>1,271</u>	<u>1,567</u>	<u>1,535</u>
Total	1,128	1,357	1,275	1,343	1,627	1,775
UTILIZATION						
Crushings ^{4/}	603	760	720	722	775	825
Seed, feed	55	64	66	81	87	85
Exports	<u>300</u>	<u>434</u>	<u>417</u>	<u>480</u>	<u>525</u>	<u>575</u>
Total	958	1,258	1,203	1,283	1,387	1,485
Carryover, end of year	170	99	72	60	240	290
Price received by farmers	\$2.51	\$2.85	\$3.03	\$4.37	\$5.65 ^{3/}	--

SOURCES: USDA Fats and Oil Situation, USDA Feed Situation and USDA Wheat Situation, USDA Crop Production, USDA Agricultural Supply and Demand Estimates.

^{1/} Wheat: July-June; Soybeans: September-August.

^{2/} Indicated, based on data available February 1, 1974.

^{3/} The 1974-75 projections in these tables are rough approximations based on presently available data. They are mainly indications of change. Each of the numbers should be considered as representative of a fairly wide range rather than as a precise estimate.

^{4/} Includes exports of soybean meal equal to 1/4 to 1/3 of crushings.

Table 4.

PRICES FOR WHEAT AND CORN FUTURES
CHICAGO BOARD OF TRADE

	Closing February 11, 1974	Closing March 11, 1974
<u>Wheat:</u>		
March	\$5.90	\$5.37
May	5.59	5.11
July	5.00	4.88
September	4.93	4.85
December	4.97	4.87
<u>Corn:</u>		
March	\$3.04	\$2.96
May	3.08	3.02
July	3.10	3.04
September	3.04	2.97
December	2.76	2.79

Corn and feed grains are primarily used within the United States. We are the world's largest exporter of corn involving about one-fifth of our crop. Hence, world demand influences our prices at the margin. Stocks are low relative to recent experience. Prices have doubled in the last two years. Mixed feed prices have increased accordingly. What about the future? It's hard to believe that prices will be sustained at present levels. But the future's market for corn, the best free market indicator we have, indicates continued strong prices for feed grains this fall. No one knows what the weather will be like. If the U.S.D.A. forecast for the corn crop should materialize, prices could fall much more than the future's market now suggests. There are simply too many unknowns to make firm estimates.

It does seem clear that commodity prices will not fall back to levels of three years ago. Even if we are able to control inflation and the speculative forces driving up prices of many of the things farmers used in their businesses, prices will not fall back as rapidly as they rose. Just as gold prices rose in February 1974 at spectacular rates, they also fell back when the fever cooled. Some of the same psychology will operate in the markets where agriculture competes for production inputs. Scarcity feeds on itself.

Fertilizer prices have jumped sharply - partly because raw materials prices have increased, partly to ration limited supplies. When increased capacity to produce both raw materials and finished product is available, prices will level off or fall.

A New Level of Prices and Costs

Are we in a new age with respect to farm prices and the demand for farm products? What will happen to prices and supplies of farm production items? No one can answer these questions with certainty. I think we've moved up to a new level of product prices and costs of doing business. The current price relationships may not hold. Some farm product prices will fall; some may move higher before reaching a peak and coming down. But the floors or low points below which prices will not go have moved up and quite substantially. As always costs move up more slowly and once achieved also hold more steadily. This suggests that the margins between prices and costs will narrow; that a new golden age for agriculture has not suddenly appeared. By the same token the economic climate for strong commercial operations is good particularly for those who are good managers and can adapt to change and uncertainty.

Inflation and Farm Resources

Everyone connected with farming and agriculture knows that it is a unique industry. You might say my question, "How different is agriculture from other industries in responding to inflation and economic uncertainty?", is something of a joke. The main reason for raising the question is old and obvious. But it's also important. The primary physical resource most farmers use in production is land. That's one of the unique characteristics of agriculture. In a period of inflation and economic uncertainty high quality agricultural land is a much desired resource or asset. Many others besides farmers recognize its value, its stability and its potential as a store of value.

This basic set of facts has many implications with respect to the desirability of owning land, acquiring debt, keeping land available for farming, establishing levels of real estate taxes, and taxation, transferring farm ownership. To pursue all of these points is worthy of a forum in itself. The pressure on agricultural land resources provided by the rest of society in a period of inflation and uncertainty is clearly increased. If inflation should continue, land speculation will also increase. The forces at work are the same in all parts of the state even though the numbers of people involved and their impact on local markets are sharply

different. Hopefully we can talk openly and rationally about the problem and respond appropriately at the local level.

Table 5. CHANGES IN REAL ESTATE VALUES ON
COMMERCIAL DAIRY FARMS IN NEW YORK
(Extension Farm Account Cooperators)

Year	No. of Farms Included	Average No. of Cows	Operator's Valuation of Real Estate			U.S.D.A. Indexes of farm real estate value 1967=100*	
			Per Farm	Per Cow		New York	48 States
				Dollars	Index 1967=100		
1964	434	40	\$27,000	\$ 680	85	84	82
1965	673	44	32,000	730	91	90	86
1966	731	47	36,000	770	96	93	94
1967	548	51	41,000	800	100	100	100
1968	568	58	50,000	860	108	107	107
1969	511	60	55,000	920	115	116	113
1970	509	65	65,000	1,000	125	123	117
1971	569	67	73,000	1,090	136	132	122
1972	571	70	89,600	1,280	160	155	132

*From "Farm Real Estate Market Developments", Economic Research Service, U.S.D.A. July 1973.

Comment: From 1967 to 1972, there was a 55 percent increase in the U.S.D.A. index of farm real estate values in New York. The rise in value of real estate per cow as estimated by farmers in New York Extension Account Projects during these five years was slightly higher - 60 percent.

What has happened to real estate values on New York dairy farms during the past decade should give us some perspective in looking ahead. The numbers in the table represent farmers' estimates of the value of their land and buildings each year when their records are summarized. Real estate values per cow have nearly doubled in a span of nine years. Some of this represents additional investments in buildings. Most of it is tied to land. The period 1964-72 was one of modest inflation and roughly at half the current rate.

TABLE 4. FINANCIAL STRUCTURE OF COMMERCIAL FARMS
NEW YORK STATE, 1965-1980
Farms With \$10,000 or Over Gross Incomes

	1965	1973	1975	1980
	(Thousand Dollars)			
<u>Assets:</u>				
Real Estate	55	120	146	290
Equipment	12	25	29	44
Livestock	10	20	29	44
Stored Crops	5	10	14	25
Other Assets	15	25	35	55
Total	97	200	253	458
<u>Liabilities:</u>				
Real Estate	12	32	42	86
Non-Real Estate	10	25	30	56
Total	22	57	72	142
Equity	75	144	181	316
Percent Equity	77	72	72	69
No. of Farms	26,000	23,000	22,000	18,000

Assumptions:

- (1) In 1973 there are 23,000 New York farms producing \$10,000 or more gross income. This number will decrease to 22,000 in 1975, and 18,000 in 1980.
- (2) Farms producing \$10,000 or more gross income account for:
 - a. 65% of total real estate value in New York agriculture
 - b. 80% of all other farm assets
 - c. 75% of all farm real estate debt
 - d. 80% of all non-real estate farm debt

The projections assume that farm assets will increase at 8 1/2% per year and debt at 10% a year during the period 1973-1980. During the three year period 1970-73, the value of farm assets increased about 30% and farm debt about 40%.

E. LaDue and R. S. Smith

Bob Smith and Ed LaDue have tried to look ahead to 1980 considering all forms of capital used on commercial farms in New York. The implications of the projections in their table are clear. Real estate values will increase more rapidly than other assets as a proportion of total capital used. Capital needs and debt on commercial farms will go up very rapidly. Equity or net worth will fall as a proportion of the total. But net worth on farms will grow at striking annual rates. Agriculture is different with inflation; a mixture of blessing and problem.

Comparative Advantage of Family Businesses

In a time of inflation, uncertainty, and confused information, who has the advantage? Some might say that everyone loses. But that is not the case. The manager who is adaptable, can respond to changing signals, can substitute one resource for another in production is the one who can capitalize on opportunity when its available. Large units with assembly lines and standardized operations work best in a stable environment where one system is adopted and followed from start to finish. Management and responsibility can be delegated. An efficient chain of command can be established.

When the rules of the game change rapidly a small number of people as decision makers can respond best. Data collection is more rapid. On-the-spot decisions can be made. If one analysis of fertilizer isn't available a substitution can be made. Cropping systems can be adapted to changes in weather conditions. Livestock numbers can be shifted up and down. There are a lot of different ways to get the TDN one needs to produce milk.

My reason for emphasizing the obvious adaptability of the first-class manager of a family farm is because of the pay-off. In times like these purchase and sale decisions make a big difference. I'll bet many of the men sitting in this audience bought a substantial part of their fertilizer for 1974 in the fall of 1973 or at least guaranteed its delivery. Some didn't. The change in price they anticipated has occurred. This isn't anything new. It's just that the returns or losses from making such decisions are larger. But don't misunderstand me. You can't call all the price swings right. At least I can't. The good manager has to be right more than half the time. And the rate of return for his management is likely to be very high. Increasingly the management resource and its potential is the key collateral in making a loan involving new technology.

A lot of people in this country have been concerned about large corporations taking over commercial agriculture. If we lived in California, Arizona or Florida we'd understand this better. In the current environment I believe the efficient family farmer has a comparative advantage. He can respond quietly but quickly when supplies of one input run short by making some kind of substitution. He can take action without getting a board of directors together. He can use public agencies and his own cooperative organizations to assist when group action or political power seem necessary. Anyone who grew up using baling wire to hold things together knows there are a lot of different ways to get a job done. When there is scarcity and uncertainty the smaller, well managed business has some real advantages.

Summary

What's going to happen to U.S. agriculture in 1974. No one knows. It should be an exciting and sometimes frustrating year. Opportunities for excellent returns and substantial losses will exist side by side in farming. The weather and world politics will have a lot to do with farm incomes. Both are outside your control. But, as always, a good manager can shape his own destiny. The timing of purchase and sale decisions, the capacity to adapt production systems, and the ingenuity of innovators in making substitutions when necessary will pay big dividends. Price fluctuations and uncertainty we will have. Inflation will be hard to control. Shortages of production inputs will continue. Despite all this the economic climate for well-managed family businesses is good. For those who can selectively control costs it should be an excellent year.