Selected Paper Session on Farm Level Decision Making:

Discussion*

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* This paper includes the discussant's comments regarding four selected papers on farm level decision making which were presented at the AAEA 1998 Annual Meeting. Although the views and comments expressed are those of the discussant, she wishes to acknowledge the insights provided by Gerald Schwab and J. Roy Black.

Farm Level Decision Making: Discussion

Adding discussants to the selected paper sessions this year presents the discussant with the challenge of tying together potentially diverse papers. At least, this is how I approached these four papers, looking for a common theme that would tie them together. I discovered the challenge was not as great as first anticipated. As diverse as these presentations were, each of them reinforced the concept that in today's dynamic agricultural production systems, farmers must not only excel in crop and animal production, but also be acute business managers, risk analyzers and long-range financial planners.

Although not a unique theme, the idea that farming requires more than the ability to grow high yielding corn or produce more gallons of milk per cow is well presented in each of the four papers presented today. For instance, the two papers addressing the cattle industry show that achieving high calving rates is only one piece of the very complex puzzle with which today's farmer is dealing. In addition to such productivity measures as calving rates, cattle producers must be concerned with seasonal feed and forage availability, market access, price risk, and how their particular operations fit within the context of the entire *industry*.

Similarly, the two papers on depreciation and retirement planning demonstrate the increasing importance of public policies affecting agricultural production by means other than direct production intervention. Monke provides us with a clear example of this by demonstrating that the traditional assumption that land is a farmer's retirement account may be muddied by the introduction of alternative assets and the complex tradeoffs resulting from the Taxpayer Relief Act of 1997. As researchers and educators, an important theme we should take from these papers is the recognition that any farm level decision has multiple influences and ramifications that extend

beyond the farmgate. With that said, I would like to take a few moments to comment on each of the papers' contributions.

Popp, Faminow, and Parsh address the issue of whether to feed or sell calves at weaning. Within the context of a changing beef industry (and here I am thinking of the movement toward alliances, cooperative ventures, branded products, and the like) they provide an appropriate and timely contribution to the question of how and why cow-calf operators choose to retain ownership of calves at the backgrounding stage. Their results are consistent with conventional wisdom: farmers' attitudes toward risk, profitability, and facilities impact their decision on whether or not to background calves. In this context, it is reassuring to learn that what we think we know can be confirmed with empirical studies. After reading their paper, I was struck by two issues. First, on the data side, the size of the cow herd left me puzzled as to how small and large herd size are defined and whether or not producers with 20-25 cows were included in their analysis. Similarly, as opposed to the acreage variable considered, it seems a more likely choice would be pasture acreage available for backgrounding as well as quality of pasture. Second, I would be interested in an extension of the paper that gets at *why* farmers have perceptions that backgrounding is more risky and less profitable when economic analysis suggests that opposite. In other words, why do some farmers think it is unprofitable while others don't? The Popp, Faminow, and Parsh piece is useful in that it reinforces what we know of farmer perceptions and suggests that there is work to be done to determine why such perceptions exist and how researchers and extension specialists can alter potential misconceptions.

The May, et al. paper focuses on optimal feed cost strategies associated with alternative calving months. As a farm management tool, this paper has the potential to guide producers to

alternative calving months to increase profitability. The authors do a very good job of modeling the nutrient requirements, body conditioning score and feeding costs. I thought that the discussion on how individual factors influenced decision making was particularly well done. Two issues came to mind while reading this paper. First, I would have liked to have seen a bit more discussion and analysis on the revenue side of the profit equation. For instance, how sensitive are the results to changes in calf sale price between March and May? Second, how sensitive are the results to feed quality during a non-average year? What are the risks involved with re-breeding in a dry year, particularly for a late bred cow? Overall, the May et al. piece demonstrates quite nicely how farmers must be increasingly aware of factors other than just calving rates that affect their profitability and viability.

Shifting gears, the last two papers stressed how important financial planning and business insight are at the farm level. The Dumler, Burton and Kastens paper is an exercise in alternative depreciation methods. A common practice, the authors distinguish between depreciation based on market value and depreciation based on costs. However I would have to disagree with their use of the term "economic depreciation" which they imply is the same as depreciation based on market value. True economic depreciation should also consider the opportunity cost of the investment. Both a colleague and I had difficulty recreating some of the numbers derived from the calculations. Overall, this paper reinforces two insights. First, and not surprisingly, different methods of depreciation lead to different outcomes. Second, one needs to be aware of the objective of the depreciation method used – one method may be more appropriate for a farmer to show his banker when applying for a loan, but another may have a much rosier outcome when tax time comes along.

The final paper by Monke does an excellent job of portraying just how important financial planning is today. In a well-written paper, Monke describes the investment opportunities, retirement planning accounts, and lower capital gains taxes impacting farmers after the Taxpayer Relief Act of 1997. For a descriptive analysis, this is a good place to start for those of us who may not be as up to date on tax planning and retirement planning as we would like. Monke points out that real estate comprises the largest share of farmers' retirement portfolios and suggests that the reduction in the capital gains tax may result in buyers paying premium price for farmland and other capital assets. I would suggest that this may be only one side of the story though, as the seller might be willing to accept a lower price since capital gain taxes are reduced. In addition, a discussion on whether liquidity constraints affect a farmer's retirement portfolio would have insightful. Overall, this was an informative paper addressing the opportunities available to farmers and the trade-offs involved in retirement planning.