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**EXTENSION ECONOMICS: AN EFFECTIVE RESEARCH
INDUSTRY INTERFACE — A DISCUSSION**

Thomas G. Brown

Our colleagues have presented three useful papers. Lampher points out that farm enterprise budgets have been an essential component in the Extension Agricultural Economist's kit of tools for a long time. Researchers have tended to blow hot and cold in development of enterprise budgets. During the heyday of the regional adjustment studies, we had them coming out our ears. Most Extension Economists found this flurry of budget building to be of little value. As I look back, I think the main value that accrued was the number of my friends and colleagues who earned Ph.D.'s working on these projects.

**EXTENSION FARM MANAGEMENT
PREPARES BUDGETS**

Extension Farm Management specialists have undoubtedly spent more time in preparation and use of farm enterprise budgets than anyone in our profession. Such budgets interest them because they provide a fertile opportunity to teach farmers how to be better managers. Our job is education; our product is change in people.

Long before the current interest in cost of farm production was generated by the newest agricultural bill, farmers had been demanding enterprise accounts and budgets for their businesses.

More than five years ago, University of Missouri Farm Management specialists began in earnest to redesign all farm record books and computerize farm analysis programs so that farmers could get cost and return data on their different farm enterprises. These revisions in programs were made at farmers' insistence. Don't think for a minute that all farmers appreciate the need for this kind of information, but there is a strong

and growing desire. Often it comes from some of the younger, better educated farmers, often referred to as the "young tigers."

BUILDING BUDGETS

Budgets look to the future; records look to the past. Budgets can be reasonable approximations of what will likely happen. The important question is—reasonable to whom; the answer is—to the person who will use the budget. Our experience is that farmers have confidence in budgets prepared from information about their businesses. They have less confidence in budgets based upon information from other farmers in the community. They have little confidence in information from other states and none in that coming from Washington.

The reasonableness of a budget projection depends upon an understanding of the information it contains, and upon the degree of confidence placed in those parts of it which one cannot precisely specify. We are discussing the credibility of the budget. The farmer who builds a budget from his own information has more confidence than he would in one prepared by somebody else from information about other farmers in his area. A general budget prepared to represent the situation for a number of farmers over a large area will be of little value or interest to an individual in making decisions regarding his farming operation.

While it is true that the major emphasis in budgeting by Extension Farm Management specialists has been on a micro level, Extension specialists are interested in aggregate budgets. The crucial question is how can we utilize the effort expended in developing individual, area, or even

Comments by Dr. Thomas G. Brown, University of Missouri. A discussant of the papers presented by Lanpher, Krenz, and Kletke.

state budgets for effective use by individual farmers in preparation of aggregated budgets that can be used for macro analysis.

All speakers suggested that the format for classifying and organizing budget report information be standardized. This should not be a serious problem, providing there is ample opportunity for involving persons concerned with budget preparation in the decision as to what format to use. The budget format should be as flexible as possible. The initial step could be simply cash-cost with everything else in the residual. Next, move step by step to a greater degree of refinement by allocating fixed machinery costs, labor, land, and finally management.

There is need for considerable discussion in our profession on how to handle the costing of some inputs, particularly land, labor and management. Lampher questioned the desirability of using current market value of land and current interest rates to determine the land charge. He correctly concluded that this procedure would result in a spiraling of production cost.

Traditional budgets used in farm planning showed a residual above the specified costs as return to land and other unspecified costs, e.g., risk and management. While this procedure may seem less precise, it may more accurately reflect actual conditions.

AGGREGATE BUDGETS

Krenz and Kletke have a valid concern for comparability of budgets between commodities and regions, but I am not ready to accept comparability at any price. It undoubtedly would be easier to develop a group of average relationships that more nearly describe the typical farm, the region, the state, the nation, and then update these with the most current estimate of prices and costs. This procedure would provide a convenient means for building aggregate budgets.

Aggregate budgets will not substitute for individualized budgets currently being used by Extension workers. They can complement each other. Krenz suggests that data will always be a major problem; the difficulty is getting the data uniform across regions. While this is true, I would like to think that the major problem will be getting accurate data that truly represent farms as they are now operated, and then placing this information in a uniform format. It is reasonable today, with computer capabilities, to build typical enterprise budgets from many representative sample areas and construct an estimated aggregate budget.

The aggregate budget would be better than anything currently available, but it could also be an inaccurate budget. We need to do everything possible to examine such budgets and compare them with other information in an attempt to make the relationship built into our program represent farming as it actually is.

It is well known that computers can add and multiply and make fewer errors than human beings. Randomly sampled groups of farmers can be interviewed and asked questions about their cost and returns. But are we confident that, with this information and the proper mix of engineering data, etc., we can build superior budgets that should replace the inefficient, incomplete, and highly local budgets of the past?

NEED FOR CONSISTENT BUDGETS

Krenz suggests in his summary that the budget enterprise data system would be useful to our profession and we should support it. I concur, but would offer this suggestion—if you want people to support something, they must understand it, and they must be involved.

Krenz also made an important point when he suggested we may be moving towards use of cost of production information in setting target prices. And, it would be desirable to have a uniform and consistent set of cost of production estimates. I agree with this statement and believe any differences in our budgets may well be exploited.

Farm groups may shop around for the most advantageous budget they can find. If this happens to be a USDA prepared budget, fine. If it isn't, the USDA budget will be dismissed by simply "this is further proof that the USDA policy is to take advantage of farmers and keep food prices down for consumers."

Having spent a number of years trying to teach farmers how to build budgets and utilize them, I have formed a few opinions. In the first place, we tend to underestimate costs and overestimate income. Costs occur at many different times, and it is easy to forget some of these. Any omission tends to hold cost down. Income, on the other hand, usually comes in at a few times. Therefore, income is much less frequently overlooked or inaccurately reported.

The second observation is that the average farm manager is never able to get as much production from a given unit as engineering specifications or the advertisements imply, or even what the farmer thinks he gets. Therefore, I think it is impossible to add information from separate enter-

prises and come up with the sum of the total farm business.

In our enterprise budgeting work (using farm records), we start with a total farm record and then allocate all costs and income back to the enterprises. All costs must be paid by some enterprise. The sum of an individual enterprise income cannot exceed its total. Farmers continue to be surprised at the difference between what their records show and what their casual observation was.

SUMMARY

In summary, I think it is urgent that we all work together to develop the best farm enterprise budgets possible. We will not have enough resources to do the job adequately, but we should try our best to use what resources we have efficiently. The FED system will not materially affect the Extension program of record keeping, budget development, and use. If the FED system makes maximum use of information coming from the record programs, I feel it will materially improve the quality of FED budget estimates. If farmers

believe USDA budgets are comparable with their budgets, they will develop confidence in FED budgets. If the budgets are not comparable, we need to discover why they are not.

My personal opinion is that to date there has not been adequate discussion of this matter by USDA and university people. I believe that potentially serious problems could be avoided by further discussion. Perhaps Extension Farm Management in Missouri is different, but I doubt it. We have invested large amounts of money and time in development of enterprise records and budgets. We use them widely throughout the state and are pleased with their acceptance by farmers and agribusiness. We would like to make them better; but, we are not interested in having them replaced by an inferior product.

I assume there will be some representative budgets prepared for enterprises in Missouri. To date, we have had no communication, no involvement, and no indication of any opportunity to jointly work on preparation of farm enterprise budgets for Missouri. Somehow this does not seem like the most desirable procedure.

