

Stillwater Paper - Expanded Version

Fri. Leon Schuis Workshop. Ag. Policy.

7m. policy illustrates several points. (Farm ed. is one who separates wheat from chaff - & prints the chaff) (While you're still common + cheap, I'll be an umbrella) (Fallacy of composition -)

1. Ricardo, rent. Capn. of p supports. Price-determined values. Fallacy of composition. i.e. his price neg. to cover cost of land. Other e.g.s. - taxes.
2. Carter price-umbrella syndrome, Artificial abundance & artif. (Will travel improve his behavior? No, spread over wider territory)
3. Fallacy of prorating. -- from an historical base. Wheat, etc. (Penalties for exceeding allotments) scarcity
4. Law of variable proportions -

Large farms put more land in reserve programs. Res. land has lower MP
Old farms put more land in banks, too -- capn. is worth less. Ia. gets \$2.26 m. govt. payments. Cal. \$34 m.
Also illustrates law of cfr. advantage.

6. Irreversibility of supply curves

5. Supply & demand. Have cake & eat it -- hi price w/o less output. Less output by having govt. pay rent for idle land -- much worse than other incentives.

3. Double fallacy of prorating. Creates incentive to make history, build up base.

7. Factor substitution. Leverage.

1.g. is Non-land cost ÷ output

Mgmt. land may produce most of all. E.g. 55¢ V, \$50/a outside

I.D., \$800 inside, \$5,000 improved.

Fertilizer & ag. E.S. research.

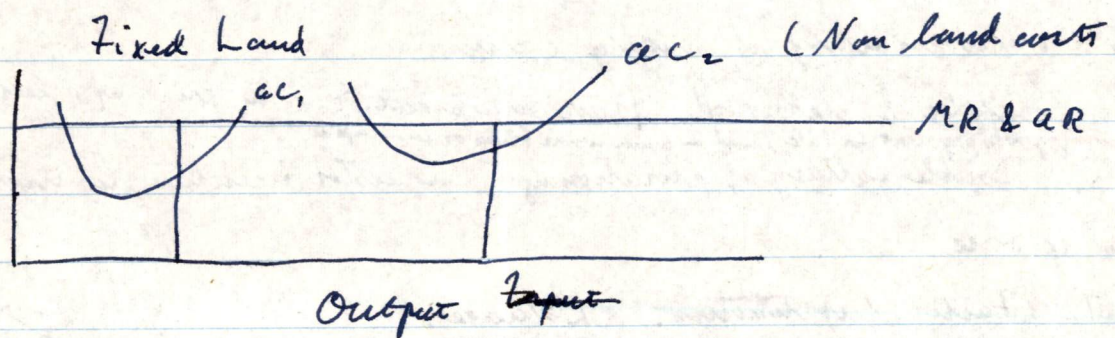
60 m. a. idle, no sweat. U.S. cd. feed world -- if it needed it. But how silly for Chile to import food!

8. Parkinson's Law of property + con. -- lag.

9. Cycles, long swings in land prices. Now, everything poised for a downturn -- accelerating Δi will bring it, despite firming of income.

10. Dumping

11. 3 levels of interest: individual, small group, large society. Selfish chiseler is in interests of larger society.



Method 2 nets more per acre; but less per unit of output
 Price rise less more leverage

12. Public affluence & priv. squalor. Malabloc, of capl. tied up in p.w. 2
we can't benefit from bet. capl. shortages. If build NAWAPA, do it has. but ambition is
to amaze future archaeologists.

13. Capl. of income into value. But..
Paradox of feeling ^{"farm income"} & risg l.v.

Reasons: 1. Higher share for landowner. Shown by risg. rent shares, defects.
a. Reserve programs. Land is the input that has been made scarce.
b. Lower costs -- research biased his way.

Insulated labor mkt. Hasn't risen like others.
"Farm income" is not land income. E.g. inc. of abneta city landlords is not included.
The costs that were lowered were not land costs, but use of fm. labor, which was
fm. income. So doing away w. that fm. income has helped l.v.

2. Growg amenity value, due to rural roads, wires, etc. Spread of
cars, trucks. More pleasant place to live.

3. Lag in response to p.w. -- e.g. W. side SFV, values up before
wtr comes, devt. will take 30 yrs. -- or longer, if cap. shortage develops.

4. Expansion of fms, inqul. value & ave.



5. Urban exp. (Fiddler & bookies) "easy if you also make books")

6. Mineral vts

7. Recon. values -- tax-motivated, i.e. deduct recon. cost as business. Higher
urban income, means of conspic. cons. --- a pleasant way to reduce inherited assets. Ariz. l.v. study.

8. Cumulative effect of long risg mkt.

a. Spec.

b. Pull in credit, lower capl. rates. Also, use of installment
land contracts, 4% contract interest, higher sale price, cap. gains.

9. Rural depopn. has kept tax rates down. Machines don't go to
school.

10. Antic. revival of price -- may be born acct, rising currency.

11. Difficulty of constructing index

a. Better farms sell slower; but propy. tax reform throws
some on mkt., may create current upward bias

b. Land contract at 4% int. rate & artifi. hi price.

12. Locked-in effect. No. of sales down by 35%, '55 - '65.

Why is surplus finally being relieved?

1. Foreign indy. has expanded faster than fn. agric. The developing nations have the most trouble w. agric.

? Illustrates princ. of relative backwardness; also, hi value of U.S. rural instus? #

2. U.S. farm bloc has weakened, so support prices have fallen. E.g. cotton, 1965, slashed support price & reduced cash payments to farms. Support price has gotten below mkt.

3. Infln. in U.S. & abroad has lowered real price of U.S. farm products.

4. Our p.w. insts. have led l.v. more than to output.

5. H. fn. inc. - elast. of demand

Not entirely. We are returning to colonial agric., export's grain for fn. feeders - less feed's at home.

Rewrite, p. 25 of MS.

Re Fm. l.v. & minerals

Oil indy, domestic spending, 1960

Lease acquisition, \$626 m

.. rentals, \$193 m

\$819 m

- Kalin, p. 287

To the firm, acqn. is one-shot, but to the indy. is continuing, & i.
may be capd. to approx. value. $20 \times 819 m = \$16b$

Above payments are only the explicit ones, maybe not
near 100% of all mineral rents.

Items for supplementing Stillwater paper

1. G. Shepard. "Appraisal of the Fed. Feed-grain Programs."

No. Central Reg. Pub. 128, 1-62.

Map showing irreg. land coming in.

✓ 2. Given irreg. land, even ~~cost-reducing~~ yield-reducing innovation takes the mech. corn-picker with 1 aggr. output

3. Causes of lag:

a. Land subs. are massive p.w., slow to plan, finance, legalize, politic, and finally to build.

b. Logrolling requires commitments & starts all over, rather than completions.

c. Lag of pvt. response

4. In Tobacco, we have frozen location. Shd. move to rich coastal plain of N.C.; or to Ga.

Other e.g.s? Grazing permits.

5. Supply response to braceros seems to be first & hi.

suggests hi MP of labor. Cf. response to new land — none at all!

6. "Unrolling the carpet" of land devt.

7. Common Mkt. shd. hunt our experts.

8. Frank Mair, in Land, p. 311, says acreage allotments w/o marketing quotas are seldom used — was used only for corn in the mid. 1950s. Are there are quotas on everything else?

2

9. Wheat program. Farmers outside "commercial" states may plant as much as they like

10. Price stability esply. loses durable caplt. & esply. to hi i.g. lands. Deferred output.

11. Unlike wheat & ctr., a feed grain producer can non-comply w/o "penalty"
— i.e. other than loss of support.

12. ~~Acres~~ Acres diverted from wheat & ctr. may be used for other crops.
so they went to grain sorghum in Ts - Okla - Ks., & barley elsewhere.

1952, — 59, total acres harvested dropped, 342 - 325 m.a.

feed grain " rose, 131 - 143

Share of corn belt dropped; So. Plains rose much.

" West " " "

"Feed grain spread"

13. Also deferring output response is Ag scale. Res. landowner benefit comes as lower costs, not higher yields.

14. ACP not only conserves land, it develops irreg. land. Big leverage. But immediate effect is reduce output — estab. winter corn, reduce cropping. SCS work probly. the same.

ACP sprays brushland, brings it back

Trng. on better lands makes it harder to work out ACP constraints, so

o - ops. & irreg. lands (& spec. submarg. lands) get most.
But little farms. can't take advantage of regrassing, so big ones do. — & ponds,
in W-n Okla.

15. Leakage in sugar. In Puerto Rico, any farm under 10 tons is free to produce, & gets highest support payment. Output has risen.
16. A Russ. demand recently has no doubt helped lower surpluses.
17. Rt. to graze public land below mkt. is good e.g. of an "ag." policy.
18. Leake - disaster area gets ASC permission to use Cons. Res. land for feed. Has good organic cover, covered mountains, hence produces hay in drought yr.
19. Credit programs helped input. regions esp.
20. Early innovations are scattered. Even if they don't require p.w., they require storage, processing, xpt. - & stimulated included undeveloped lands.
21. At hi price, ambitious farms. choose to intensify by Δ output by intensifying rather than expanding.
22. Cheap fert. has lowered premium on superior land.
Mechan. has Δ premium on flat land.
23. Wheat quality has dropped. No incentive to quality, only volume. "Gluten strength" is input. dimension of quality. Input. areas require short-season or drought resistant strains, lower gluten.

24. Locally forced. p.w. put pressure on land.

Centrally, no land taxes, & no Δ l.v. either but are doing it all over. So, big waste.

25. Rural roads serve as internal farm drives for big farms.

26. Locked-in effect.

27. Mgr. of cultivn. is fragmented — now, all lands about
brunt of output variability.

28. Work for Walt, w.a.e.

Effect of fin. programs on capt. funts.

29. Lease shares appear comst. at 50%, but landlords share of
expenses varies.

30. How big. fin. cap?

Neglect mainte., devote all labor to Δ yields.

Neglect replant.

expansion — shift labor off constn. etc.

Reduce herds, etc.

31. Dwarf wheat, c-r Wn., Δ yields 40%.

32. Price stability fosters hi leverage land use.

Leverage has 2 dimensions. Durable capt. invt. is the 2d.

Fixed costs over time. Stable price encourages durable capt. otherwise
neglected.

The usual caution vs. risk of unknown future is lowered.

Inflexibility of durable invts. shd. keep us away from them.

to stable price leads to deferring output to future. Irreversible long commitments.

33. Timelier opns. v. "surplus" machinery, an input factor.

34. Higher fur. prices go, ~~the lower % of food & furs get~~
do not mean fur. gets higher %. Dearer raw mtrls. inspire
more complementation.

Analogy of land for bldgs.

35. Clearing woodlots

Spray's brushland.

Those are also reclamation

36. Big landowners go for cattle breeding ideology bcs. it fits
their situation — they can now say that input. is unimportant.
In fact, input. has major effect on % of calf crop weaned.

37. Rural rd. & Truck xpt. leave lewd. land far from rails

38. Big unknown for me — in nationally supported crops,
how are regional diffs. worked out? Is wheat supported at \$2.00
everywhere, or at some base point net of freight?

Probably is some uniform tendency re location, just as re quality.

Thus boosting irregl. areas.

39. "Picker-sheller" is the mech. corn picker that lowers yields.

40. Corn has moved ^{100 mi.} n. as well as w. Short-season hybrids, - in Wisc.

41. Leakage. Wheat. Mqul. lands. Fmrs. use program payments as crop insurance. ~~If~~ ~~can~~ They seed land, & if crop looks bad they ~~bank~~ retire it.

42. Cal., fatten beef cattle on pasture, w. supplement feeding.
also hay wafering

43. Irrn. in Nehr. & W.Ts. big yield fraction.

Nehr. A feed grain prodn. 55%, '50 - '60, by irr. & milo.

44. Don't blow up soil bank rents to nation. Bcs. they are above whet., as shown by over subscription.

45. Mail to Reuss; Kischel;
& George Thiem, Chi. Daily News.

46. Publicity re large average reserve payments in '57 is what killed that program in '59 & '60. Reuss in '58 pushed limit of \$3,000/fm. above H.R.
Freeman revived in '61

47. In '40s, land idled under wheat programs went into grain sorghums - new dwarf kinds, that cd. harvest w. wheat equipment.

Midwest farms sought "cross-compliance," but cdn't make it stick. W-u. Senators too strong!

Deep-well pumps, & away they went - the So. Plains.

48. '62 feed grain program, you cd. idle 20% yr. base + 20 acres, so partic. is hi among smallest farms.

That confirms that acre payments are above rent for many lands. Another blow for landowners.

49. Incentive to bring in submarg. hi i.g. lands, b/c idling payments based on gross yield. So once you get a history, you can collect rent for no-rent land.

50. Fm. program - fm. trucks exempt from ICC reg.

51. Incentive to hi i.g. lands of uncertain w. drought jeopardy. W/o supports, if bumper crop, low price. Now, price maintained by govt. Stimulates.

52. Summer '65, a rise in fm. jobs - first in decades.

53. Cons. Res. had 2 rates, Diversion & Non-Diversion.
Former 3x higher - (later 2x). It meant the land was "taken out of" row crops.

No way to play it is to put it into row crops first!

54. Breeders pay ordinary inc. on calves. Gimmicks are to depress breed'g animals - mostly cows I presume - over 8 yrs., then get cap. gain on sale. Cows last 15 yrs., so 8 yr. write-off allowed in fact.

55. When landowner aborts shock by idling land, he gets paid. The labor he disemploys has no such help, nor the producer of fm. supplies.

56. Def. of net fm. inc. may mislead us.

E.g. it falls as r.e. taxes rise. But r.e. taxes go for better local road schools, police, etc. — add to implicit inc. of land.

57. If landlord banked land w. tre. tre. got some of payment.
(not long, I daresay. Maybe just as long as tre's constraint.)

58. Premium for locu. on hard-surface rd, in qual. fring. areas, 33%.

'58 study, in CAFREM, 3-7-58 p. 25

59. Midwest has lost ptaes.

60. Sagebrush control in Colo, 1 yield, big % gain, from \$2 up to \$7.

61. In dry farm regions of 2. field cycle, you cd. ~~probably~~ put the fallow yr. in acreage res., call it "diverted" land! Next yr., plant any crop.

62. Grass 'cover' not permanent. After 6 yrs. time to reseed anyway.

63. Framers of acreage res. program must have thought "land in wheat" = "wheat land." Underestd. a) Substr., & b) imperfection of land whet., unused latent capae.

64. '46 - '59, use of concentrates by dairies Δ 47% per head.

65. '55 - '57, 28 m.a. went into soil banks, but U.S. crop acres - Δ 20m.
8 m.a. shippage.

66. Cons. res. payments/a = $1\frac{1}{2}$ or $2 \times$ rent.

67. Normal silage spoilage is 20% in silo - more in bunker. Conserved by better storage, handling.

68. Converting grass hay to alf., Δ nutritive value 40%. Many meadows not converted, altho 6 yr. pd. is opt. Another feed grain sub.

Rotation pastures, 50% more gain than perm. ones.

69. Pto. p. support, '43-50, accel. shift to hi-yields, remote areas —
 Kern Ctg. Irreversible -- 1 da. & Cal. irr., bands, etc. No midwest
 forced out permanently.

Thus ptaes. are a harbinger of what's in store for everyone.

70. L.v. have risen by higher %, '40-'61, in plain states than
 in 7a.

71. Fm. programs make fm. diversify, less imptnt. & specialize.
 Thus & yields.

72. Shortening feeding pd. is esply. hard on feed grains bcs. that is
 the "finishing" stage when they use highest % of grains. Earlier,
 live on forage, hay, roughage.

73. Fixed charges that build up include deprecn. & obsolescence.
 When L.v. fall, higher % becomes bldgs., there is more
 deprecn.

51. Only cropland may go into "Conservation Res." program.
 Maybe not best cropland, but it is cropland.
 Needn't have been in corn - maybe hay or meadow.
52. Cons. Res. retired whole farms, under long contracts, some to 1970.
53. Soil Bank Act, '56.
 1-yr. Acreage Res. Contracts. Dropped after '58
 Long term. Cons. Res. " , 3-10 yrs.
54. Hi i.g. land mostly goes in, bcs. payment based on gross. In
5. Central Pa. (also, probly needs cons. more.)
55. Max. \$5,000 to one ~~producer~~ ~~payee~~ "contractor"
56. asc Cty. Comm. also shows up to 80% cost of establishing
 "conserving" crops.
57. For future allotments, contractor's crop history preserved over 10 yr.
 contract. Even on land put to trees!
58. '59, instituted 10% bonus for retiring ~~whole farms~~
 "all eligible land in a tract" - (nothing said about bldgs.)

59. '59 revision, payments more differentiated by quality, brought in better land. But heaviest portion was still in fringe areas.

60. Land is gradually released from Cons. Res. - no more taken in after '60 sign-up.

61. Substr. of forage for corn means more beef & less pork - hurting the poor man's meat.

62. Acreage allotments have been applied to corn since '51.

Other feed grains not "usually" under control.

63. Corn-allotment portion is voluntary ~ get higher price if you restrict. Thus non-compliers get higher price in mkt. but

less output. And can they not thus establish histories as basis for future cutbacks at support prices?

64. 1950 - 63, fm. r.e. taxes per acre more than doubled, while remaining at 1% of mkt.

Their % of net fm. inc. has also doubled, to 10%

64a. Fm. debt now \$36b - half is on r.e.

(Probably excludes land contracts) (and may not pick up all partly held mortgages.)

65. Non-adopters line off deprec. of old capl. no doubt for some time.
that competes vs. renewing & yield. Hence lag.

66. Farm mortgage i.r. Ave. for loans outstanding, ~~by~~ all
lenders, U.S.

1944 4.4% all time low

1950 4.5

Unbroken rise.

1964 5.3

- Ag Force Rev. p. 44, Dec. '64

67. 1963 ~~QFR~~ - p. 76, QFR, Dec. '64

Net Inc. from Ag. \$17.9 b.

Wages hired labor 3.0

Net rent & govt. payments
+ landlords not living on farms. 1.1

68. Int. on fm. mortgage debt now takes nearly \$1 b yly.

Am-n. more

Taxes, 1.5 or so

Land contract payments more.

69. 50% of gross is usual landlord's share in Ill.
70. Wheat, '64 program, farms. who partic. got "mktg. certificates" of 70¢/bu. (or 25¢ for pent, "allocated for export".)
71. after loss of '63 wheat referendum, later legisla. was adopted — no free mkt.
72. Since fm. inc. is low, & l.v. hi, much non-r.e. debt is being refinanced as r.e. debt. Adding to fixed charges.
73. Land prices have not risen as fast in Midwest pure farm. areas as in areas of nonfarm influence.
- But in Mt. States, have risen most of all, to highest l.v./inc. ratios in nation. (Antic. of p.w.; stat. quirks like grazing permits; ~~etc~~ shale & minerals; etc. ... may loose up data.)
- Scotfield intimates, [in his usual half-finished way] that high value/income ratios are found where land is highest %o. Western grazing esp. ly.
74. 35¢/hr. is lowest figure for ungr. labor.
75. At the moment, ~~for~~ ~~sup~~ meat supplies are down, prices up. Aug. '65.
76. R. Barlowe has, in '63, fm. r.e. taxes at \$1.8 k & net cash inc. at \$9.2 k, so $\frac{\text{taxes}}{\text{net}} = .16$

77. 8-65, biggest ^{feed grain} crop on record this yr. - Newsk. wrong.
 '64 was just a bad yr. - drought.

78. Grazing land has risen esp. fast, w. rising nos. of cattle.

79. Agrul. lands ^{of variable ux.} benefit from "emergency" crop loans, etc. that
 carry fr. over ^{but} ~~intermed~~ yrs. Thus bring in new areas.

80. Cotton as % of all fibers used by U.S. mills

'53 - .69

'63 - .56

81. Ctn. quality. West is vastly higher. Almost all sold on whrt.
 But Ga. & S.C., most goes on loan.

82. '59, 59% farm land in Ill. is rented.

In cash-grain e-central area, 72%!

83. We are their victims. But we neither realize what was done to us, nor what we are still doing.

84. The irreversible steps are taken long before ΔQ becomes evident.

85. Hi l.v. keep easing credit, so capt. moves into ag. easier.

86. Sugar - \$50/ton differential, domestic over fr.

Sugar colonies all over the world, Δq capax. in antic. of higher quotas, which they get by lobbying.

87. 1920-60, land in corn, etc., ptatoes, oats, dropped much.
Soybeans rose, &c. new crops.

But Δ yields is main thing.

88. Recent spate articles on Brit. Trng., emph. need for subv.-rents to make Trng. etc. Cite Ag. Revue, Misc. P. 801, p. 57 ff.

89. Def. of "concentrator": protein concs. of trussid meal, soybean meal, linseed meal, dehydr. alf. meal.

handover. conspiracy - Ozark fur.

Erving

Instant pleasure & deferred pain

2 day benefit of Recdn.

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