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The fading tobacco dollar

By Jim Smith

The complaint is a familiar one: "Sure, we're getting more money for our crops this year—but it just doesn't seem to go as far. I was making better money a few years ago when tobacco was selling for less than a dollar a pound."

A report scheduled for release in late January by University of Kentucky researchers Garnett Bradford, Bob MacIain and Milton Shufflett fully supports the assertion that the tobacco dollar, which constitutes well over half of the annual income for Nicholas County, is rapidly losing ground in the fight with inflation. In an interview with Dr. Bradford last Tuesday, he said that he and his colleagues' research has tended to support the claim of an overall fading tobacco dollar.

In a study of the actual buying power of the tobacco dollar dating back to 1972, the research revealed that the actual profit on a pound of tobacco has risen only nominally over the past eight years, and not at all since 1978!

The study concentrated on three target years: 1972, when the price per pound of burley was 79 cents, 1978, when the price per pound was \$1.31; and 1980, with the price per pound safely projected at \$1.66. By subtracting the overhead necessary to produce the crop, Bradford, MacIain and Shufflett determined the profit per pound of the target years rose from 22 cents in 1972, to 45¢ cents in 1978, and finally to 58 cents in 1980. (In determining the overhead, they figured in all production

costs exclusive of the cost of obtaining an allotment. They left out the allotment cost because of its unpredictable variability, depending upon seasonal and personal circumstances.) Therefore, in many instances actual profit figures may be slightly less.

However, this increasing scale of profits does not take into account the increasing inflation rate between these years. When deflating the profits into "constant", or real dollars by figuring in the inflationary pressures as reflected in a cost of living index, the adjusted profits are most striking. In 1972 (the base year) the profits were still 22 cents per pound. However, the profits in 1978 fell to just 28 cents per pound, and the 1980 figures will show no gain in actual profit per pound, but will still yield 28 cents after the adjustment for inflation.

As Dr. Bradford said Tuesday, "What seems to be an increase in profit in real dollars is offset by the increase in the production process, and then later when the farmer spends the money he has made from the previous year's crop."

While Dr. Bradford recognized the fact that he couldn't be more optimistic, he said that he is "not sure that the future looks all that bright" for the Kentucky burley farmer. According to the researchers' predictions, which are based upon a projected 12 percent inflation rate for 1981 and its two-fold bite on the farmer in the production and consumption spheres, the Kentucky burley

farmer would need to receive \$1.86 per pound next year just to stay even with the adjusted profit rate for 1978. In other words, if next year's tobacco crop sells for \$1.86 per pound, the farmer producing it will receive no more real profits than they did in 1978, when tobacco was selling for \$1.31 per pound.

Dr. Bradford pointed out another gloomy possibility for next year's burley market. He and his fellow researchers have predicted the price support base for next year's crop at \$1.45 per pound, as compared with the \$1.45 9/10 support this year. With the burley needing to make up the extra 24 cents on the open market, a particularly good overall crop (i.e., high quality, high yield production) could, given simple supply-demand economics, produce an average price less than the necessary \$1.86. Thus, it is possible that an especially good crop next year would cause the actual profits of the tobacco producers to fall.

The only hope for the reality of a higher profit by tobacco farmers in the future, according to Dr. Bradford, would be a decline in the inflation and/or a fall in production costs. Without these occurrences, the actual buying power of the tobacco dollar is destined to remain in its current "stagflation" condition, or to perhaps even weaken.

The full report by Bradford, MacIain and Shufflett will be published in Kentucky Agricultural News in late January, and will be available in the Nicholas County Extension Office by early February.

Babson's annual business and financial forecast

1981 year of economic regrouping

By Babson's Reports Inc., Wellesley Hills, Mass., December 24, 1980. A year ago, our forecast for 1980 predicted that the American economy would experience a recession, the main thrust of which would be felt early in the year. Technically speaking, however, the generally accepted definition of an economic recession was not fulfilled. That is, the "real" gross national product (the GNP strip of inflation) did not experience two consecutive quarters of negative readings. However, the massive second-quarter 1980 slump (down nearly 19 percent) suffered by the gross national product in terms of 1972 dollars, and the minuscule growth rates of the year's remaining quarters, surely must be regarded as ample indication that a recession did indeed occur.

While the severity of the economic contraction during the spring weeks of 1980 exceeded the expectations of most economists, the inflationary pressure on the nation's economy had it not been for the dramatic credit curbs which the Carter Administration and the Federal Reserve employed in the bold bid to curb burgeoning inflationary forces, the economy might not have been subjected to such a pronounced buffet in the spring and early summer of 1980. But even if the reins had not been pulled so radically, it is doubtful that a business slowdown could have been averted completely.

After all, the growth of the nation's money supply remained consistently higher than the targets that had been projected by the monetary authorities, and the federal government was unable to cope with the ever-increasing budget deficit for fiscal 1980 which ended September 30. Hence, there was an exceedingly fertile breeding ground for inflation, and the brief, sharp downturn in short-term interest rates was supplanted by another spell of oppressively high inflationary interest rates in the second half of 1980. As these adverse factors reasserted, the promising picture of industrial output spattered as the year worked to its termination.

1981 — A Period of Regrouping

The staff of Babson's Reports now foresees an extension of the lag economy climate during much of 1981's

first half. The incoming Reagan Administration faces the monumental task of lowering inflation and interest rates. We think that sufficiently significant and rapid increases can be made on these problems to boost the economy into a swift upturn early in the year. Indeed, vitality and forward momentum will be slow in developing. Hence, economic activity will do well to edge upward during the winter and early spring weeks. Thereafter, however, the business tempo will quicken and, the second half of 1981 could enjoy enough of an upturn to enable the year as a whole to record a moderate amount of progress. In effect, therefore, 1981 must be viewed as a regrouping period for the U.S. economy, to the groundwork for a more vibrant 1982.

Economy's Resilience

A startling feature

Although the staff of Babson's Reports does not anticipate a sturdy start-up surge in economic activity, 1981 could turn out to be more fruitful than current conditions would seem to support. But there are less hopeful opinions. Such views reflect fear that the economy will lapse back to the 1980 low point of economic activity, and the more pessimistic element go a step further in projecting a dip or deeper depression. If either viewpoint should be borne out, the result would be a "double dip" 1980's recession, or something tantamount to a "W-type" reversal pattern.

The Babson forecast, on the other hand, envisions a generally flat trend of economic activity — but with a modest upward bias — for early 1981. Of this outlook, a "double-dip" recession pattern would not materialize. This scenario is predicated on the basic buoyancy of the U.S. economy, which Babson's views as capable of providing more bolstering influences than is generally recognized. For one thing, service-oriented activities have been growing in importance over the years. Many facets of that diverse segment of the economy are less responsive to cyclical downturns in the industrial and commercial sectors, hence tend to impart support to the overall economy.

The automotive and agricultural equipment industries are verging on cyclical advances which could come into play once oppressively high in-

terest rates decline. Improvement in these operations will give an uplift to the sectors of parts suppliers, including the steel and rubber industries which have experienced tough sludging for some time. Moreover, the fresh pace of exploration and development work in the oil and gas industries and the rapid growth in computer-related fields mean added vital support for the economy. And, as 1981 progresses, a new upturn (more durable than the aborted 1980 effort) is likely to take hold in residential building.

Benefits from the Change

In National Leadership

Allowing for the settling process, Babson's expectation is that the incoming Reagan Administration will make some headway in the fight against inflation and in mulling interest rates back down to less stifling levels. In addition, efforts to stimulate economic revitalization, via business incentives and a less ambivalent attitude toward private enterprise, should lead to a healthier state of business confidence. But the programs and legislative proposals of the new Administration cannot become reality without the cooperation of Congress. The Babson view is that a better working relationship will prevail between Capitol Hill and the White House, particularly those facing reelection two years hence — will certainly be mindful of the shift in voter sentiment shown at the polls last November. A more constructive atmosphere at top echelons of the Legislative Branch can go far toward improving overall public confidence and it will be no easy task, however. Forces which have eroded confidence in private — unhealthy fiscal and monetary constraints, galloping inflation, a badly tarnished national image abroad, and the diminution of American productivity and competitiveness — have roots that are deeply imbedded. Nevertheless, if patience and understanding prevail, meaningful advances can be made toward rectifying the ailments, and the nation can be headed in a direction offering



Christmas joy

Kentucky State Police Trooper John Hall, of Carlisle, is pictured above spreading a little Christmas joy to an underprivileged Nicholas County child. Trooper Hall distributed fruit and toys to the children of four Nicholas County families on Christmas Eve in cooperation with a program sponsored by the Dry Ridge division of the Kentucky State Police Professional Association.

SS '81 registration set for morn born in 1962 and 1963

Selective Service registration for men born in 1962 will take place during the week of Jan. 5. Men born in 1963 (and later) should register within 30 days of their 18th birthdays. This is a continuation of the program begun last summer, whereby men born in 1960 and 1961 visited post offices across the nation to fill in the registration form. The purpose of registration is to build a pool of names and addresses from which Selective Service could draw in an emergency. According to Dr. Bernard D. Hostler, Director of the Selective Service System: "Registration directly improves our capability to respond, actually reducing lead time by at least four weeks. We think that provides a significant advantage, especially when matched with the very low cost of the registration effort." The direct costs of registration are less than \$2 per registrant.

Info system gives farmers an edge

When Kentucky farmer Bill Giltner needs the latest commodity information to decide when to sell his corn, or, the latest weather forecast to know when he can begin planting, he turns to his television set.

But he doesn't have to wait for the six o'clock news. Instead, Giltner, and 199 other Kentucky farmers, can view weather and marketing information on his TV set anytime of the day or night, courtesy of his "Green Thumb."

"Green Thumb" is a special computer hookup that puts the latest weather, marketing, and local agricultural information at a farmer's fingertips. The system transforms a television set into an agricultural information system and a valuable decision-making tool. The system, currently being tested in

Three automobile accidents reported last week in county

Nicholas County Sheriff J.W. Ecton reported three automobile accidents in the county last week.

Around 8:30 p.m. Saturday, Dec. 27, a car driven by Diane Fugate of Route Four, Carlisle was the victim of a hit and run incident near the old railroad bridge at Myers Station. The driver of the hit and run vehicle was discovered early Sunday by the Sheriff's Office to be Virgil Woodward, also of Route Four, Carlisle. Both vehicles received significant damage, but there were no injuries.

A truck driven by George Garrett of Carlisle, was involved in a single vehicle accident Sunday, Dec. 21, when the driver lost control on a curve near Moorefield. The pick-up sustained considerable damage to its right side. There were no injuries.

The second fire broke out around 5:45 p.m. on the Paul Truher farm near Pleasant Valley. The house, which was inhabited by the Hawkins family, was completely destroyed. All household furnishings were saved. Chief Wilson reported. The family and furnishings were moved into an unoccupied nearby house.

Two county fires reported

Nicholas County Fire Chief Woody Wilson reported two fires in the county last week, both occurring on Friday, Dec. 26. The first fire occurred around 11 a.m. at the home of William C. Towles on the Ball Hill Road. Chief Wilson said that the blaze had already been put out when fire fighters arrived on the scene, and that only minor damages were reported.

The second fire broke out around 5:45 p.m. on the Paul Truher farm near Pleasant Valley. The house, which was inhabited by the Hawkins family, was completely destroyed. All household furnishings were saved. Chief Wilson reported. The family and furnishings were moved into an unoccupied nearby house.

Kentucky veterans

Veterans of Kentucky will receive \$5,900,000 in dividends during the year 1981 on insurance they have kept in force since their active duty days.

Lee Caudill, director of the regional office of the VA in Louisville, said the dividends will be paid on the anniversary of the policy, and no application is needed, as they are paid automatically.

Sharing in the dividends in Kentucky will be 28,362 veterans who served in World War I, World War II and Korea. There is no government insurance for the Vietnam era veterans.

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