The Siren Son

Third extract from The Benefits of Farm P

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From the *Journa*

IF LANDOWNERS are ruining themselves by too much success, that is not yet apparent in the value of farmland, which keeps rising in the face of falling farm income. How do we account for this perverse behaviour? The reasons usually cited are important: a rising landowner's share of farm income, mineral rights, urban expansion, farm enlargement; etc. Of all the reasons, however, I would call your attention most closely to the long lag of production response behind enhanced production capability.

Many farm programs, of public works and production research, enhance the capacity of land to yield income. Land values respond to that higher capacity immediately; actual production comes along much more slowly. A handful of alert innovators seize on new possibilities and convert their land use to them. In the process they often buy land, at values reflecting in part the income from higher use. Since only 2—3 per cent. of farms, and a smaller percentage of land, turn over each year, these few purchases by aggressive innovators loom large in the sales figures which we then blow up to estimate the aggregate value of all land.

In practice the supersession of land uses is a matter of generations. In the transition, land has a value based on expectation of higher use, but markets no products commensurate with the value. Since the transition is to higher i.q., as a rule, land must ultimately market products more than commensurate with its new value to warrant the value. Just who will buy those products, and at what prices, is a problem we defer. Meantime, we expand the area of land whose value is premised on intensive use. We increase values of those lands without paying the penalty of higher output and lower price.

Thus, if retribution is to come, it is deferred. Meantime, the gratifications of the system are immediate. Higher land values are enjoyed all around. The mere fact that owners do not take quick advantage of them does not mean they do not appreciate them. The individual can always sell, or mortgage, and most of us like to have options that we can exercise at our leisure.

A system of instant pleasure and deferred pain lends itself nicely to the demands of the American political process. Short-run electoral survival is paramount; long-run problems may fall on one's successors. Little wonder, then, that we have had so much trouble avoiding contradictions in our farm policy.

In the long run it seems inevitable that the euphoria induced by the long lag of supply response should give

way before the weight of massive new capacity.

In the short run, implicit rent is a lax taskmaster. In a period of rising land values it is especially so because the annual increment to value is a species of income from land which helps to cover carrying costs. Even with steady land values, implicit rent merely represents an opportunity, a carrot without a stick. It is an option open primarily to those who need it least—those affluent enough to own land—and who are least likely to exercise the option to its utmost.

But over time more of the implicit rent becomes explicit. Fixed charges build up. Land changes hands at high values, and is mortgaged. Property taxes and land assessments respond to the higher base. And of course each year a few more owners jump at the carrot, regardless of the stick. The effect is contagious. Older capital depreciates, and its replacement affords the occasion to intensify. Older farmers retire. The collateral of high land values lures more capital into agriculture. And high asking prices for land make intensification an ever more attractive alternative to farm expansion.

The result could be a dramatic price collapse, one which would be worsened by liquidation of farm capital and a panic rush to cash in on fugitive opportunities. But we have forestalled much of that by our program of price supports. If supports cannot hold prices forever in the face of surpluses, they can at least preside over an orderly retreat to ever lower percentages of parity. Thus farm landowners never have to take in one blow the full force of the debacle of the cycle of over expansion.

The trouble with that policy is that supply curves are irreversible. So when we ride down the supply curve by lowering support prices, it is not the same curve we rode up, but much steeper. The new equilibrium price is lower than what would have obtained had we never supported prices. That is the landowners' deferred retribution.

The process has some of the making of a long boom-and-bust cycle like that of irrigation from 1918-1940. But modern farm policy has made it more of a continuous process. We know that high prices stimulate unneeded new capacity. But the new market price at the bottom of the steep downwards supply curve generates acute vertigo, and a desperate resolve to avoid the perils of full competition.

So, in our "orderly retreat" from insupportable prices, we drop them a peg or two but continue to support them above a free market equilibrium, which falls inexorably lower by virtue of the fact that we are holding prices above it. A pretty dilemma, indeed! We fear to unbottle the productive genies we have awakened by price supports, but the same high prices which we fear they

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would undercut keep awakening more genies than we can control.

The result is surpluses and excess capacity at or below price levels that would have prevailed had there been no farm programs.

The greatest beneficiaries are the owners of marginal land of high i.q. brought into the market by this or that subsidy. The losers include the owners of superior land who ultimately have to share what might have been their market with others whose share of political power exceeded their share of natural land value. Consumers may ultimately benefit by lower prices, although that depends on the fate of production controls and diversion programs, and if consumers do finally gain they will have earned it. Taxpayers are big losers, and we all lose as balked consumers of the various useful goods and services that might be produced with the non-land inputs poured into needless public works and development of high-i.q. land. (The argument that these inputs would be wasted anyway hardly warrants a reply). Recreationists are losers as agriculture invades and reclaims more and more wild land it never needed.

The distribution of gain and loss is less important than the fact that the aggregate loss exceeds the gain by a wide margin. The ultimate end toward which the programs are drifting is dissipation of the benefits in sheer waste. The waste consists basically in locking up the latent productive power of superior land, duplicating it at great private and social cost on the desert, in the swamps, and in the back-woods; and then locking up part of the duplicate land as well. We deny ourselves full advantages of our landed heritage, and even of the capital we substitute for it. We produce at real human cost what nature wants to yield freely above our efforts.

Location and regional specialisation are badly distorted. Many quotas are frozen to their farms or counties of origin, blocking migration to areas that later became more economical. But the overall pattern is not frozen. On the contrary, the greater problem is one of uneconomical migration. Land best suited for corn is diverted to hay or small grain, while corn and its many substitutes invade the wheatlands, and wheat tears the cover off erosive grass-lands and moves east to diverted corn land. Land near cities goes into low uses while remote land goes into horticulture, magnifying the transportation bill and the farm-market spread. We spread thin the economic rent that would under an economic regimen focus on better soils and locations. We can hardly blame the trucks and railroads then if they take a larger slice of the food budget, or wonder why storage and handling costs mount so high.

We buy stable prices at the cost of unstable output. We create a class of "in-and-out" land, and labor, and capital, which bear the brunt of supply control. Land poised

speculatively on the fringes of existing programs is not well developed in its actual uses and cannot support a stable rural society.

In sum, we are left with heavy costs and few benefits. As high as farm real estate values have soared, they still hardly represent more than a capitalization of the USDA budget, not to mention some $2 billion charged to "foreign aid" that really belongs in the agriculture budget, plus public works charged to Interior and Army, and other billions in the other programs mentioned earlier. The benefits are dissipated in the terrible contradictions of the programs.

In coming to this unhappy state, land plays the role of the Lorelei. The siren song that leads the sailors on the shoals is the lure of unearned increment. Land is ideally cast for the Lorelei role. It is immobile between con-gressional districts and so captures net benefits to districts brought home by their congressmen; that makes it the coin for paying off political retainers. It is the ideal medium for promising more than can be delivered, because the lag is so long before landowners capitalize on new opportunities.

And so our surplus problem traces back to the implicit national policy of high land values for everyone. To straighten out our farm economy, we need some funda-mental reappraisal of the prevailing system of cold storage to enhance some land values and public works to enhance others. Artificial scarcity plus artificial abundance can add up to nothing but genuine waste.

Any Other Claimants?

"IN the year of the 900th anniversary of the Battle of Hastings it would be interesting to know how many other landowners are living, as I am, on an estate which has passed by continuous descent without sale from an ancester to whom it was granted by the Conqueror.

"The Horsford estate was so granted to William de Caen. It has passed by descent from father to son or on six occasions to a daughter through thirty-five owners and thirty generations."

—Letter from Sir Richard Barrett-Lennard in *The Times*, August 12.