Government Support f Land Prices

From The Benefits of Farm Progra

By MASO

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From the *Journa*

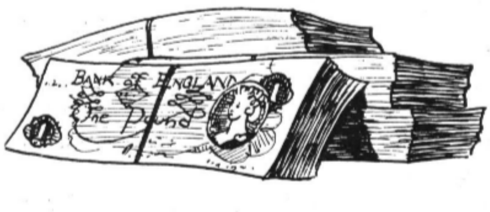
THE PROXIMATE BENEFICIARY of most farm programs is the landowner *per se*. Farmers who are not land owners, like the migrant harvesters who get down to 25 cents an hour in some places, do not gain, but suffer from lower demand for their services. Land owners who are not farmers, such as the matinee idols, senators, industrial executives and country bankers who sink their spare change in rural real estate, benefit hugely. In the short run, some tenants with long leases, or renewable ones under custom-bound crop shares, may gain a good deal. But these tenants really have a species of equity in land, and it hardly rises above the dignity of a quibble to cite them to refute what is otherwise too obvious for serious question.[1]

Agricultural economists are becoming increasingly vocal on this subject, as farmland values continue to soar in defiance of falling "farm" income. The work inspired by Walter Chryst is outstanding.

His findings really should not surprise us. The surprise is why it took the profession so long to catch up with Ricardo. In analysing the corn laws—the farm price supports of his day—he made the same point, and on the side enunciated the law of rent and founded classical economics.

Ricardo must be qualified, some say completely rejected. The increase of rent in one industry is limited because in the long run we can increase the land supply. But we do so only at progressively higher cost. That is why the low-cost lands yield rent—which, after all, is what Ricardo said.

Others point out that, if landlords gain from higher prices, they also are the ones who have to withdraw a resource from production. True enough—but they get paid for it. Here is where the farm land owner has it over the members of privately financed cartels. The oil man idles his well at his own expense. The farm land owner gets paid for idling land, and he often has the choice of "banking" land or not, as his personal circumstances dictate. No wonder the other cartels complain—they should be jealous.



It is precisely the fact that land is selected as the factor to be idled that makes the "farm" programs really land owners' programs. If we idled labor, labor would become artificially scarce. Likewise, if we sought to restrict output by limiting the input of barns, haybalers, or peach trees, we would make them scarce and put them in a position to capture the benefits of price supports and technical progress. If we idled some of *all* inputs in farm industry we might properly call it a "farm program." But we single out one input, land. One result, as everyone knows, has been to weaken production control so much that one is tempted to wonder if that ever was the prime objective. The greater effect has been to change the relative bargaining power of different inputs inside agriculture *vis-a-vis* one another, and shift the terms of trade to favour land.

As among land owners, the programs have a systematic bias in favor of larger ones. Larger land owners can spare marginal acres more easily than can smaller ones. Their factor-mix is already lean on labor and machines relative to land—we usually perceive that as lower costs per acre. Those programs that cut back everyone by a fixed percentage of his land are therefore harder on smaller land owners, whose marginal acres mean more to them.

At the same time that we are thus manipulating factor proportions and terms of interfactor bargaining, another set of farm programs seems calculated to inure to the benefit of farm land owners in another way. These are programs of public works that bring to land water, or cheap power, or flood control, or improved access, or what have you. Here I am using "farm program" broadly—these are not operations of the Commodity Credit Corporation. They are, however, very much a part of the

[1] A few programs may give quotas to tenants rather than landowners. Such a quota, if permanent, is a new kind of property which would stand to capture the benefits of farm programs.

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Incidence, Shifting and Dissipation

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Farm Economics

total bundle for agriculture secured in the political process—the great American system of public works for private profit. They are sponsored by organized farm groups, and it is this larger picture we here are concerned with.

In multipurpose projects, by whatever agency, farm land owners usually get power or water at much lower rates than city consumers. In federal reclamation projects, which do ask farms to help bear some costs, the irrigation component gets interest-free money. Common carriers' freight-rate structures generally give lower rates to bulk cargo, and farm land owners gain preference from that because farm products generally fall in the bulky low-rate classes. Farm trucking is exempt from Interstate Commerce Commission minimum rate regulation.

Then there are the programs which help the farm land owner to build up the value of his property; establishing cover, liming, controlling erosion by tillage, strip cropping and contouring. There are water conservation works—some doubling as farm swimming pools—built with the help of the Soil Conservation Service and other agencies.

We also try to spread credit around rural areas at low interest rates. Short and intermediate credit, used for production, tends to increase the annual value of land. Long-term credit, used to buy land itself, tends to lower capitalization rates and increase the land value derived from any level of annual values.

I will not labor the income tax advantages of "farmers." But it is interesting how the tax cards are stacked for the larger land owners. The breeders, whose ranches on the average not only out-spread but out-value other farm firms, and whose taxable income is largely land rent, get capital gains on sales of breeding stock. The feeders pay on ordinary income.

We should mention agriculture's peculiar institution, the *bracero*. Who would ever have the effrontery to tell us that cheap contract Mexican labor was imported for any purpose but to increase the economic rent of farm land at the expense of labor's share? Exemption of native farm labor from minimum wage laws and social security would seem to have a like purpose and outcome.

Having taken all the above steps to raise land value, we cap the performance by paying the land owner for the privilege of holding idle some of his land we have enhanced, so we may pay him more for the produce of his other lands and lower the bargaining power of his labor and other hired inputs. It is little wonder, then that some people feel the "farm" programs are not that at all, but land owners' programs.

(*to be continued*)

ROOKING THE CONSUMER

THOSE with a taste for the bizarre will find much to gratify them in the activities of the Potato Marketing Board. Like other agricultural marketing boards it exists to protect the farmer against the natural hazards of his occupation. This it does by making substantial deficiency payments to him in times of plenty, and leaving him free to exploit the market in times of scarcity. To its credit, the Board normally supplies this subsidy from the proceeds of a levy per acre on the producer, thereby ensuring that the taxpaying consumer does not lose all along the line.

So far, so good: the Board is the vehicle of a subsidy paid ultimately out of the farmer's own pocket, though, as is usual in such cases, the levy that provides it is designed to penalise large-scale and efficient production. The Board, however, employs in times of surplus another device of almost fantastically perverse ingenuity. To diminish the cost of its subsidy, it buys up large quantities of potatoes (750,000 tons this season) at guaranteed prices, thereby keeping the market price artificially high. These potatoes are then allowed either to rot or to be sold at a heavy loss for stockfeeding, the fortunate buyers possibly including the original producers. Two-thirds of the money for this complex transaction (£3 million last year) comes from the Treasury. Potato merchants—who ought to know—now say that but for this recent withdrawal of supplies they would have earned valuable foreign currency by exports to the Continent, where there was an acute shortage.

Government-supported action thus frustrates national economic policy. It should attract Mr. Aubrey Jones's curiosity.

—*The Daily Telegraph*, April 25.