The Futureless Farmer

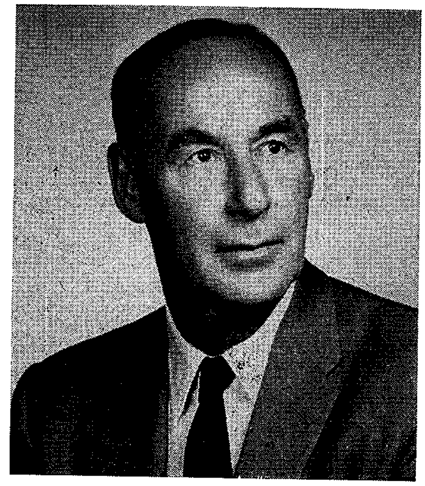
by A. STUART HALL

AT first glance it seems paradoxical that farmland prices in the United States continue to advance despite sagging farm incomes and a remarkable decline in farm population.

It is, of course, obvious that for every seller there must be a buyer. The normal expectation is, however, that assets whose profitability is decreasing will sell, as a rule, at lower rather than continually higher prices. Why do farms constitute an exception to this well-understood financial principle?

There are doubtless a number of contributory factors. People who fear an extreme inflation in the future have a tendency to buy "real" assets, such as land, in an attempt to hedge. They do not give great weight to current income when making an offer. Other buyers may seek the advantage of tax-deductibility under the guise of "business expenses" which are available to farmers but not to other kinds of income receivers. Some, no doubt, expect an upgrading of social position to ensue from ownership of broad acres; *parvenus* seek to become squires.

But the chief reason for the upward price-trend of progressively less profitable farmland has been what is called, somewhat dramatically, the Industrial Revolution in Agriculture. Remarkable improvements in agricultural techniques and equipment have taken place in recent years. A good number of these have had the effect of increasing very substantially a farmer's fixed costs, or "overhead," in addition to enhancing his potential productivity. Now farm equipment, like any other kind, is usually available only in a relatively few and discontinuous sizes, the smallest of which may prove too large for fully efficient use by many farmers. Nevertheless, large numbers of farmers have been obliged by force of external circumstances to choose between mechanizing their operations or retiring from their



A Stuart Hall, professor of economics at the University of Nebraska in Lincoln, was exposed as a child to Henry George's philosophy because his father was a Mobilian, and the family often went to Point Clear, near Fairhope, Alabama. He read *Progress and Poverty* for the first time at about age 16 and was charmed by its style and sincerity. He does not deny the existence of a large amount of economic rent resulting from increases in population and other causes which confer unearned incomes on many people. He *is* inclined to doubt the operational usefulness of some of George's ideas in a modern society, but he says he always makes these ideas a part of any course he teaches on the History of Economic Thought.

occupation. When government seeks to alleviate distress in agriculture by supporting prices instead of assuring some minimum of farm family income, the farmer is under great pressure to maximize his production per acre, and better and more expensive equipment affords him the opportunity.

In a general way it was true a century ago that labor was the "scarce" resource in the United States, and "land" the abundant one. And as always, the scarcer resource was enabled thereby to command a higher price per unit than could be demanded by the more abundant one. Exactly the same situation exists today except that the roles have become reversed and, furthermore, the abundant factor must now be thought of as "labor and equipment," not merely labor as before.

A	B	C
D	E	F
G	H	I

Assume that the owner of farm "E" in the diagram wishes, for whatever reason, to get out of farming. If owners of the contiguous farms "A" and "B" . . . have, as is likely to be the case, a heavy investment in equipment and insufficient land to afford full employment for themselves and the equipment, the situation is ready-made for a brisk competitive bidding between them for farm "E." The owner of "E" is obviously in a monopoly position in a small way (which, as a matter of fact, describes *most* monopolies). By virtue of that circumstance he is enabled to sell the farm at a price appreciably above the figure which would fairly represent the capitalized value of the earnings he himself has been able to wrest from it. The sales price will reflect, not the value of the farm as it stands, but rather its anticipated productivity after integration into a neighboring farm.

There is no foreseeable end to this sort of spiral. It is a fact that as the average size of farms becomes larger the investment in equipment keeps pace or moves upward even faster. There is, of course, a limit to the process; but it has not yet been sighted. Meanwhile, agricultural labor becomes progressively more redundant and land values continue to advance despite declining earnings. And as land values rise it becomes ever more difficult for any individual to muster sufficient capital to rise from the ranks of farm workers to tenant farmers to freeholder or yeoman. As land prices increase, so do interest charges as well as "down payments," which are conventionally related to sales prices.

Thus a result of rising prices for farmlands, based on the quasi-monopolistic nature of land ownership, is to depreciate continually the value of *labor* on the land. The owner-farmer is forced to impute more and more of his total income to the land in view of its high market price. If he is not the owner, or owns only a partial equity in his farm, the same result occurs, since he must either allocate a larger part of his gross income to interest payments on his mortgage or must pay a higher rental in kind or in cash. The *worker* has become the residual claimant on farm income.

One may well question the merit of an agricultural support program which inflates land values and depresses incomes of agricultural workers, and which reinforces the flight from the farm. American agriculture exhibits a marked resemblance to the old anomaly lamented by the poet: "wealth accumulates and men decay."