'Down on the Farm'

by

Woodrow W. Williams

In the last few years the price of farm products has continued to decline. Yet the price of farm land—or, more properly, farm real estate—has continued to rise. To understand this paradox is to gain insight into the much discussed "farm problem."

Several commenters have seen this as an indication "that farming is not so bad, after all!" This, I feel, is brushing aside the matter and not explaining it. Why does the situation exist?

Everyone knows that the price of tractors, machinery, fertilizers—practically everything which constitutes the farmer's operating costs—has risen substantially. Labor and taxes are usually considered as major factors. Most people realize that taxes are normally passed on or added to the price of products. Some people blame profits as a cause of high prices, but their vague definitions of profit would seem to indicate that this is merely a good scape-goat. In general the farmers' operating costs are mounting because of the increased cost of production.

Now let's look at real estate prices, first dividing real estate into its two component parts. Failure to separate, at least mentally, these two parts, which are different in nature, is the cause of much confusion. Land is one part, and improvements on the land the other. Buildings are improvements, but so are concrete feeding floors, lane piking and drainage works.

To take the improvements first, it may be seen easily that the price is governed by the same factors that push up the price of tractors and machinery. Even though improvements may be old, a prospective buyer considers their suitability to present needs and offers a price based on an estimated cost of producing them at present.

The first component of real estate —land value—is quite different, however. Who can give any account of the "cost of production" of land? Land is not produced by labor.

(It might be claimed that clearing timber constitutes "production of farm land." Anyone coming on a clearing in the midst of a huge forest would recognize it instantly as an improvement, a work of man, although this tends to be forgotten after all land has been similarly improved.) Another element, therefore, must be used in determining land price. This is capitalization of the earning power of the land. The earning power of land is known among economists as "rent-of-land." Consider a piece of bare, unimproved land. Suppose it will earn fifteen dollars an acre annually, above expenses. (Expenses, normally low on such land, might consist of a small property tax and assessments for maintenance of drainage service.) If this fifteen dollars were capitalized at the existing interest rate of four per cent, the price of the land could be $375 per acre. Future earnings, the probability of their rise or fall, and the average long time earnings may alter this price somewhat for a prospective buyer.

The Shrinking Frontier

Another important determinant of land prices is speculation. Perhaps the buyer is not much interested in present, or even the immediate future earnings. Maybe he is considering the hope of selling at a gain in the future. He is not buying for investment, as we think of putting it to use, but for speculation.

As a country develops and population increases as in America, it is easily seen that more and more land must be put into use, for urban purposes even more than for agricultural purposes. Thus, as population grows, the value of all land tends to increase constantly over a long period of time. It may decline during times of economic distress, but the long time trend is always upward. This has nothing to do with cost of production. Even if production costs were reduced, and population continued to swell, land prices would continue to rise too.

But doesn't the landowner add his tax to the rent? A little study will show that he cannot. The owner generally is getting as much as anyone will pay—as much as the market will bear. If he raises rent by the amount of the tax, the tenant will find it more than he can bear and normally would vacate. Remember, also, that this tax will apply to all land, including that which the speculator is holding in anticipation of increased value. This speculative land, un-used or only partially used, will become too expensive to hold out of production and it will come into the market in competition with other land. This is what enables the person whose rent is too high to "escape," forcing landowners to pay their land tax themselves.

Public Revenue — Two Kinds

Here we have two sources of public revenue, each affecting prices in a strikingly different manner. There are taxes on production—that is, all property besides bare land, incomes, sales, etc.—and these tend to increase prices. There are taxes on land values and these tend to drive prices down. The remarkable fact shown here is that the price of land drops from land-value taxation without decreasing returns to either the laborer or the capitalist.

Local, state and national governments in the past years have been levying more and more taxes against items other than land value. This has contributed materially to the rise in cost of all items, including land.

Government activity itself, aside from the effects of its taxing methods, contributes tremendously to land values. Government builds roads, schools, libraries, provides police and fire protection, and grants franchises to public utilities and transportation services. All these things add to the value of land, whether it be farm land or city land, and independent of whether

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such land is used to its full potentiality, partially used, or held idle.

Special legislation that first arose to meet emergencies of the depression of the thirties should be mentioned. I firmly believe that a great many farmers were saved from "going to the wall" by such things as the Federal Farm Mortgage Act, and the early phases of the price support laws. In this I disagree with those who say "the government should have stayed out of it, entirely!" Nevertheless, I contend that these measures could not give anything but temporary relief and benefit to the operating farmer. This is because the ultimate result of the measures was a rise in the price of farm land. And as the farmer has had to pay more and more for land, it means he must take less for his work. Many who understand this—or who feel it in their pocketbooks—still wonder how and where to begin reducing government aids, whether they be in the form of price supports, direct subsidies, tariffs, or other deficit-producing services, the new soil bank plan included.

The Land Also Rises

If these government services are paid for in taxes against labor and capital, which includes the farmers' labor and capital, the cost of the products of labor and capital are bound to rise.

The price of land also rises, since the landowner is permitted to collect for himself the rent of land created largely by governmental services.

However, if governmental costs were levied more against the land values, less against labor and capital, the price of land would decline. As this land was opened for better use competition would reduce the price of all products. This would mean more real wages to labor and interest to the capitalist. It would also discourage speculation in land values, a primary cause of industrial depressions and economic instability. The happiest result would be the elimination of the growing clamor for controls, subsidies and other moves toward a planned economy, for they would not be needed.

Taxes Are Too Low!

In this day of increased concern over a growing government budget, and the inevitable talk of cutting taxes at every election, it might seem ridiculous to say that any tax is not high enough. I make so bold as to do just that. Land values are not taxed high enough. Other taxes are far too high.

To shift the taxes back to land values and off the products of labor and capital would bring to a halt the paradox of soaring land prices while prices of farm products drop down and down. We farmers, armed with this knowledge, can solve our own problems and the governments' problems, too.