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AGING, ECONOMICS, AND AGRICULTURE

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If life is a distillation process the brew of one's later years ought to be both pure and strong. I am in my later years, and I speak as I do about aging, economics, and agriculture not because my audience is made up of experienced veterans, but because I am one.

What have I distilled from my 50 years of study and involvement in the economics of agriculture? How pure and strong is the distillate?

I am not really sure. I have not had enough time. Invite me back 10 years from now. By then I may have a clearer idea of what is to be learned from life and particularly from our nation's agriculture.

I believe, though, I have learned three things.

The first is that the experiences, the satisfaction value, and the disappointments of one's lifetime are influenced critically by the culture into which one is born. By culture I mean the combination of what is called the value system -- the sense of what is good and honorable; the mores and customs we act on in our daily behavior; and, of course, the code of laws that, in a democracy, we draw up collectively and try to conform to individually. All these elements in our culture arise socially, in the small or large community.

It's human nature, apparently, to claim vaingloriously how much we accomplish on our own mettle. Our failings, to be sure, are usually ascribed to a situation outside our own control.

The rich and successful have attained that exalted state, it is said, by their own virtue and effort. It seems to me that more claims to heroic individual accomplishment are being heard these days than at any time since the raucous 1920s. We hear the line from TV evangelists and other so-called inspirational speakers, and even from heads of state.

My favorite put-down for this point of view is the words used by both St. Paul and Francis Bacon: It's all just a tinkling cymbal. We could hope for a little more realistic modesty.

That's my point number one.

My second observation is so familiar that I need only mention it. It's that there are two stages in life in which one's welfare depends to

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considerable degree on the support given by others. One is childhood and the other is old age -- the post-retirement years. The quality of a civilized society may be judged by several criteria but one surely is how well it shelters and educates its youth, and how considerately it provides for its older citizens.

Oh, critics may argue, the idea of depending on support from others holds true for children but need not apply equally to older people. The prudent and resourceful individual, we are told, can provide during his productive years for his security in later years.

Only in a sense is this rejoinder valid. And that leads to my third lesson, which follows from the first two. It's that security for later years rests to considerable degree on the social process. It does so almost irrespective of the form the supposed security takes. If an individual's security is in real, tangible property, it can be converted into food, housing, and medical care only if that property retains its value. If it fails to hold its monetary value, its security value slips equally.

If an individual accumulates big numbers on a certificate of deposit or other bank paper, its security value depends on the soundness of the bank or of the deposit insurance system, and likewise on the soundness of the monetary unit -- in our case, the U.S. dollar. What happens if a lot of banks fail and the deposit insurance fund is depleted? Who can know? Inflation is always a threat to any dollar-denominated savings. Who is so wise as to know what lies ahead?

But, it might be added, social security payments are solid. No, not really. Certainly no cola is guaranteed for the future. It's even possible for the whole system to run into trouble.

I lead to two morals. One is that there is no implicit guarantee of anything. Whether the promises that we have collectively made to ourselves, private or public, really are an assurance of security depends on the state of the economy in future years, and on the philosophies and attitudes of the body of citizens that will be instrumental in making policy during those years. Without economic and moral commitments by succeeding generations, the pieces of paper we rely on are only that, pieces of paper.

The second moral amounts to one of my regrets. It's that senior citizens have gradually become a single-issue political interest group. They are so much so that they sometimes extract from candidates for office, as the sole condition for a vote, the most glowing possible promises about, say, the social security system or a medical program. It's a mistake. Security for Americans 25 years from now will depend not on what the solons write into law next year, but on the economic and moral state of the nation in that future era. Older citizens have an enormous stake in the future strength, stability, and sense of social obligation of our nation as a whole.

The Depression Experience

Anyone whose memory of the 1920s and 1930s is sharp will understand why I come to the conclusions I have just expressed. The less charitable of my friends remonstrate occasionally against federal social security and even civil service and military retirement annuities. "Let everyone accumulate property or save his money or buy a private annuity," is the moralizing prescription. IRAs are often cited as an attractive way to guarantee one's security. It's even said that saving via IRAs is a strictly private venture, overlooking the fact that deferral of income tax obligation is a government subsidy.

Furthermore, my friends who are ignorant of history allege that if Americans of the 1930s had saved their money, they would not have needed a government social security program. It's surprising and disheartening that so many persons know so little of what happened in those years.

Americans of those times were not indifferent to their old-age security. They socked away money in banks or savings and loans, or bought common stock. In 1928 and 1929 the stock market seemed to be the best security of all. Just by staying alive one could watch his stock mount in value. Rural people, though, put their faith in owning farmland.

Subsequent events are known by everyone of my age. In October 1929 the stock market collapsed. Very soon, banks began to fail. Savings and loans closed their doors. Farmland lost most of its value. Citizens who thought they were secure often found themselves without any security. They were quick to support the idea of a social security program.

The Special Case of Agriculture

Agriculture has been a display piece for many of the trends and developments in the life of our nation. Farming communities long held to the oldest of traditions in providing for care of older citizens, one where a tightly knit family assumes responsibility. This tradition of familial obligation, however, was closely associated with the rural security instrument I have referred to, namely, ownership of farmland. Typically, a farmer would expect to build up a sizable equity in land. On reaching retirement age he would turn over part or all his land to one or more of his children. He would do so under any of several arrangements that would provide income for himself and his wife.

It was long an established practice for an enterprising young farmer to give as much or more attention to paying off debts and building equity in land, than to enjoying a comfortable living. His principal object was to provide for his old age security.

The practice can be a theme for recounting the history of U.S. agriculture since, let us say, 1920.

The 1920s were not a particularly good decade for agriculture. Those older farmers who had paid for their land during the boom years of World War I did well in the 1920s, and many built up sizable estates. Younger farmers who carried large debts into the decade were generally unsuccessful. A great many migrated to cities. Others who remained began to agitate for federal assistance to agriculture, laying the groundwork for the New Deal programs that came a decade later.

I have already remarked on the collapse in land prices from 1929 to 1933. Many thousands of farmers who thought they had provided well for their old age found that old age came on schedule but security had vanished.

In 1933 the tide turned. From that year to 1980, a long span of 47 years, agriculture experienced a steady upward trend. Strong demand for farm products during World War II helped put lots of young farmers on their feet. Although many farmers like to deny it, government programs contributed to rising farm incomes and land values throughout the period. They did so at considerable cost to the Treasury.

Even more of an influence, though, was the nation's strong economic performance during the 47 years. In this respect agriculture truly offers an example where social events contributed much to personal security. The experience illustrates further the moral I pointed to earlier, namely, the human tendency to take personal credit for what the community has done. Although I stand in respect for the good performance record of the nation's farmers, during the 47 years after 1933 the larger factor accounting for farmers' ability to pay for their land -- to build up an equity -- was the growing prosperity and rising price level in the general economy. It's not hard to pay for land when prices keep going up. Put in other words, farmers prospered as they shared in the economic growth of the nation. Economic growth plus inflation paid a substantial part of the cost of their farmland. Farmers paid less than half from their own earnings.

The Debacle Since 1980

The account of the expansion years from 1933 to 1980 is a backdrop for the discouraging experiences since 1980. In this decade to date the economy has sputtered. Capital values in agriculture have declined sharply. Few farmers can hope, during these years, to accumulate financial reserves in anticipation of their declining years. Instead, most are losing reserves they thought they had. The vast majority of farmers are seeing their net worth drop steadily. For a couple of hundred thousand, it has dropped to zero.

The situation repeats the early 1920s, almost exactly. Then, only a farmer who had paid for land during World War I could hope to do well. Now, only one who had done the same in the good years of the 1960s and 1970s is on a firm footing.

U.S. agriculture truly is in crisis. My estimate is that a quarter of a million farmers have already been dispossessed or cannot avoid losing out in the next three or four years, in the absence of help. Three years ago I estimated that asset values in agriculture would be reduced $300 billion, or 30 percent. That's an average loss of a third of a million dollars for each full time commercial farmer. When losses in asset values are of that scale, it's easy to see that farmland is not a good hedge for the costs of retirement years.

Moreover, farmers individually, and agriculture as a whole, are in trouble now not because their performance has deteriorated but because of events taking place outside agriculture.

To be sure, we all know of individual instances where a farmer went wild in speculative investment, or simply mismanaged. But those farmers have long since departed the farm scene. In any event, no one can allege that a quarter million farmers are all guilty of gross misconduct.

Furthermore, our data at Missouri show that the farmers who are in worst trouble are, on the average, the younger and better farmers. In our farm management data, the farmers reporting a negative income also reported better production data than the farmers who made a profit. The difference is that the red ink farmers had a sizable amount of interest to pay.

In brief summary, what has happened is that general economic conditions and national economic policies made it attractive and even profitable, during the 1960s and 1970s, for a farmer to borrow money to expand or update his operation. The younger and more aggressive farmers did so. During the 1980s a different set of conditions and policies reversed the situation, totally. Not only is it no longer profitable, or even possible, to borrow and expand, but those farmers who entered the 1980s with any appreciable amount of debt are being forced out of farming.

What were those conditions and policies in the 1970s? One was the surge in export demand for farm products. It was a surprising but welcome pot of gold at the time and was expected to continue into the future. Even more important was a national monetary policy to make credit readily available at low interest rates. The policy was intended to offset the repressing effect of OPEC's higher oil prices. The result of all these events was the rampant inflation that we all remember. And farmland not only joined in the inflation, but led in it.

By 1980, land prices were higher than could be sustained. They particularly could not be sustained once inflation ebbed. Even without a change in general economic policies, the more leveraged farmers would have been in trouble. But they were a small minority. Loss of farmers on the scale of a quarter million must be explained by other factors.

The biggest single factor was the abrupt and radical turnaround in national monetary policy. Money became tight and interest rates soared. Farmers who had borrowed at variable rates found their payment obligations doubling or tripling. They could not pay them.

The higher interest rates knocked the props out from under land values. It's a principle of economics that the value of any fixed asset is inversely proportional to the interest rate. Whenever the interest rate goes down, the value of land, apartment houses, and other longterm or fixed assets goes up. When the interest rate goes up, those values are reduced.

So it is that value of farmland is being reduced $300 billion.

Another way to put it is that an increase in the interest rate brings about a shift from equity values (net worth) to debt. The shift has taken place during the 1980s not only in agriculture but in corporate businesses also.

To be sure, other developments have contributed to economic distress in agriculture. Export markets have shrunk. Even our own domestic demand for farm products has not shown great vitality. Particularly has there been a loss in demand for beef, a high value and important product of agriculture. But the biggest single factor was the sharp increase in cost of borrowed money.

I will not go into the reasons or justification for the monetary policy of recent years. Defenders say the Federal Reserve Board had to offset the fiscal policy of the Administration -- the budget deficits. Irrespective of that argument, it's a fact that tight money has side effects, one of which is a devastating decapitalization of agriculture.

The significance of the picture I have described for U.S. agriculture in the 1980s is that once again -- history repeating itself after 50 years -- land is not providing reliable income protection for older age. And to go back to my moralizing in the first pages of this paper, the experience is not only packed with meaning to farmers themselves but illustrates how pointedly events in the community at large, even the nation, can affect the outcome of what one tries to do for himself.

A further lesson to be drawn relates to the federal social security program. When that program was first drawn up farmers were not covered. They were omitted for the two reasons that farm families, supposedly, still cared for their own, and that in any case the farm economy had its own built-in support system. That system was, of course, the farmer's equity in his land. But by the late 1940s pressure mounted to enroll farmers too. I remember how my unmarried aunts, who depended on cream and egg income from their small farm for their living, rejoiced when I found enough of their sales receipts to qualify them for social security.

I believe we can philosophize one time more by saying that we now provide for individual security by tailored government programs because we know that events in which we all are swept up can undermine the best-laid personal plans. Social security was instituted in the 1930s because millions of Americans had seen their savings disappear. In the 1980s farm families have watched the value of their land disappear.

I end with a statement of personal preference, and an anecdote that carries a somewhat different message. I believe our national economic policies and agricultural policy ought to be designed for better stability than we have had the last two decades. It's vicious, cruel, to put agriculture through the wringer as is now being done. Somehow, our nation ought to be capable of managing its economic affairs better.

But in view of our motley record to date perhaps social programs are the only practicable route. In any case, it is not my intent to prescribe national policy. So I end by relating an experience of a few days ago. I visited with a man in his late fifties who had built up by 1980 a sizable equity in his farm. He then drew on the equity to help his son begin farming. When it became clear that both were in trouble he cashed out his remaining equity and put the money in a farm service business. During the last few years, farm services have fared even worse than farmers. The business folded.

Now the man is working for a very modest income. "All my nest egg for my retirement years has vanished completely," he lamented." If I can get ahead I would like to pay back the banker who helped me, even though I no longer have a legal obligation to do so." I then asked, "But you will have social security income, waiting for you, won't you?" His answer was predictable: "Yes, it won't be a lot but I can at least count on that."

His case is all too typical. A debacle in agriculture cuts the ground from under agriculture's role in providing for older age. Hence agriculture's dependence on general security programs. Some of us may not prefer it that way, but that seems to be the way it is.