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REFLECTIONS ON ECONOMIC POLICY  
FOR RURAL AMERICA

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## REFLECTIONS ON ECONOMIC POLICY FOR RURAL AMERICA

By Harold F. Breimyer\*

The human brain, so fragile, so perishable, so full of inexhaustible dreams and hungers, burns by the power of the leaf.

LOREN EISELEY

Entrepreneurs may make money, but only citizens can make justice.

BENJAMIN BARBER

The worst thing is to be born sighted, but to lack vision.

HELEN KELLER

From Biblical times to the modern era, the question surrounding the rural portion of a nation has never changed. It asks who will occupy it, and under what sociological, economic, and political terms.

Where a rural area is primarily agricultural, the question converts to who will own, cultivate, receive returns from, and *protect* the land—and under what terms of relationship to the rest of society.

This second question regarding the structural composition of a nation's agriculture and its farming community is obviously a burning one in the United States of the mid-eighties. The urgency of addressing and resolving it doubtless gave rise to these readings on rural America.

Addressing that question begins from two starting points. The first is an understanding that is accepted widely and rarely challenged. The above quotation from the late eminent scientist Loren Eiseley is offered only as a reminder. Human existence, together with that most exalted quality of humankind, the capacity for moral cognition, rely on the process of photosynthesis that takes place in the chlorophyll of the leaf. The latter depends on growing plants, most of which require soil.

The second basic thesis, which ironically is resisted as sharply as the first is accepted, is that the composition and welfare of rural America rests on institutional design; and it, in turn, requires decisionmaking by social action, primarily that of government.

As an example, it is our national tradition to prefer an economic system that is as nearly self-regulating as possible. We want economic forces to interact to guide the economy and keep it on an even keel—in equilibrium. We expect it to yield equitable incomes

and high living standards for all participants. As an abstract thesis this objective is not challenged.

We may wonder whether that halcyon outcome is even technically attainable. But that uncertainty is not what divides people and stirs argument. The crux of the issue is that so attractive a system does not come about, nor sustain itself, of its own accord. A system of that kind can be established and kept only if the body politic consciously sets up the institutions that are appropriate for the purpose.

A system that self-equilibrates does not self-establish nor self-sustain. This is one of the most pervasive, discouraging, and yet challenging of all economic principles.

It is a general rule, and almost a paradox, that the more nearly self-regulating the economic system, the more precisely must its institutions be designed.

The process of design blends factual data with a sense of purpose—with vision.

If we want rural America and its agriculture not only to be productive but also to offer opportunity, to achieve an acceptable degree of security, and to be marked by economic justice, that goal must be not only recognized and verbalized but given concrete reality in appropriate rural institutions.

### INSTITUTIONAL DESIGN

What are those institutions?

They are rather well known. The problem lies not in describing them but in establishing and keeping them—with determination, with clout.

#### 1. ACCESS TO LAND

Throughout all history, the dominant issue in agriculture, and the most explosive one too, has been the terms of access to land. Closely tied to it is who is to get the returns from land—not just returns to labor and management but the “unearned” return of rent, which arises in the scarcity of productive land.

So long as our country had lots of land, access to it could be made easy.

When land became scarce, we took a few steps to make access easier than it would otherwise be. Credit institutions were intended to facilitate an operating farmer's buying the land he farmed. Probably the biggest subsidy is one that is not often recognized as such, and is confined to arid regions that depend on irrigation. Subsidization of irrigation water can be a major public assistance in access to land.

Agriculture in the mid-eighties is in financial crisis. Aside from the human trauma, which is intense, the significance is that it sharply restricts access to land. It almost denies access to operating farmers of modest means. Not only are newcomers excluded, but hundreds of thousands of farmers who previously had some equity in their land are losing both the equity and the land.

The magnitude of what is going on and its human cost will surely be reviewed in other essays. Only three observations are offered here:

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(a) Recent events are teaching a poignant lesson about how access by operating farmers was made possible during recent generations. From the Depression of the 1930's to about 1980, farmers were enabled to enter agriculture as landowners primarily by virtue of an inflation of values. The popular notion that farmers paid for their land by diverting their net farm income to pay off their mortgage is incorrect. Probably not more than one-fourth of the net worth of farmers was acquired in that way. The steady uptrend (until 1980) in value of both farm products and farm assets funded farmers' entry into landholding.

From the 1930's to approximately 1970 the uptrend in values was rooted in genuine economic growth. During the 1970's, a fraudulent substitute took over, namely, inflation.

It follows that when both growth and inflation stopped, so too did the opportunity for farmers to enter farming as landowners. In fact, those who had not yet solidified their finances were forced out, as noted above.

(b) It follows too that in the absence of economic growth and/or inflation, the door of opportunity for operating farmers to become landholders will be closed tight, except insofar as public assistance is offered.

So it is that institutional design, and not merely the personal characteristics of would-be farmers, will have much to do with the structure of agriculture and the rural community of the future.

(c) In recent years a new institutional element has borne on access to land. It is the tax code, with its panoply of shelters that affix entry not to operating performance but the height of tax bracket of an investor. Without overstatement, in the absence of major reform the tax code could prove to be the most powerful institutional instrument bearing on access to the agricultural resource of productive land. The present code (that of 1985) works harshly against opportunity for the low-bracket operating farmer.

## 2. ACCESS TO MARKETS

The vital consideration of access to markets divides into two parts, each highly significant. The first is the role of collective action in assuring and stabilizing product markets. The second is the institutional relationship between farms and their suppliers of inputs and receivers of products.

(a) Volatile demand and variable supply have long destabilized the market for the products of agriculture. This fact is widely recognized and equally widely discussed. It has given rise to farm programs that date from 1933.

Because the topic is so familiar only a few comments are offered here. One is that the instability is so extreme that to allow market forces to operate unattenuated would insure one of two outcomes. The first possibility is that during each downswinging period of oversupply and collapsing prices, a substantial fraction of farmers would be forced into bankruptcy. Yet the

next upswing would bring a bonanza accompanied by speculative frenzy.

The other possible outcome is that landholding will drift into the hands of conglomerate corporations that are large enough and so well financed that they can cope with the gyrations in farm prices and incomes.

The second comment is that if farmers are to take joint action to achieve a degree of stabilization, they cannot always depend on liberally funded voluntary acreage programs to do that job for them. During the worst stringency they will find it necessary to engage in an all-producer mandatory program, distasteful though it be.

(b) Traditional agriculture has featured open market trading relationships between farmers and their suppliers and outlets. Not many years ago there was much interest in the quality of those relationships. Farmers particularly asked whether both supplying and outlet industries were efficient and highly competitive; and also whether market services such as the providing of information were adequate.

Regrettably, that interest has waned. Farmers and their organizations may be overlooking an important aspect of their institutional structure.

An even more important consideration may loom in the future. It is associated with the new thrust of biotechnology. According to some observers—Professor Ronald Knutson of Texas A&M University, for example—the new biotechnology will be so complex that farmers will be forced into a technological integration with their input suppliers. If those suppliers are private businesses they will take over managerial control of farming operations. Another option is for farmers to commission their cooperatives to serve in a new role of storehouse and dispenser of the new technology. In other words, individual farmers would integrate with their own cooperatives.

Yet one more comment about market services is timely. It relates to the deregulation mania of recent years. As a general rule, deregulation hurts smaller and more remote places and businesses. On the whole, it hurts farmers and the rural community. Deregulation of transport services is a case in point. Deregulation of rail freight rates has put hundreds of farming areas in the uncomfortable position of being a captive shipper.

## 3. ACCESS TO FINANCE CAPITAL, ESPECIALLY CREDIT

Although linked to access to land and industrial/technical inputs, the terms of access to capital take on an institutional significance of their own. It is a matter not just of whether capital is available, but whether it is in the form of equity or loan capital.

In a summary word, equity financing carries managerial control with it, but credit financing ordinarily (or in principle) does not.

Some students of agricultural finance believe it is possible to make outside equity capital available without denying operating farmers all managerial control. Their ideas are captioned as institutional innovation.

Other papers in this report may treat the topic. It is only flagged here.

#### 4. ACCESS TO KNOWLEDGE

Our historical record may be brightest in facilitating access to knowledge about a dynamically changing technology of agriculture. Bastion to the system has been the experiment stations and extension services of the U.S. Department of Agriculture and Land Grant Universities.

The system is in flux. Both funding and philosophy have led to a gradual fading of the grant approach and a shift to doing more public research under contract. Private research and, to some extent, private dissemination are growing disproportionately. Here too the issues are not undisclosed. They have been debated widely. All to be offered here is an admonition that to compromise with the time-honored tradition of making agricultural knowledge a public good will have, eventually, grave consequences to the structural composition of rural America. Privatizing of knowledge carries the very considerable risk of siphoning the benefits that knowledge can bring.

#### CONCERN FOR ALL OF THIS GENERATION—AND THE NEXT

The review thus far has followed the usual practice of showing concern for operating farmers and the terms of landownership. Moreover, it has been oriented toward the present generation.

In reality the welfare of rural America and its agriculture is more comprehensive. Only a few observations, in the form of axioms, are offered.

##### 1. GOAL CONFLICT BETWEEN COMMODITY STABILIZATION AND MEETING MINIMUM INCOME NEEDS

The assumption over many years, more implicit than explicit, has been that programs to stabilize price and returns from commodities would carry with them at least a minimum protection of income of farm families. However, the distributional pattern for wealth and income in agriculture is so highly skewed that it may be necessary to address income guarantees independently of commodity stabilization.

Closely related is the high incidence of rural poverty, which surely is almost impervious to commodity programs. It is a blot on the rural community and merits attention as such.

##### 2. NUTRITION AND SAFETY IN FOODS

At its peril does the farming community fail to remember that it exists in the service of consumers. Not only is there an obligation to serve consumers well, but consumer satisfaction is essential to strong markets for farm products. Food safety may be the most contentious concern of our day.

##### 3. WELFARE OF HIRED FARM WORKERS

In sizable areas of the United States, "agriculture" includes hired farm workers. If the welfare of all agriculture is to be ad-

vanced, the interests of the wage-employed portion thereof cannot be disregarded.

#### 4. THE INTERESTS OF FUTURE GENERATIONS

Finally, no review of policy for rural America is complete without a reminder of the urgent need to protect and preserve our soil and water. If we have any sense of continuity of human existence, we cannot be indifferent to measures to preserve the resource base and, if possible, to improve it.

This review began with the thesis that our economic activity can conform to our social goals only if we as a Nation choose our institutions accordingly. In no aspect of agriculture does this principle hold more absolutely true than in protection of our resource base. The tendency is almost irresistible to devote all our attention to improving our lot in the here-and-now. If we want to provide for our children and theirs, we must first make up our minds to do just that, and then we have to establish the institutions that will accomplish that forward-looking goal.

And because protection of resources not for ourselves but for later generations is the most enlightened of all objectives, it illustrates the epigram of the grand lady, Helen Keller, quoted at the head of this chapter. Policymaking for rural America begins with vision. And the most exalted vision looks beyond our generation and reaches outside narrow class-interest loyalties, as we hope and prepare for a brighter future for all Americans of many generations to come.