HOICES Panel on

THEY'LL STABILIZE

by Philip M. Raup

Agricultural America has just quieted down from two decades of a wrenching boom and bust cycle in land values. This has left searing memories that invite comparison with the depression years of the 1920s and 1930s. The legacy of this most recent experience includes a degree of caution that will not dissipate quickly on the part of farmland buyers, bankers, and farm input suppliers. Real land values in major farming regions are back to the levels prevailing before the boom at the end of the 1960s. If inflation can be controlled (a big if) the prospect is for land values in the 1990s that more or less keep pace with inflation. In short, no major changes in real values are expected for the rest of the decade.

This judgement involves a composite weighting of a greatly expanded list of variables. Before the boom of the 1970s the participation of the United States in total world trade averaged 5 to 7 percent of GNP. Today this percentage has more than doubled, and it continues to rise. Agricultural exports as a percent of cash receipts from farm marketings in the 1980s were almost twice the level of the 1960s. This has tremendous significance for the course of farmland values.

The 1970s boom was triggered by a coming together of many events, led by the unexpected appearance of the Soviet Union as a grain importer after 1971-72. This coincided with fears of a world food shortage, well publicized discoveries of a population explosion, scary forecasts of the limits to growth, and the invention of OPEC. On the domestic scene, the forces were augmented by inflation that drove real rates of interest on farm mortgages to historic lows for an eight-year period from 1973 to 1981. These same years saw the peak of the cumulative effects of the system of interstate highways on the demand for rural land and the peak household-forming years of the baby boom generation.

Farmland values took off on a climb that exceeded in scale and geographic extent even the most euphoric land booms on the frontier in the 19th century, or in the railroad era after the Civil War. None of the causal events that drove this boom seem likely to reemerge in the 1990s.

The most prominent impending possibility is a decline in grain imports by the Soviet republics. No evidence of distress is so galling as the fact that they cannot feed themselves. Emerging political leaders will place major emphasis on the cessation of grain imports. The restructuring needed to achieve this is clearly

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within their grasp, and it could come relatively quickly. Russian grain imports are unlikely to be a driving force in U.S. farmland values by the latter years of the 1990s.

However, there are other emerging trends that may keep export prospects for grains near the top of the list of forces affecting American farmland values for the rest of this decade. One is the growth of import demands by the countries of North Africa and the Middle East. With some of the highest rates of population increase in the world, and oil revenues to bolster effective demand, these two regions imported more wheat than did the USSR and China combined in 1989-90, the last full trade year before the disruption caused by the Gulf War. These effects of population and oil revenues on imports are likely to be reestablished and strengthened in the 1990s.

The overriding force that could reignite land boom fever is fear of inflation. This may seem remote, with the current annual rate hovering around 3 percent, but it remains threatening. A high real rate of interest now exerts a dampening influence on land values. If inflation accelerates and real interest rates drops, all forecasts are off.

Absent the threat of inflation, a number of retarding influences will dampen any buoyancy in land values in the 1990s. One is the rising cost of environmental protection. Another is the prospect of a declining number of aggressive farm expansion buyers. They now dominate the farmland market in field crop regions, but the easy gains through farm size enlargement have largely been achieved. Memories of collapsed farmland values in the 1980s are still green, and the aversion to debt is still strong. Coupled with a penitent population of sobered farmland lenders, a credit-driven rise in land values seems unlikely for the remainder of the decade.

Among other unknowns, the political climate that will condition debate over a new Farm Bill in 1995 is not likely to favor further increases in real land values. That debate will involve the problem of renewing or replacing the Conservation Reserve Program. If some of these lands come onto the market they may well have a retarding effect on land prices. Whatever the outcome, it is difficult to imagine a renewed CRP that would equal the supporting effects on land prices initially exerted in the 1980s.

So I come back to the point of departure: With luck, the 1990s could be a decade of relative stability in American farmland values. C