Farmland Prices to 2000

THEY’LL DECLINE

by John T. Scott, Jr.

I believe the “real” value of farmland will decline over the next 10 years. The decline is not likely to be precipitous (like the farmland decline from 1981 through 1986) and the decline should not cause a financial shock to the whole agricultural community as it did in the 1982-86 period; but given the economic and political forces at work in the world, combined with advancing technology, a 20 to 30 percent decline in farmland real prices over the next 8 or 10 years seems inevitable. It could be more than that.

The decline may not be noticeable to most people even to farmers and landowners, because, in the near term, land prices will remain fairly stable with most land ownership in strong hands. Landowners with little or no debt have little incentive to sell; so, without a change in capital gains tax, the supply available will remain low. In the longer run, say after 1995, I expect inflation to become a significant factor, and nominal prices could rise while the real value declines. The major factors which will affect the land market are population change, political change, technological change, consumer taste changes, and economic changes.

Changes in population affect land values in two ways: (1) increased demand for housing, living space, transportation space, and space for general services, manufacturing, and other infrastructure, and (2) change in demand for food.

The price demand for land will be price positive on a limited locational basis producing some unbelievable windfall gains, but over all, this price effect will be minimal. On the other hand, food demand shifters are very important, but are negative as well as positive. They include the increase in volume of food by a growing population and the change in food mix as tastes change, incomes rise and shifts occur among population groups who like different kinds of foods. The health and safety factor will cause consumption patterns to change at least in Western Europe and North America with conscious change in food consumed due to education about nutrition and health. Our taste and consumption habits in the U.S. include large amounts of beef, pork, and dairy products. Health trends are against these three. As the vegetarian shift occurs, it significantly reduces indirect grain requirements. Beef needs 1200 pounds of grain per 100 pounds of meat; hogs, 540 pounds of grain; poultry, 300 pounds; and fish, 200 pounds. The health shift might increase the land needed because of less fertilizer and chemicals, but this will be overshadowed by reduc-

tion of land needed for animal grain consumption. Increased land will be needed for table vegetables and fruits; but as home gardeners know, it doesn’t take much increase in the garden size to get so many vegetables you have to give them away. The health and safety trend shifters will cause a net decline in demand for land.

Technology improvement causes two kinds of shifts. One is substitution of capital for labor. This shift tends to reduce the aggregate return to labor and increase the residual return to land and other capital which increases land prices. It can be argued that this shift affects mainly labor and machinery with little effect on land capital value. Any increase in demand for land will be for level open land causing a wider differentiation in land prices. The second aspect of technological change is the ability to increase food production with less land through scientific developments of all kinds of genetics, environmental control, agricultural storage, transportation, and food processing. Biotechnology advances likely will increase yields and animal efficiency. The overall effect of technological change is an increase in output that will reduce land prices.

I also believe that young people returning to the farm with an education about finance and management will view investments in farmland different from their parents. This more objective approach to finance and returns will change the perception of land. In contrast to the strong emotional attachment to land which affected their parents and grandparents’ thinking, these people will view land as one of many economic resources competitively priced. This change will reduce the demand for land.

Another factor is the prospective increases in food production due to the political reorganization of agricultural production now happening in Eastern Europe and Russia. Reorganization in China is less spectacular, but no less important. This reorientation of incentives to individuals is a powerful supply side shifter. Eastern Europe was once the breadbasket of Europe. After market forces take over and infrastructure is developed for agriculture, our exports of grain will decline significantly. This will tend to reduce U.S. land prices.

Another area which should be highly competitive in grain production is Argentina, but serious problems, like land drainage and the transportation, hamper their production infrastructure. Argentina’s other major problems include a lack of operating supplies and a tax structure penalizing agriculture by taxing exports of agricultural products and imports of agricultural supplies. Remember that Argentina was the largest exporter of corn in the world prior to Peron and his labor government in the early 1940s. While Argentina has great potential, Argentina’s comeback seems still over the horizon.

Thus, because of the economic and political changes occurring throughout the world today and the impacts of technology, it is likely that the real value of farmland will decline over the next 10 years.

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