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LAND OWNERSHIP AND CONTROL:

IMPLICATIONS OF INCREASING CONCENTRATION

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Introduction

Other papers on today's program have established the fact that land values in the U.S. have been rising rapidly. The trend has been going on for 40 years but the rate of increase has accelerated sharply since 1972 when farm incomes rose to new levels. I need not spend time on describing the trends as it is done elsewhere in this symposium. My interest is in how rising land values affect concentration of land ownership and control.

There are at least two general views as to how land values and ownership concentration are related. Throughout the 1950's and 1960's Government programs stabilized farm commodity prices and incomes and raised them to a level above what a free market equilibrium level would have been. There is fairly general agreement in the profession that higher and more stable product prices contribute to more rapid adoption of technology and to growth of firm size. Therefore, one can argue that price support programs whether they are based on "parity price" or "cost of production" contribute to larger farms and ownership concentration. Also, anticipation of higher and/or stable product prices may be capitalized into higher values for farmland.

A second view is that rising land values will slow down the trend toward concentration.[1/] Presumably, this view is based on the belief that rising land values will make it more difficult to acquire sufficient credit for acquisition of larger units.

[1/] Barlowe, Raleigh and Laurence Libby. "Policy Choices Affecting Access to Farmland," in Who Will Control U.S. Agriculture? N. Central Regional Extension Pub. 32, University of Illinois, 1972, p. 24.

For the sake of discussion, I will accept the view that more stable commodity prices as a result of price supports do in fact contribute to firm growth. However, there is a view that variable prices encourage firm growth. While there are superior managers in agriculture who can accept and manage well in the face of uncertainty due to variable prices and still buy land, I think there is a tendency to confuse the variability of price and income with their levels. Hence, any reduction in price variability around given price levels or an increase in farm income levels facilitates the acquisition of land and firm growth. This can lead to an increase in land values.

With rising land values and increasing concentration of land ownership, who is going to have access to land? Some might say that it doesn't really matter so long as larger units result in more efficient production. Hildreth, Krause and Nelson have expressed a different view, however. They believe that the distribution of income and the distribution of power are interrelated. When the distribution of income, wealth and power becomes extremely skewed either toward complete equality or inequality, the sector experiences extreme social unrest.[2/]

Research suggests there are some increases in production efficiency as farms get larger. Data presented here today by Scott supports previous research. Larger farms may also be more profitable because of their ability to affect product prices or because they are able to buy their inputs at lower cost. But market power does not necessarily lead to lower food costs. Furthermore, our micro analysis usually ignores the effects of concentration on the rural community.

[2/] Hildreth, R. J., K. R. Krause and Paul E. Nelson, Jr. "Organization and Control of the U.S. Food and Fiber Sector," American Journal of Agricultural Economics, Vol. 55, No. 5, December 1973, p. 854.

The policy issue is one of the amount and sources of efficiency versus equity for the participants. Unfortunately, our profession is weak in its ability to deal with the equity question. Furthermore, it is an emotional issue. In the abstract, our society is opposed to concentration of wealth and power. It expresses this opposition in concrete situations through such actions as placing limits on government payments to farmers and through the progressive income tax. Since the issue of land ownership concentration is emotional and political, it must be dealt with in State legislatures and by the Congress utilizing what inputs economic analysis is able to provide.[3/]

I want to organize my remaining remarks under four headings:

1. Historical perspective and background on land ownership.
2. Restrictions on corporations in agriculture.
3. Future land transfer problems.
4. Some suggestions for research.

Historical Perspective and Background on Land Ownership

Although a wide variety of land ownership patterns evolved in the U.S., Federal land policy has favored widespread ownership of land, with land in the hands of the operator. This policy was clearly enunciated with passage of the Homestead Act in 1862. Establishment of the Farm Credit Administration, the Farm Security Administration and the Farmers Home Administration is further evidence of policies favoring widespread ownership of land and general access to resources in agriculture.

[3/] See Breimyer, Harold F. and Wallace Barr, "Issues in Concentration Versus Dispersion," in Who Will Control U.S. Agriculture? N. Central Regional Extension Pub. 32, University of Illinois, 1972, pp. 13-22.

Despite policies which favored ownership of land by the operator, tenancy became common over certain areas of the U.S. Tenancy increased prior to 1920 as land values rose and farmers were unable to finance land purchase.[4/] With the decline in farm prices during the 1920's, tenancy continued to increase as mortgages were foreclosed.

Tenancy reached a peak in the 1930's then began to decline as commodity price and income support programs were put in place. As financial institutions were strengthened, credit became available to agriculture on more appropriate terms which facilitated acquisition of land by the operator.

Although tenancy in the aggregate has declined significantly over time, high tenancy rates have persisted in areas of high land values, particularly where crop production predominates such as in the Corn Belt. For example, Reiss reporting on recent conditions says that 55 to 58 percent of the acres operated by farmers in the Illinois Farm Management associations were tenant operated.[5/] This sample is not necessarily representative of all farms in Illinois, however, Census data also show high tenancy ratios for selected counties in Illinois and in Indiana which coincide with areas of high land values.

Although policy has historically favored widespread ownership of family operated farms, technological advances have favored larger units of land. As farms increased in size it became increasingly difficult for one man to acquire sufficient capital to provide all the capital required for ownership

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4/ U.S. Census of Agriculture. Also, for a discussion of tenure and land value see Dovring, Folke, "The Farm Land Boom in Illinois," Illinois Agricultural Economics, University of Illinois, July 1977, pp. 34-38.

5/ Reiss, Franklin J., "Trends in Returns to Farm Real Estate," in Farm Real Estate, N. Central Regional Extension Pub. No. 51, University of Illinois, 1977, pp. 15-19.

of both land and the means of production. Entry into ownership became more restricted and tended to favor those who already owned some land. Hence, the full owner and part owner tenure classes grew as they enlarged the size of their holdings.

Recently relatively high incomes on grain farms in the Corn Belt have enabled owners to continue the trend of increasing the size of their land holdings. Despite large capital requirements some tenants have become part owners. In 1977, 61 percent of the acres purchased in the Corn Belt were acquired by owner operators. Tenants acquired 13 percent of the land purchased. For the U.S., 57 percent of the acres were purchased by owner operators and eight percent by tenants.[6/]

As land values rose rapidly after 1972 adjustments in traditional share leasing arrangements lagged behind. As a result share tenants received a higher proportion of farm income than previously, not always commensurate with their share of inputs. Consequently, part owners were frequently able to outbid nonfarm investors for available land.

The lag in adjustment of traditional share leases caused some landlords to switch to cash leases thereby gaining a larger share of the increased farm income.[7/]

Although a high proportion of land being purchased has been acquired by owners for farm enlargement, outside investors and foreign interests have recently shown more interest in land purchase. Lackluster performance by the stock market during the 1970's in contrast to rapidly appreciating farm land

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6/ U.S. Dept. of Agriculture, Economic Research Service, Farm Real Estate Market Developments, CD-82, July 1977, p. 42.

7/ Atkinson, J. H., "Investment in Farm Real Estate," in Farm Real Estate, N. Central Regional Pub. No. 51, University of Illinois, 1977, pp. 42-52.

values and relatively high rates of return on land has attracted the interest of the Continental Illinois Bank and Merril-Lynch. They proposed an agricultural land trust which would sell shares to pension funds. These funds were to be invested in farm land which would be leased to tenant operators. Initially the fund was to be relatively small, $50,000,000, and plans were to purchase land over a fairly wide geographic area. Promoters of the plan argued that it would provide additional capital to agriculture and would contribute to efficient tenant farm operation. The last point was argued on the basis that a unit would be of efficient size and that trust ownership could provide continuity of a landlord-tenant relationship as well as professional farm management services. Whether the fund would have provided any net addition to capital in the farm sector is debatable. Funds would have been used to buy operating farms and thus would have been purchasing rights to an income stream. Net additions to capital would have occurred only to the extent investments were made in drainage, land clearing, buildings and similar capital improvements.

The proposal generated an unexpected amount of vocal opposition from farmers.[8/] As a result of the unfavorable publicity the Bank withdrew the proposal.

Restrictions on Corporations in Agriculture

A small number of large nonfarm corporations acquired agricultural land in the Corn Belt in the late 1960's. Likewise foreign investors have acquired land in some Midwestern states, although the extent of such

[8/] The Wall Street Journal, February 22, 1977, p. 32.

investment is difficult to document.[9/] Many farmers see these actions as a threat to their continued access to land. Furthermore, there is the belief that corporations may represent a type of unfair competition due to tax advantages or as a result of their being part of a conglomerate which has advantageous access to inputs, markets or finance.[10/]

There has been renewed interest in placing restrictions on corporate ownership of agricultural land and in restricting land acquisition by foreign investors. By mid-1977 12 states had some type of restriction on agricultural land ownership by nonfarm corporations.[11/] North Dakota and Kansas each have state laws dating from the early 1930's which restrict certain types of corporations from engaging in farming.

The Indiana House of Representatives in its 1977 session, considered a bill which would have placed restrictions on corporate farming in Indiana. The bill passed the House 74 to 19 and was sent to the Senate. It died there when it was never assigned to committee for hearings. Observers of the Indiana situation, however, believe the bill will come up again as grass roots sentiment appears to favor its passage.[12/]

[9/] Duncan, Marvin, "Farm Real Estate: Who Buys and How," Monthly Review, Federal Reserve Bank of Kansas City, June 1977, pp. 3-9.

[10/] The Tax Reform Act of 1969 modified some of the preferential tax treatment formerly available to corporations. See Cook, Virginia G. Corporate Farming and the Family Farm, Council of State Governments, Lexington, Kentucky, 1976.

[11/] See Cook for a summary of state legislation dealing with corporate farming.

[12/] Statement by Senator Wayne Townsend in a meeting of the Farm Policy Study Group, July 12, 1977 at Purdue University.

Although existing state laws vary as to their content and type of restrictions, their general intent is to restrict corporations from owning or leasing land for agricultural purposes. With exception of the North Dakota law, all adopting states make an exception for "family" corporations and/or subChapter S corporations. Some states require divesture of land by ineligible corporations. Others merely require reporting of land ownership and of agricultural activities. The Kansas law provides for a limit of 5,000 acres of land owned by a farm corporation, but no provision is made for violations of the law.

The original Kansas law was written at a time when widespread bankruptcy and mortgage foreclosures were common. Large acreages of land were being acquired by insurance companies and other lenders. More recent proponents of these type laws apparently equate corporations with "bigness." In fact, some corporations are small while some large farms are individually owned or are operated as partnerships.

Outright prohibition of the corporate form of organization in agriculture presents somewhat of a dilemma inasmuch as this form of organization has some advantages for "family" farms. This explains the tendency to exclude family and/or subChapter S corporations. The corporate form of organization may be a useful device for facilitating transfer of ownership among heirs without splitting up an efficient operating unit. It may facilitate raising capital for a unit large enough to attain economies of scale and at the same time be consistent with dispersed ownership of assets.

The proposed bill in Indiana appeared to gain supporters as exceptions were made for ownership of land by corporations for use in mining, by canning companies or for forestry. The bill lost supporters when it was broadened to include the trust form of ownership.

Future Land Transfer Problems

As I indicated earlier, the possibility of shrinking access to ownership of agriculture land runs counter to the values of many people in the farm sector. Three developments raise doubts as to who will be able to acquire farm land in the future. They are declining net farm income since 1973, rising land values and high capital requirements and high interest rates relative to the past.

Farm incomes increased rapidly after 1972 as grain prices rose and production costs lagged behind. However, production costs soon caught up and grain prices declined. Corn production costs and market prices for 1977 are illustrative of the problem. All costs of producing corn in Indiana, excluding land costs, are estimated at about $1.50 per bushel for 1977. Current estimates are that corn will be selling for about $1.70 a bushel at the farm this fall. Assuming a yield of 110 bushels per acre, only $22.00 per acre would be available to cover land costs. Such a return would not come close to covering interest costs on land valued at present prices. Of course, present landowners would not be in such an unfavorable position as their land acquisition costs may have been much less than current prices.

Capital requirements for new entrants have grown dramatically in the Corn Belt as land values have increased. The recent land value survey for Indiana reported that top corn land in West Central Indiana was selling for $2,862 per acre as of June 1977.[13/] Average land estimated to yield 116 bushels of corn per acre was reported at $2,062 per acre. Several sales of top land were reported in the $3,500 to $3,750 per acre range. Using the average land value and the average size of farm as reported in the Indiana

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[13/] Atkinson, J. H. Land Value Survey, unpublished preliminary report, Purdue University, July 1977.

Farm Account Project one can estimate capital requirements for a farm unit in Indiana. Assuming a $2,000 per acre land value, average capital requirements including land, machinery, buildings, equipment and inventory would amount to about $1.4 million per form if all land were owned. If half the land were owned and half were rented, total investment would be about $765,000. The sheer magnitude of capital required for entry even if down payments were a small percent, say ten percent, would be beyond the reach of many persons desiring to farm.

The changed relationship between market interest rates and rates of return on land is complicating the problem for potential entrants. Throughout the 1950's and 1960's mortgage interest rates varied around 5.5 to 6.5 percent. The rate of return on land varied from 3.5 to 5.5 percent. Since the early 1970's mortgage rates on new loans have been around the 8.5 to 9.5 percent levels. As land values have increased rates of return have been reduced, again to the 3.5 to 5.5 percent levels. Hence, the gap between interest costs and rates of return on land at current values has widened, thereby intensifying the problem of making interest payments out of current farm income.

The much higher capital requirements and high interest rates with returns to land below interest rates, will likely cause severe cash flow problems at present commodity prices for operators with a high debt/equity ratio. In recent years cash flow problems have been resolved in some cases by securing an off-farm job by the farm wife. Since nonfarm wages have not risen nearly as rapidly as total interest costs, this approach will contribute much less to the solution of the problem than in the past.

Although the data on farm sales show that most land is sold for farm enlargement by existing units and that tenancy is on the decline, current land values suggest that land will increasingly be acquired through inheritance or be acquired by persons with outside sources of income. Heavier dependence on acquisition by inheritance could lead to a landed aristocracy as has existed in older economic systems.

Some Suggestions for Research

In order to be able to respond to questions being raised by state legislators and interested farmers, a better data base needs to be developed on who owns agricultural land now. Current information exists in county offices, but it needs to be consolidated in useful forms for formulation of policy. Problems arise in interpreting the data as it is not always clear whether the land is held by individuals, in trusts, by corporations, or by others "fronting" for foreign investors.

If the possibility exists for a return to higher rates of tenancy, what are the consequences of separation of ownership and operatorship? Are the consequences different from what they were in the 1930's and 1940's?

Several states have had anticorporation legislation in effect for many years. What has been the effects of this legislation? Has it been mere "window dressing" or has it affected the organization of agriculture in those states. State legislators contemplating such actions are asking these questions.

Federal legislation has been proposed which would regulate corporate activities in farming. Is regulation at the Federal level more appropriate or should the issue be left for resolution by the states?

How would removal of double taxation of corporate dividends as is being proposed, alter the competitive position of the large corporation relative to other forms of organization?

Summary

With more favorable incomes in agriculture in the early and mid 1970's, land values, particularly in the Corn Belt, have been bid up to the point that questions are being raised about who will have access to land in the future. A majority of land sales are now to farmers for farm enlargement. Access to land may become even more a function of family relationships as land is transferred from one generation to another within the family. Access by others will be limited as potential owners encounter difficulty in generating sufficient cash flow because of the cost-price squeeze and the large amounts of capital required for entry.

As competition for land intensifies attention will continue to be directed to regulation of corporations in agriculture. To what extent, if any, should corporations be limited in their access to land? These questions will likely have to be resolved in the next few years.