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## DISCUSSION: A LOOK AT MAJOR EVENTS AND POLICY ISSUES FACING SOUTHERN AGRICULTURE

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Rudd and Breimyer have pinpointed major elements that have affected and will affect southern agriculture. I shall add some issues and embellish others. My discussion focuses mainly on the post-Keynesian political economy, but let us digress to consider land prices.

### LAND VALUES

Breimyer states that, "Manifestly, in agriculture today the situation is complicated by an inflationary appreciation that lifts land values above their capitalized productivity and current earning power." Later he states that, "Even when the values [of land] are deflated it has been as profitable to hold land unworked as to undertake all the effort and risk of farming it." He goes on to conclude that, "What landholders in agriculture have most to fear from inflation . . . is that it will be checked."

My interpretation of the data leads to a different set of conclusions. The rate of return on equity capital averaged 2.3 percent over all farms in 1977, a most unfavorable year—the parity ratio was only 67 percent of the 1910-14 average. Because the average rate of return includes a large number of small and inefficient farms, it is misleading. The average rate or return on equity on *commercial* farms was at least 5 percent in 1977. If one adds capital gains of 8 percent, their overall return was 13 percent. Whether future returns will average this high depends on a number of factors, but farm programs now place support prices of major crops at near the cost of production. Because supports escalate with costs which are closely tied to the national inflation rate, it seems reasonable to conclude that future current land earnings and land prices will keep pace with inflation. If commercial farmers continue to earn a 5 percent return on equity from current earnings and land prices keep pace with inflation of (say) 6 percent, expected future returns on land for commercial farmers will average 11 percent, a favorable rate. Because current land prices seem justified by ra-

tional expectations of future land earnings, it is not possible to conclude that land prices are based on a speculative bubble likely to burst. It is more accurate to say that land was underpriced in the past than to say it is currently overpriced.

If commercial farms are earning a 5 percent current return on equity, excluding capital gains, one cannot say it is more profitable to hold land unworked than to hold land worked. If land price appreciation is 8 percent, the return from holding land unworked is 8 percent and the return for holding it worked is 13 percent for commercial farmers. In the future, land price appreciation may slow to the national rate of inflation. If so, the capital invested in land will buy the owner the same real volume of goods and services when he sells the land as when he purchased it. In such circumstances, the current earnings from land constitute the real rate of return on his investment. And on the basis of rents or return to equity over the past few years, the average real rate of return on commercial farm land is neither low nor in danger of evaporating.

If inflation is checked and land prices no longer rise, the owner's position is unchanged—he will continue to receive a *real* rate of return of approximately 4-6 percent on equity. He need not fear sound monetary-fiscal policy. Even the side effects of unemployment and slow domestic income growth that would initially attend a return to fiscal-monetary soundness would not hurt him much. However, if he is a heavily indebted owner committed to a long-term mortgage with an interest rate of 9 percent—composed of the real rate of interest (approximately 3 percent) plus an inflation premium (approximately 6 percent, the built-in, long-term inflation expectation)—he is in trouble with deflation. But he is not in trouble if the actual 1978 rate of national inflation, 9 percent, is reduced to 6 percent. It would seem unwise to perpetuate inflation for the sake of a comparatively few heavily leveraged landowners (who have committed themselves to

substantial long-term mortgage debt at high interest rates in recent years) when the farming industry as a whole has a major stake in reducing inflation to soften cost-price and cash-flow problems. Two financial policy lessons are suggested. First, monetary-fiscal policy needs to refrain from escalating national inflation, because once inflationary expectations solidify, long-term interest obligations are incurred that cause hardships with deflation. Second, interest rates need to be indexed to the inflation rate to avoid the trauma of deflation.

## POST-KEYNESIAN POLITICAL ECONOMY

Keynesian economics has reinforced the adage that "all good things are carried too far." The fundamental issue for the farm as well as the nonfarm economy in the next decade is what lies beyond Keynesian economics. In the search for answers, I reread Rostow's *The Stages of Economic Growth* [1]. After analyzing "mass consumption society," he could only speculate about the beyond—wondering whether boredom of mass consumption society would be relieved by the arms race, innovative leisure, or the welfare state.

He did not foresee diminishing returns to Keynesian prescriptions, declining propensities to save and invest, stagflation, the falling value of the dollar, or the high demand for environmentalism. He failed to perceive the rise of special interest groups—avaricious collectives exercising inordinate economic and political power at the expense of the outsider. These collectives legitimize their demand for higher wages and for transfer payments by appealing to the need for expanding aggregate demand in the Keynesian tradition. These collectives are both cause and result of the nation's economic ills.

The laborer through collective action (and the demonstration effect on unorganized workers) has succeeded in acquiring an ever-larger share of the nation's economic goods and services. Though this action brings short-run gains to labor, it cuts short profits, savings, and investment in the capital that generates labor productivity, jobs, and output. This outcome intensifies the struggle for a "fair" piece of a rather fixed "pie" of goods and services. The list recently published in *Time* of groups which have fared best in economic progress since 1967 reads like a "who's who" of powerful labor unions. The unions frequently operate in imperfectly competitive industries able to pass some of the wage costs to consumers. But these industries cannot compete with industry on a world scale and they fail to export—they instead require protection from imports either

by direct barriers or through a drop in the value of the dollar in relation to other currencies. Wage and price hikes are validated by expanding money supply to avert unemployment and recession. Inflation and unemployment persist. The very foundations of our economy are threatened.

Ironically, the farmer benefits in some ways from this behavior. Our inability to export industrial goods leads to a decline in the value of the dollar and to relatively cheaper prices for our farm commodities abroad. As a result, demand for farm products is expected to grow at a rate of 2.0 percent per year during the next decade. Of this gain, only .7 of a percentage point is likely to come from domestic sources and 1.3 percentage points from foreign sources.

With demand expected to grow nearly 2.0 percent per year and supply (due to productivity) expected to rise about 1.0 percent per year, American farmers appear to be in a favorable position indeed. But the situation is clouded because national inflation enhances prices paid by farmers more than prices received by farmers. So the ratio of prices received to paid by farmers and real farm income may not improve much in the next decade—except as periodic "food crises" arise.

Inflation is a serious long-run threat to the family farm structure. It raises immediate costs of financing assets and postpones returns, creating a liquidity crunch handled more readily by a corporation with access to diverse sources of financial capital than by a single proprietor family farm financially reborn each generation. This cash flow concept associated with inflation is explicated in a paper presented elsewhere [2]. Inflation also encourages vertical coordination and larger farming units to gain stability by counteracting the market power of input supply and product marketing firms which can more quickly pass on inflated costs by administered or negotiated prices.

In short, inflation generates cost-price, cash-flow, and uncertainty problems—the last emphasized by Rudd and Breimyer. The farming industry and especially the family farm have a major stake in sound monetary-fiscal policy. Post-Keynesian economics is searching for a formula. This search in part has led backward to neoclassical economics emphasizing efficient sources of supply and reliance on competition to bring desired outcomes (as opposed to Keynesian emphasis on aggregate demand), and to the classical quantity theory of money emphasizing restraint in growth of the money supply.

In global perspective, two polar types of economic systems seem to work: (1) an atomized system of buyers and sellers constrained in their self-interests by competitive

market forces using the check and balance system of units too lacking in power to affect economic outcomes to their collective advantage, or (2) a concentrated economic system in which one or a few collectives of participants view their actions as affecting the general welfare and at least somewhat constrained in their action by accountability to the public. The latter extreme is the Marxist state, but the state socialism of Japan and northwestern European countries (with the notable exception of the United Kingdom) also follows this model through a non-adversary relationship between labor and management.

The U.S. is in an unfortunate and unstable position between these extremes, getting the worst of both types. Collectives in the form of labor unions, industrial cartels, and other special interest groups aggrandize their position at the expense of the public through economic and political action. Because no one collective can be blamed for the nation's economic ills, accountability is minimized. The current mood of the nation is to move toward the first model. But a point of no return may have passed, with society no longer able to curb its powerful interest groups. If so, the nation may be forced to move toward the second model, albeit with considerable loss of freedom and departure from the free enterprise system. The search for a solution will be the battle of the 1980s, and it will be watched with concern by farmers. If the first model is pursued, the results may include antitrust action against large "farmer" cooperatives, antitrust measures applied to labor unions, proscriptions against corporate conglomerate mergers, and public financing of elections. If the second model is pursued, the farming industry might become a public utility, with the decisions about pricing and output increasingly made by nonfarm elements "attempting" to act in the public interest.

### Demographic Transition

Rudd and Breimyer omitted one of the most important developments of the 1970s which has implications for the future of farming in the South and elsewhere—the so-called demographic transition characterized by more rapid population growth in micropolitan than in metropolitan areas and in the "Sunbelt" than in the "Frostbelt." One result of this trend as well as the exodus from the farm is that the farm population in the South now constitutes less than 5 percent of the population of that region compared with 22 percent in 1950. The Midwest currently has the highest share of population on farms, but with a decline from 14 percent in 1950 to less than 7 percent today. Under these circumstances, Southern legisla-

tors who have played a key role in Congress may be less single-minded in dedication to favorable farm legislation.

In contrast, the income elasticity of demand by the public for farm programs to reduce instability and provide adequate food supplies appears to be high in worldwide perspective. Developing nations frequently "tax" their farmers through appropriation of some portion of farm export earnings or through ceilings on domestic food prices. Affluent nations tend to subsidize farmers heavily. Thus the relegation of farmers to a small minority status by no means signals an end to public support for farm commodity programs—the correlation between the minority status of farmers and extent of price and income support is positive among nations.

In contrast to Breimyer's position, I do not foresee major relocation of people induced by changes in energy prices. Energy constitutes only a small portion of the cost of commuting. The major cost of commuting is time, and studies indicate that people implicitly discount the value of their commuting time by half. If a commuter's earnings average \$10 per hour, his time cost of commuting is \$5 per hour. If the commuter averages 30 miles per hour, gasoline is \$1.00 per gallon, and gas mileage is 15 miles per gallon, the energy cost is \$.067 per mile or \$2 per hour. This figure is only two-fifths of the value of the time involved and is unlikely to have much influence on commuting decisions.

### Some Implications

The conclusion that price and income supports are not threatened by the minority status of farmers by no means implies that the public will support farm programs favored by producers. We will see more farm policies imposed in spite of rather than because of producers' wishes. Some possibilities follow.

1. The cattle cycle has troubled the economy by generating inflationary pressures in 1973 and again in 1978. I anticipate a search for policies to dampen the cycle. Options include countercyclical import quotas, grazing of set-aside in times of low beef supplies, and tax credits or other incentives to retain breeding stock and to market steers at lighter weights at the low-price phase of the cycle.
2. The rhetoric to "save the family farm" may come from farmers but legislative substance is more likely to come from nonfarmers. Major farm organizations are thwarted in part because many members are large farmers. Also, many owners of small and midsize family

farms seem to have an "Irish sweepstakes" syndrome—they do not want to curtail privileges of large farmers which someday they may be. Possible measures to reduce expansion of large farms and encourage expansion of small and mid-size farms include greater targeting of commodity program payments on the latter and, for the former, restricting the use of income tax provisions (accelerated depreciation, investment tax credits, capital gains tax rate preferences, interest payment writeoff) that encourage substitution of capital for labor.

3. Farmers will find foreign barriers to our farm exports a continuing frustration. But pressures to end discrimination against our agricultural exports may originate from the public concern for

greater exports to pay for imports rather than from powerful farm groups, which see reduction of export barriers as a dangerous invitation to reduction in import barriers on dairy products, beef, vegetables, and fruits. Perhaps we will establish a schedule of import duties and quotas on cars and other items imported from Japan and specify that the schedule will be gradually phased in unless Japan's barriers to our exports of beef, citrus fruits, and other items are reduced. Such action can lead to trade wars forcing the decision whether to eliminate import restrictions on dairy products and beef in return for concessions on our farm exports to the Common Market and Japan.

#### REFERENCES

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