

A LOOK AT EMERGING ECONOMIC AND POLICY ISSUES CONFRONTING SOUTHERN AGRICULTURE IN THE 1980s

Harold F. Breimyer

THE STRUCTURE OF AGRICULTURE

The fundamental issue of the 1980s will be whether agriculture will preserve its identity. The 1980s will be the decade of decision as to the structural organization of agriculture. It is not anticipated that the agricultural sector will be preserved intact, or, alternately, totally transformed by 1990, but by then the die will have been cast. In a different idiom, a point of no return will have been reached.

Structural questions touch virtually every policy issue in agriculture. Income tax, estate tax, environmental protection, availability of farm credit, terms of price and income support — these and other issues are interwoven. Agricultural economists relate to structural issues in two ways. We are concerned for our clients. The kind of agriculture to prevail makes a difference to farmers and their families, to rural communities, and to the citizenry of the South. It makes a difference also to agricultural economists professionally. In 1969 many of our analytical skills were developed for a dispersed market-oriented agriculture. If a different kind of agriculture materializes, the need for economic guidance will not end, but many of us will find ourselves technologically obsolescent.

PEOPLE PRESSURE

Use and protection of land, crowding of ever more people on our planet and in our little nationalistic corner of that planet, pressure of those people on land, on energy resources, on water — how can those issues escape prominence in the 1980s?

There are places where even the most tactful extension economist cannot effectively hold a meeting relating to land policy. Once the word "planning" is voiced, the air chills. For example, nowhere in our nation have I encountered tempers so high as in farm policy meetings in north Texas. The aquifer is being drained. Capital values go up and down with the water table, and the physical inescapability of the

dilemma seems not to explain but to inflame. Land and water are touchy topics there.

What aspects of use of land will prove most vexatious in the 1980s? Interestingly, I find more unanimity on the need to preserve farmland from conversion to nonfarm uses than on any other land use question — so long, that is, as it is treated abstractly. Even so, the loss rate is slow and I doubt that the issue will come to the forefront during the 1980s.

The same judgment applies to soil conservation. Far-seeing farm leaders deplore the relaxed attention to erosion. One of the ironies of our time is that erosion control is being newly programmed, not through the agricultural establishment but by way of EPA protection of nonfarmers' water supply.

LAND TAXES

Allegedly, we are in a period of tax revolt, and particularly of revolt against real estate taxes. One moral to be drawn is that in a democratic society people tolerate rising tax levies only during easy times of economic growth. When growth stops and taxpayers' belts must tighten, taxes are viewed as a discretionary expenditure to be reduced first.

But the meaning to agriculture runs deeper. Taxes on real property are a unique social instrument. Perhaps some older agricultural economists have forgotten the fundamental principles and younger ones may not have learned them. Taxes proportionate to the earning power of land in its highest and best use serve a double function. They reclaim for society some of the unearned income (rent) society itself generates, and they guide the land into that category of use.

Resentment at rising real estate taxes amounts to an attempt to deny, to thwart, the effect of increasing pressure of population on a fixed land base. For taxpayers, relief through lowered taxes is effective only for one generation. A reduction in rates becomes capitalized

into an even higher price for the property — a deterrent to new acquisition that is as effective as high taxes.

Manifestly, in agriculture today the situation is complicated by an inflationary appreciation that lifts land values above their productivity and current earning power. Their new level anticipates — capitalizes — further appreciation. What tax policy is sound under these circumstances? Interesting philosophical as well as pragmatic questions are raised. If we really believe in the sanctity of a market system we will accept appraisal at market value, for if land can be sold at \$2,000 an acre it is worth that, isn't it? Yet, obviously, difficult cash flow problems are created. In effect the dollars required to pay the tax levy must then come from liquifying some of the appreciated value, either by sale or by borrowing.

And so the pressure is on to assess farmland at its current earning power and thus neglect its capital-gain-producing capacity. The question is, earning power in what kind of agricultural use? If a farmer chooses to raise beef cattle on his delta land that properly belongs in cotton and soybeans, should he be taxed according to the profits, if any, to be expected from a small herd of fat lazy beef cattle? In effect, we would be asking the assessor to allocate land-use administratively, or to acquiesce in the landowner's allocation decision, as a replacement for what market-based tax assessment can do.

INFLATION AND THE FARMER

The tax conundrum could be treated as an aspect of inflation. However, inflation is best dealt with in its manifestations and not as an abstraction. U. S. citizens seem to regard inflation as analogous to a bacillus. The appropriate antibiotic is sought or, even better, a vaccine. A better physiological analogy would be to think of inflation as an allergy. Moreover, some events of our day casually ascribed to inflation are more endemic than that. Various ones would stay with us even if inflation should stop. Land use is one of them.

Even so, persistent inflation does have its peculiar effects on agriculture. Owing in part (but not wholly) to general price inflation, appreciation of capital values in agriculture has surpassed current income to farmers from farming by a ratio of more than two to one. Even when the values are deflated it has been as profitable to hold land unworked as to undertake all the effort and risk of farming it. An inescapable outcome is to induce an inflow of capital into purchase of land, thereby prying landholding away from operating farmers. This is one of the forces underlying the aforementioned structural organization question.

To veterans of farm policy it is interesting to note the ambiguous position in which farm partisans find themselves. Claims of financial distress have long been stock in trade. It is definitely true that many farmers have a cash flow problem. But how is it possible to win public sympathy for a sector whose assets appreciate \$50 billion each 12 months?

It is human nature to ascribe one's troubles to events outside one's control. Inflation serves as a convenient scapegoat for farmers' real and imagined ills. Political spokesmen pick up the refrain. What landholders in agriculture have most to fear from inflation, however, is that it will be checked.

MARKETS

Interest in the vitality of markets for farm products has about the same periodicity as the locust. Once each seven years a buzzing is heard. It subsides. Sometime in the 1980s farmers will alert once again to how flimsy are some of our market institutions. This issue, too, interlinks with the structure of agriculture. Independent family farms depend critically on viable markets for their products.

Fortunately, two extension committees have published a series of reports recently, captioned "Marketing Alternatives." I recommend the leaflets titled *Marketing Alternatives for Agriculture: Is There a Better Way?* by Olan Forker and V. James Rhodes, published by Cornell University as Extension leaflets 7-1 to 7-13; and the *Who Will Market . . . ?* series headed by *Who Will Market Your Products?* distributed by the Agricultural Extension Service of Texas A & M University.

ENERGY AND AGRICULTURE

One needs no clairvoyance to know that energy will be a continuing vexation. Recent political unrest in Iran provides the second corroborating instance in six years of the political fragility of our present energy supply. Neither farmers nor the general public are emotionally or technically prepared for the adjustments that are in store. The indirect, roundabout, even subtle consequences of a tightening energy base are more to be feared than the superficial and obvious. To put it differently, I suspect most citizens see the energy problem as something to be solved by reducing automobile motors by 100 horsepower and insulating homes. It is more complicated than that!

In farming, use of fossil fuels for motor power will scarcely be disturbed. Deep-well irrigation, however, may be a casualty. Certain processes such as drying of grain lend themselves to alternate energy sources. On the

whole I foresee more consequence of scarce energy in the systems of food handling than in those of production. Transportation costs might increase enough to relocate farm enterprises on a 50-state scale.

Two potential trends relate to the theme of land use, which I place first in the repertory of troublesome issues for the 1980s. The first is, I believe, a certainty — the recentralization of where people live and work. Cheap transportation on paved highways enable people to separate where they live from where they work. Millions have chosen to live in the country. That luxury, heralded in all the tributes to repopulation of the countryside and “rural development,” will quickly come to an end when we find it necessary really to ration our energy consumption. The transfer of capital values, not to mention the housing and community infrastructure, from decentralized locations to centers of work and public transport will be chaotic.

The second instance is conjectural. It relates to the possibility of a breakthrough in producing industrial energy from herbaceous materials, known as biomass. The flow of energy from the sun is primary. We capture an infinitesimal part of it. It is conceivable that through the magic of chlorophyll a great amount more eventually will be incorporated in plant material, to serve as an industrial energy source. The probability of this sequence cannot even be guessed. If it should happen, however, all that we know about the economics of land use will be scrambled. Land normally used for producing food and the natural fibers will be

invaded by forage crops of high cellulosic content, produced solely for industrial energy. Our institutions of land use will be put to excruciating strain. We could wonder what kind of a land system will emerge.

IS THE LAND GRANT-USDA COLLABORATION IN JEOPARDY?

As agricultural economists we could speculate on the role we ourselves will be permitted to play in the 1980s. Perhaps it is vain to suggest that this bears any relation to the topic of economic and policy issues confronting agriculture. On such a debate I would take the affirmative. I do believe our place in the sun is diminishing. It is hard to know whether we are the guileless victims of a Proposition 13 mentality, whether our research and educational structure is already an anachronism, or whether we individually and collectively have not done our job. I suspect each of these explanations has some validity. For my part, I believe agricultural extension has had a clearer sense of purpose than agricultural research. I offer this concluding observation because I believe the threat is real and present, and further by way of saying that the proper response is not to protest our innocence. Quite possibly it is time for Agricultural Economists in the public service, as well as various other members of the Land Grant-USDA complex, to do some soul searching — to ask some of the questions that we have treated academically in the past but now have become hard reality.

