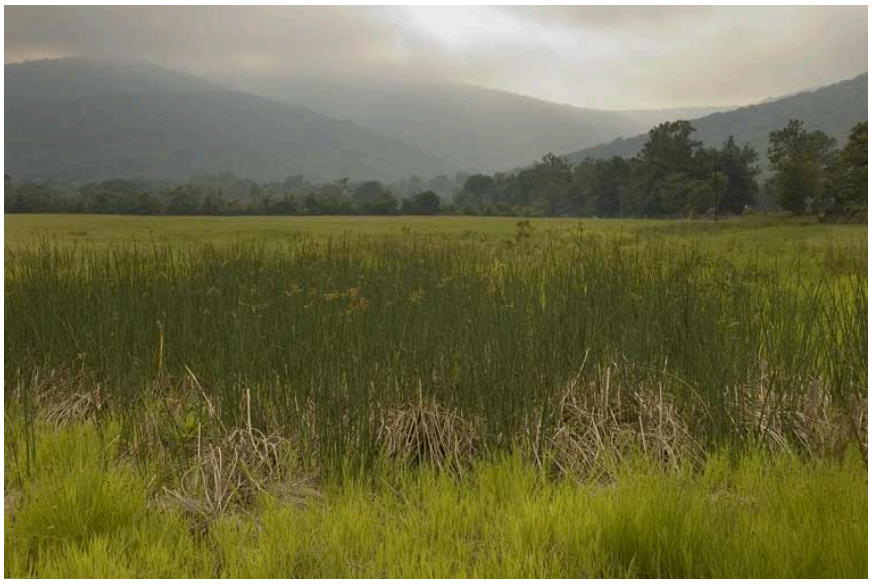


How can there be more local farms?

Lyle Solla-Yates

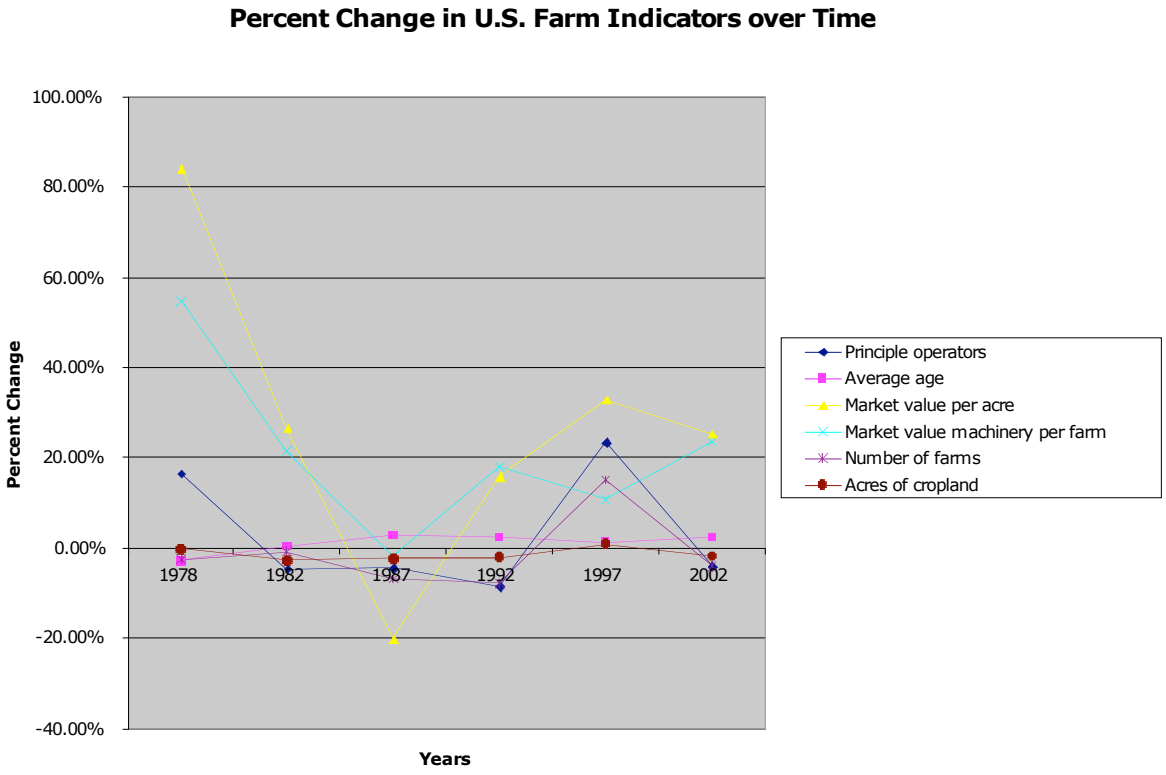
This paper investigates the causes for a lack of farming in rural central Virginia and elsewhere in America and explores some techniques to increase the supply of farms. I will discuss the high cost of farmland, low interest in farming among those entering the job market, federal food policy, and globalization of the food market as important factors. I will then discuss some techniques for restoring an active rural landscape and some encouraging trends. The techniques include actions to reduce the cost of rural land and support new farmers with training and better prices. I will close with the importance of federal and state action in restoring vigor to rural economies.

Why is there not more farming?

There have been enormous shifts in how agriculture is organized in the last one hundred years. Technology has changed, farms have become larger, fewer, and costlier, labor has become much less important compared with other inputs, and commercial inputs from off the farm such as seed and fertilizer have taken a dominant role. Farms that once produced a range of goods have become much more specialized. Food travels much farther than it has in the past. Livestock is produced much more intensively, in confined housing. The supply of food commodities has increased and the price has come down (Evenson and Huffman, pgs. 1-9).

These changes have diminished the attractiveness of farming compared with other labor opportunities (Gale, p.138), resulting in the substantial decline of farming as the field of choice for those entering the workforce. Since 1920, the peak period, the number of farms in the United States diminished from 6.4 million to 1.9 million in 1990 (Evenson and Huffman, p.1).

In areas under development pressure, where landowners stand to profit by converting former farmland into low density residential and strip commercial development, otherwise productive farmland is held out of use or used only minimally for agricultural purposes in anticipation of conversion. This phenomenon is intimately connected to the high price of land.



(Source: U.S. Agricultural Census, Table 1. Note: this graph compares percent change over time, not quantity over time. This is useful for comparison between dissimilar indicators. Methodology for counting farms shifted in 1997, creating a false jump in some indicators.)

Why is land so expensive?

Land does have inherent value for aesthetic, environmental, and historical reasons, but its value in the marketplace is largely a function of how much profit its use will produce. Profit can come from farming and it can come from developing, or from selling or leasing to a farmer or developer. Land that is not near urban amenities such as roads, schools, or emergency services is less desirable for development, and so commands whatever price agricultural land commands. Land closer to urban amenities will be priced instead according to its development value, whether or not it is ever in fact developed. Such land is attractive to those farmers interested in producing close to customers and enjoying those urban amenities themselves, but unless they inherited, most farmers find such valuable land out of their reach.

Less convenient locations are priced less severely, but are still beyond the means of many prospective farmers. This is largely a function of federal food policies, which offer subsidies to producers based on price targets. Farmers are given the difference between what they actually make from real world prices and what they would have made from the price targets in direct payments. The result of this system has been larger farms, fewer farmers, greater use of chemical and machinery substitutes for labor, greater production of fewer crops, and low prices. Most cogently to the current discussion though, has been the effect on agricultural land prices, which have boomed in the last thirty years, excepting the recession in the 1980s (see figure on page 2).

What does federal policy have to do with farming?

In his brilliant book The Omnivore's Dilemma, author Michael Pollan outlines how federal subsidies have encouraged larger scale, more capital intensive farming rather than the

family farm ideal they supposedly protected. When the last federal farm bill was under discussion in 2001, the United States Department of Agriculture came out strongly against the effects the subsidy system had on "artificial inflation of farmland prices" (USDA, p. 48). Secretary of Agriculture Ann Veneman wrote that "since the land charge is such an important component of farmers' total cost, sustained increases in land prices and rents have a decidedly adverse effect on the competitiveness of our farmers in the marketplace…" These subsidies, about $20 billion between 1996 and 2001, benefited landholders instead of farmers renting land because of their capitalization into higher land prices. These higher prices also served to raise barriers of entry to new farmers and made expansion more expensive for existing operations (USDA, p.50). Largely because of concerns about how these higher costs and existing trade agreement obligations would affect global competitiveness, the USDA called for a new system that provided an economic safety net for farmers instead of subsidies. Congress chose instead to keep the current system, with some small restrictions.

A system similar to the one suggested in 2001 by the USDA is now being proposed for the next farm bill of 2008, with interest from both sides of the aisle. Conservatives emphasize the importance of market responsiveness and free trade, while liberals discuss the benefits to small family farmers. Such bipartisan support may be insufficient to beat the political clout of large rural landholders who benefit from the existing system, but the signs are encouraging.

Case Study: New Zealand

Much like the United States, New Zealand had a complex system of subsidies and supports for their agriculture. At the peak of subsidies, in 1984, government assistance to

New Zealand sheep and beef farmers made up 40% of their revenue (Frontier Centre for Public Policy, p. 1). The next year, all but agricultural research had been cut. This period saw a major economic and political shift when a new party took control and instituted a suite of neoliberal policy reforms. It was predicted that ten percent of farmers would be forced to find new employment, but the loss turned out to be one percent. Since the elimination of subsidies, New Zealand's agricultural economy has seen steady growth, and little loss of labor compared with the American system, where labor saving infrastructure has been heavily relied upon.

New Zealand's most heavily subsidized product – sheep - has seen a steady decline since the elimination of subsidies, but this has been balanced by an expansion of cattle farming and new initiatives such as winegrowing, which has enjoyed great success. It is likely that, based on the New Zealand experience, America's most heavily subsidized product corn would likely see a decline, but this would be balanced by productive investment in other areas. New Zealand farmers emphasize the environmental benefits that accrued since market signals were restored to the fore of the agricultural economy. Wasteful practices that harmed the environment are no longer rewarded by subsidies and conservation measures have become widely adopted as good business practice. Land area under farming has declined somewhat in favor of forestry and conservation uses. Other neoliberal policies have enjoyed less success and popularity, but the New Zealand farming system offers an excellent example of what is possible.

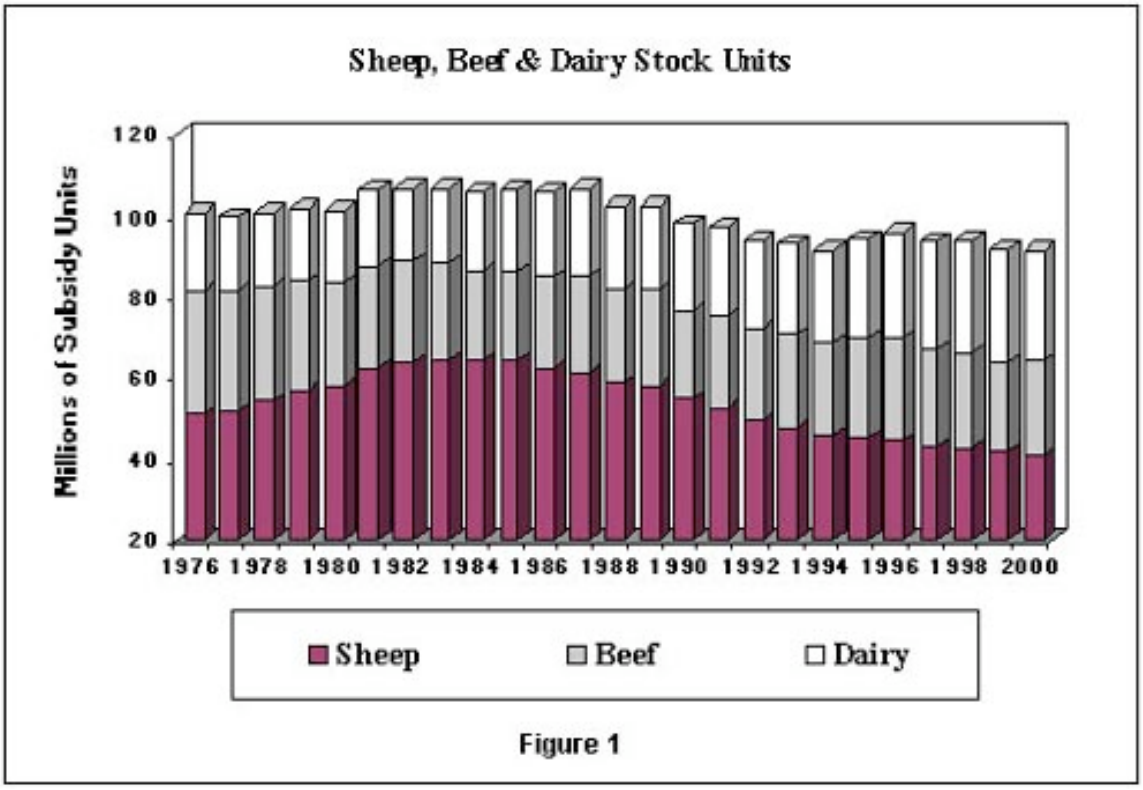


Figure 1

(source: Frontier Centre for Public Policy)

What about free trade?

Even the shift away from subsidies towards an economic safety net may be insufficient, however, because of trade policies implemented within the last several decades such as NAFTA. These agreements have lowered protective tariffs to foreign goods, creating direct competition between American farmers - who face high land costs and humane labor costs - and farmers elsewhere who can offer food for much lower prices not because of efficiency, but due to lower land and labor costs. This plays an important factor in driving food prices, and therefore farm wages, down, even in markets where subsidies are not available.

The likelihood of the restoration of protective tariffs for American farmers does not currently look good. Some liberal politicians such as Dennis Kucinich are suggesting that trade agreements be amended to emphasize the public good. Some specific measures might include a Pigouvian tax element, where the cost of tariffs would seek to eliminate price advantages from inhumanely low wages, slave labor, environmental harm, and other ills. The critical difference would be tariffs intended not to protect and enrich domestic business, but to establish a fair and ethical global marketplace that benefits all.

What can be done locally?

There are some tools to address this problem locally. A number of approaches have been developed to overcome the high cost of rural land, from direct government purchase of development rights, to land taxes, and farm leasing. In addition, a number of services have been provided to starting farmers to assist them with finding land, getting financing, and getting their products to market. Still, more work needs to be done.

In order to preserve working farmland, many states have initiated Purchase of Development Rights (PDR) programs. State and local governments share the costs of purchasing the rights to develop farmland in areas where conversion to urban uses is considered undesirable. The Virginia counties of Virginia Beach, Albemarle, Clarke, Fauquier, James City, Loudoun and Spotsylvania have so far established PDR programs (Virginia Farm Bureau and Virginia Department of Agriculture and Consumer Services, p. 1). The benefit of this program is its preservation of rural land in perpetuity by making rural land legally impossible to develop. The problem is its large cost to the public, allowing only a fraction of threatened sites protection.

Another challenge is that this program offers no relief from the high price of agricultural land engendered by federal subsidies.

Land taxes allow government to reduce land prices while creating revenue, at the expense of landowners. As discussed previously, the price of land is largely a factor of the income its use will produce, but taxes on land can reduce the value of this income. When rural property taxes are shifted from buildings onto land, there is more incentive to create and maintain farm infrastructure like barns and farmhouses, benefiting small family farmers who use their land intensively and challenging larger scale farmers who use less labor, as well as landholders waiting to convert their farmland to urban uses. A potential challenge is the perceived incentive this creates for development, but economic studies have suggested that this strategy does not affect quantity of development but rather locational decisions, favoring areas closer in and sparing areas more appropriate for rural uses. This technique has been proposed in Pennsylvania as an aid to farmers there, but has not been adopted. Still, this approach has important strengths and deserves further study and potential adoption.

One common technique related to land taxes is the opposite approach, land use taxation, where land in agricultural use is favored with a lower tax rate. This approach is generally proposed as an aid to farmers burdened with high taxes and low profits, but offers counterproductive results. This tax subsidy does indeed improve farm economics, but this benefit is capitalized into higher land values, in the same way that federal subsidies are, and offers greater benefits to large farms that employ fewer people per acre. In areas under development pressure, this tax break encourages land speculators to buy up agricultural land for eventual conversion, further raising land values and threatening farmers.

Farm leasing allows farmers to sidestep the high costs of farmland when they start out. They enter into long-term lease agreements with landholders who wish to see their land remain in active farm use. These legal agreements allow farmers the security they need to benefit from improvements they make to the land, independent of any potential transfer of ownership. One potential issue for landholders is the inability during the period of the lease to convert their rural land to urban uses. This is in contrast to selling their development rights, which would remove that possibility entirely. Rural landholders can combine both approaches, seeing that their land is properly stewarded and preserved, earning revenue, enjoying lower taxes, and the revenue from selling their development rights, all while retaining ownership of their land to secure their retirement or benefit their heirs.

Case Study: Waterpenny Farm

Waterpenny Farm is a small family farm in Rappahanock County, near the Washington D.C metropolitan area run by Rachel Bynum & Eric Plaksin. It was important to them to be located close to a major market where they could sell directly to consumers instead of going through a distributor. They bring their produce and eggs to farmers markets in the area and buyers can also visit the farm to make purchases. This business model allows them to keep one hundred percent of the retail revenue instead of the twenty to twenty five percent they might expect from a distributor (Flaccavento, p. 1). In order to start a farm with access to the D.C. market, however, they had to find a way to acquire land competing with the booming D.C. housing market. They preferred to own, but could not afford to buy as much land as they wanted to farm. They entered into a long term lease agreement with a landowner with the agreement that

they would build up the fertility of the soil in exchange for the right to use the land. This agreement benefited the cash strapped young farmers and the responsible landowner looking out for the good of his land.

The young farmers ran into some problems taking this approach, however. They encountered three major roadblocks: finding a landowner to work with, establishing trust, and coming to a fair, enforceable legal agreement. Waterpenny Farm was accomplished after over a year of searching for land to buy, and then another six months of establishing trust with a landowner and then a two-year trial period before a long-term lease was reached (Bynum, p. 1). This start-up period incurred significant costs and could be a barrier to new farmers.

One program in place to help new farmers find land and owners find new farmers is Farm Link, provided by the state of Virginia and other states. Eric Plaksin says that while programs such as this are important, it is the personal relationships that make a farm lease work. The Waterpenny farmers were contacted directly by the farm owner. Mr. Plaksin notes that it is much easier to find good rural land to lease than it is to find good farmers to work the land, citing low wages and strong alternatives as critical elements. The ability to work for themselves, work near their child, and essentially "go to work in the back yard" were important attractions for the two college educated farmers. The wages and hours are challenging. Mr. Plaksin earns $15 and hour and works 60 hours a week, while those he hires for seasonal work can expect $5 and similar hours. Even migrant labor can be hard to find at those prices. He suggests that $25 and $10 would be more appropriate, but can't pay that given current prices, even while taking in one hundred percent of the farm's product revenue.

One major challenge then for the Farm Link program is increasing interest in farming, due to the current prices for farm products. For those farmers that are interested though, a

mediation and consultation service for farmers and owners wishing to negotiate a leasing relationship may offer value. Such a service could smooth introductions between owners and renters, establishment of trust, and the generation of fair, enforceable lease agreements. This might eliminate potential areas of friction in advance and accelerate the farm renting process.

How can new farmers be attracted?

States offer a variety of programs to assist farmers such as research and loan assistance. Virginia offers both of these programs. Also, a nonprofit has innovated a distribution option that bridges the economic attractiveness of direct marketing and the convenience and efficiency of modern distribution. These programs, while important, have not been effective at recruiting new farmers, either by providing higher prices or spreading the word on other lifestyle benefits of farming. "It just isn't seen as an option," according to Eric Plaksin. Other programs such as 4-H and Farm-to-school have been established to educate young people about where food comes from and how to produce it. For the farmers at Waterpenny, studying agriculture in college and working at a farm was essential to understand why farming was an attractive career for them.

One possibility is marketing farming as a potential part time opportunity to those who can afford to subsidize farming operations out of their other activities. One potential model is Neighborwoods, a program established to encourage urban forestry. The NeighborWoods program is a nonprofit initiative to encourage the planting and proper maintenance of trees in urban areas. Neighborhood leaders are given a price list of native trees to distribute to neighbors, who order what they would like. Volunteers sign up to help those who need help planting the

trees. The trees are priced below market to encourage planting. Neighbors come together to plant the trees, encouraging sociability and environmental sensitivity, while improving air quality, habitat, the local climate, scenic beauty, and sequestering carbon (Sacramento Tree Foundation, p. 1).

A similar program might be developed to encourage backyard farming. A nonprofit or government agency could provide neighborhoods with a list of appropriate plants and animals to raise in the neighborhood. Knowledgeable residents would volunteer their help in teaching others how to raise specific plants and animals, and resources could be provided where gaps in local knowledge existed. This would encourage sociability and environmental sensitivity, while enhancing food knowledge and security, paving the way for the next generation of potential farmers.

This would take place in a series of steps:

1. Someone steps forward to coordinate the region's backyard farming effort. This can be a volunteer, nonprofit employee, or government employee.
2. There is a community assessment examining what agricultural opportunities there are: what will grow or could be raised, what is in demand, what people are interested in and know how to do.
3. The farming opportunities that have been identified are shared with the community
4. Backyard farming operations begin with help from knowledgeable farmers and state personnal.

5. Established backyard farmers assist others and/or expand into a larger farming role.

Anthony Flaccavento from Appalachian Sustainable Development has reported difficulties with potential farmers not already used to the workload and lifestyle of farming. He has found much greater success with experienced farmers transitioning from a crop like tobacco. Still, this program may provide a useful transition from hobby gardening to small-scale production farming at low cost, using already available programs and resources provided by farm and state agriculture organizations.

Conclusion?

There are a variety of approaches to subsidize farming, with varying levels of benefit. Some, such as federal subsidies and land use taxation are actually counterproductive for farmers, making barriers to entry and production costs higher. What is crucial to consider though, is how the subsidy mental trap can be escaped. A useful analogy is the carrot and stick, used to encourage pack animals to move. In addition to using the economic carrot of subsidies, there are also sticks that are important and valuable to use, such as taxes and tariffs. Taxes can be a potent tool for regulating the price of land. Tariffs properly guided by ethics and economics can put farmers on an even playing field with those in other countries whose prices incorporate non-tariff trade barriers. When obvious government subsidies like America's direct payment system or hidden subsidies such as sweatshop style labor and reckless environmental or health practices are present, they depress prices unfairly, resulting in overproduction and unfair competition. The

tariff system can be modernized to account for these non-tariff trade barriers with equivalent tariffs. This contrasts with the previous system, which was designed to discourage imports wholesale to protect and nurture domestic industries. If America can rationalize its national trade and farm policy, it will go a long way toward a healthier and more sustainable rural landscape and diet.

Sources

1. Evenson, Robert and Huffman, Wallace, 1997. "Long-Run Structural and Productivity Change in U.S. Agriculture: Effects of Prices and Policies," Economic Growth Center, Yale University, New Haven, Ct.
2. Gale, H. Fred, 1993. "Why Did the Number of Young Farm Entrants Decline?" *American Journal of Agricultural Economics*, Vol. 75, No. 1 (Feb., 1993), pp. 138-146.
3. U.S. Agricultural Census, 2002. "Table 1. Historical Highlights: 2002 and Earlier Census Years," U.S. Census Bureau, http://www.nass.usda.gov/census/census02/volume1/us/st99_1_001_001.pdf
4. United States Department of Agriculture, 2001. Food and Agricultural Policy: Taking Stock for the New Century, Government Printing Office. http://www.usda.gov/news/pubs/farmpolicy01/fpindex.htm
5. Frontier Centre for Public Policy, 2002. "Life after Subsidies," Frontier Centre for Public Policy. http://www.fcpp.org/main/publication_detail.php?PubID=171
6. Virginia Farm Bureau and Virginia Department of Agriculture and Consumer Services, 2007. "Virginia Agricultural Vitality Program: Purchase of Development Rights Programs," Virginia Farm Bureau. http://www.savefarms.com/farm_pdr.htm
7. Flaccavento, Anthony, 1999. "Building an Ecobusiness Infrastructure in Appalachia," *In Business Magazine*, September/October 1999, page 19

8. Bynum, Rachel, 2007. “Young farmer couple and established landowner explore innovative land access with trust, hard work and patience in Old Virginia,” The New Farm, http://www.newfarm.org
9. Sacramento Tree Foundation, 2000. “NeighborWoods Guidebook: Recipes for Community Action,” Sacramento Tree Foundation, Sacramento, CA.