RDP Book Reviews

Beyond the Amber Waves of Grain: An Examination of Social and Economic Restructuring in the Heartland

Paul F. Lasley, F. Larry Leistritz, Linda M. Lobao, and Katherine Meyers, editors. Boulder, CO: Westview Press, 1995. 256 pages. ISBN 0-8133-8903-5 (cloth) $39.95. To order, call 1-800-456-1995.

> *The financial "crisis" of the 1980s rocked public complacency about farm restructuring. Americans were confronted with the fact that bucolic notions of farm life did not match the actual hardships and that the Jeffersonian ideal of family farming was shattered. Policy makers discovered that long-standing policies and programs were insufficient and that a massive government bailout of the farm sector would be necessary. Academic and other researchers became aware of their limitations in anticipating the crisis and assessing its magnitude.... Some observers raised more fundamental issues about the trajectory of farm change in the postwar era, including its environmental and social sustainability. Traditional farm organizations were forced to reconsider their platforms and to compete for public attention with newly emerging grass-roots groups. For farmers the crisis called into question a valued way of life and possible career path for their children. At the extreme, it meant loss of household savings, the violation of intergenerational trust whereby farmland passed down through generations, and sometimes the loss of human life. (Linda Lobao & Paul Lasley, Chapter 1, p.2)*

This book purports to be "the first systematic account portraying how the crisis period shaped the lives and enterprises of farm people in the grain-producing heartland of the Midwest." Economists and sociologists collaborated in this book, which emerged from a North Central Regional Research Project (NC 184), with the support of the North Central Regional Center for Rural Development at Iowa State University. The study is based on a 1989 survey of more than 7,000 farm men and women in 12 Midwestern States, the area hardest hit by the crisis. It focused on changes from 1984 to 1988 in three arenas of rural life: the farm enterprise, the farm household, and the farm community. In its focus, the book is partially successful, although like the paragraph quoted above, it promises more than it ultimately delivers. Two shortcomings of the approach of the study have been noted by this reviewer and others: (1) the focus is on the people who remained in farming after the crisis had passed, excluding those for whom the crisis resulted in exiting farming, and (2) the survey methods employed did not allow any longitudinal comparisons to establish whether the relationships found had been significantly influenced by the crisis. Both of these limitations result in difficulties in drawing strong conclusions regarding causality or association of the phenomena with the farm crisis. No benchmark with which to the compare survey findings exists. Farm financial performance data from ERS's Farm Costs and Returns Surveys indicate that proportions of farms having marginal solvency, marginal income, or both have remained elevated even in the "post-crisis" period, indicating the background level of these relationships may be higher than anticipated.

In Chapter 1, Lobao and Lasley set the stage with a review of some previous descriptions of the crisis and provide a map to the remainder of the book. In a section entitled "Perspectives on the Meaning and Significance of the Crisis" they discuss four differing views of the crisis, varying from blaming it on farmer greed and mismanagement, to seeing it as an aberration in an otherwise well-functioning agricultural system, to seeing it as an indictment of government involvement in agriculture, to finally a wake-up call to address the inequality, concentration, and sustainability of the trajectory of agricultural change. There are varying quantities of truth in each of the viewpoints; but as stated, each is inadequate. Unfortunately, the authors do not attempt to sort out the substance from the rhetoric in these somewhat self-servingly stated viewpoints.

In Chapter 2, Daryl Hobbs and Robert Weagley provide a descriptive and historical perspective on the 12-State study area in which they document some of the macro and trade factors that resulted in a build-up then collapse of farmland prices. The role of proximity to metropolitan areas in conditioning the responses of the farm sector and farm communities is well developed. F. Larry Leistritz and Freddie Barnard provide as clear a picture of the financial underpinning of the crisis as can be gleaned from a single-time survey. These two chapters could have been strengthened by a discussion of the contribution of government support payments to net farm (or household) incomes over the study period. Had this been attempted, it would have confirmed that the crisis was very selective in who was affected and how. Since the cost pressures were mostly from interest costs, the financial pressures from declining collateral values of land, and the government policy response was to continue to rely primarily on direct commodity payments, farmers with little debt frequently saw their incomes increased by the crisis. It can be argued that the brunt of the crisis fell not upon the greedy or poor managers, but upon those farmers who were most completely adjusted to the expectations of the 1970's when the macro policy regime changed at the beginning of the 1980's. Further, such an analysis would likely have illuminated why reliance on traditional policies failed to deal adequately with the crisis, and measures to ease the derivative burden on financial institutions had to be adopted.

Bruce Johnson and Raymond Vlasin's discussion of farmers' adjustments and reactions to the crisis cries out for longitudinal comparison and testing of statistical significance of findings. Interpretation of their results is difficult without knowing what background levels of response for "normal" or "good" periods would have been. The differences among regions, age groups, and gross sales categories do not appear to be statistically significant. Perhaps they would be significant across good times versus bad times.

The Kent Olson and William Saupe chapter on plans for changing the farm business and needs for training has many of the same problems of apparent lack of statistical significance across groups. However, by presenting only the extreme categories in their tables, it is less noticeable. Again proper tests of significance and longitudinal comparisons or comparisons to benchmarks are needed to fully interpret the data.

In Part II, focusing on the farm family, Jackie Fellows and Lasley investigated the changing division of labor on family farms. Many of the comparisons were interesting, especially division of farm and household tasks by off-farm employment status of operators and spouses; but were disappointing in their widespread lack of statistical significance. The study, therefore has to be regarded as exploratory, providing more finely tuned hypotheses for future surveys and analyses. Lasley's chapter on the impacts of financial hardship on familial well-being is especially insightful, linking perceptions of well-being, familial adjustments, and causal factors (age, family net income, and debt / asset ratio). The Katherine Meyer chapter on perceiving hardship and managing life contained a great deal of new information, well analyzed and presented. The author was careful to draw valid conclusions about the pressures and coping strategies of the women who were surviving the crisis, without generalizing to those not included in the study.

In the final section concerning community and social interaction, Arlo Biere analyzes respondents' perceptions of improvement or worsening of community conditions in job opportunities, health care, child care, shopping, fire / safety services, and entertainment, using the ERS County Typology and Rural-Urban Continuum codes. The analysis is solid and concludes that not all community changes were correlated with changes in farming, although many changes started first in the farming and manufacturing dependent counties. Lobao, in a chapter on organizational, community and political involvement, finds little evidence of militancy or involvement in protests among respondents. She correctly notes that by focusing on survivors, the groups most likely to have been radicalized over the period were excluded from the survey.

Two wrap-up chapters by Leistritz and Meyer and by Lasley summarize implications and methodology of the study. My assessment is that the study has made a contribution to our knowledge of the household and community aspects of the farm crisis, but the farm enterprise analysis was limited by its reliance solely on one cross-sectional survey. After a mixed start in Chapter 1, it generally settled into competent analysis within the limitations of the data. Serious students will find the reference lists in many of the chapters extremely helpful.

Reviewed by David H. Harrington, a senior economist with ERS-RED.

Development, Geography, and Economic Theory

Paul Krugman. Cambridge, MA: The MIT Press, 1995. 117 pages. ISBN 0-262-11203-5 (cloth) $20.00. To order, call 1-800-356-0343.

The work of Paul Romer on increasing returns to scale has created strong ferment in development economics, with spillovers into international trade theory and economic geography. The basic thrust is that the capitalist economy exhibits increasing returns to scale in the long run under a regime of imperfect competition. To the neoclassically trained economist, models incorporating these two economic processes together have appeared strikingly original. Romer's work has reopened the inquiry into the sources of economic growth, technological change, and the possibility of multiple equilibria. On the other hand, students of the classics—Smith, Ricardo, and Marx to Marshall, Young, and Schumpeter—ask what is new? After all, many of the original insights into the dynamic processes of the competitive economy had been vindicated by this new body of work.

Enter Paul Krugman. *Development, Geography, and Economic Theory* is a readable, but provocative book consisting of revisions of Krugman's lectures at the Stockholm School of Economics given in 1992. The first two chapters tell simple parables to show how neoclassical theory can contribute to fields of economic development *circa* the 1950's and economic geography—fields long ago abandoned, but newly 'discovered' by neoclassical theory. In the third chapter, Krugman presents an ambivalent defense of the use of mathematical models in economics and argues that these models are reviving these fields within the economics discipline. Although his intended audience is the academician, it behooves the rural development policy analyst to mull over a number of the insights and observations offered by Professor Krugman.

The first chapter, entitled "The Rise and Fall of Development Economics," presents a simple model illustrating how explicitly incorporating economies of scale and imperfect competition can capture the spirit of Rosenstein-Rodan's "Big Push" theory of economic development. Krugman locates the necessary conditions for a high growth equilibrium in the economies of scale at the firm level interacting with elastic supplies of labor and capital. This is followed by a discussion on which of the insights offered by Hirschman, Lewis, Nurkse, and other 'high development' theorists still remain robust.

The second chapter, entitled "Geography Lost and Found," opens with Krugman discussing the five traditions in economic geography. He presents a model that synthesizes the core ideas of central-place theory, localized external economies, market potential, and cumulative causation. Krugman shows how these theories view different aspects of the same thing—a regional economy with increasing returns to scale under a regime of imperfect competition. In addition, Krugman finds that the theory with the longest tradition in economics, von Thünen's theory of place, is the most wanting because it assumes the very thing most important to explain—why there should exist a city in a regional economy. For rural development specialists, the primary implication of this body of work is to shift the research focus from the rural economy *in situ* to its links to the urban economy.

The third chapter, entitled "Models and Metaphors," picks up on observations made in passing in the previous chapters. This chapter appears to be both an apologia for the failure of economic theorists to tackle difficult, but 'sensible' grand ideas, and a call for the central role of mathematical modeling in economics. Krugman argues that he has rehabilitated through his modeling efforts the grand themes of the economics of development and geography. For this reviewer, this perspective is more of a testament to the fact that, for the last 25 years, graduate training in economics has failed to provide a sufficient grounding in the intellectual history of its own discipline.

In this book and elsewhere, Krugman's work on economic geography has generated controversy more for his opinions about the significance of his efforts and about the role of mathematical modeling than for the work itself. Certainly, the policy analyst cannot countenance Krugman's implied argument that the neoclassically-trained economic theorist presumes the right to define the research agenda of the discipline. Nevertheless, Krugman is correct in arguing for the positive role for rigorous modeling in thinking about regional development policy. Models add precision to thinking explicitly about implicit causal mechanisms embedded in policy and help us understand under what conditions a policy yields its intended or perverse results. With the publication of *Development, Geography, and Economic Theory*, Paul Krugman has hung up his shingle and is open for business.

Reviewed by Stephen Vogel, an economist with ERS-FRED.

Multiple Conflicts Over Multiple Uses

Terry L. Anderson (editor). Bozeman, MT: Political Economy Research Center, 1994. 103 pages. ISBN 0-8191-9748-3 (paper) $9.95. To order, call (406) 587-9591.

Few resource policy issues are as complicated or as susceptible to controversy as the Federal Government's role in the use of public and private land. While land use is primarily the responsibility of landowners and State and local governments, the Federal Government typically plays a role in either of two situations: (1) when the use of non-Federal land affects people far away (for example, those living in a floodplain downstream) or resources in which the Nation as a whole is deemed to have an interest (for example, endangered species), or (2) when the land in question is owned by the Federal Government. In both cases the extent of the Federal Government's role is the subject of considerable debate, characterized in recent years by calls for reform of private property rights and "wise use" of Federal lands.

Multiple Conflicts Over Multiple Uses is a collection of five papers addressing the latter issue. Each focuses on a different Federal land resource: recreation, timber, mining, grazing, and energy resources. The papers were commissioned and published by the Political Economy Research Center—a self-described proponent of "free-market environmentalism" located in Bozeman, Montana—with support from the American Forest and Paper Association, the American Farm Bureau Federation, the Independence Mining Company, Inc., and the Newmont Gold Company. As such, it presents one perspective in the ongoing debate over management of Federal lands.

Specifically, the authors argue that incentives matter in determining how Federal land resources are used, and that current management practices create incentives for individuals and corporations to use Federal land resources in ways that are economically inefficient and environmentally damaging. Low entrance fees for national parks, restrictions on the transferability of grazing permits, and requirements that successful bidders on timber sales actually harvest timber are cited as examples of practices that inhibit both efficiency and environmental protection. The authors conclude that management of Federal land resources would be improved if property rights were clarified and made transferable.

Such arguments are familiar to most economists, and similar proposals have been made by various environmental groups. Examples endorsed by the authors as well as by environmental groups include proposals to allow wider competition for grazing permits or timber sales contracts. If rangeland or forest resources are valued for their environmental benefits at a level higher than their value as resources to be consumed or extracted, proponents argue, environmental groups should be permitted—or even required—to bid against ranchers or timber companies for the rights to those resources.

Nevertheless, such arguments are made less compelling in this case by the book's polemic tone—sharper in some chapters than in others—which leaves little doubt as to the authors' preferences. In terms of subsidies, for example, "well-heeled recreationists" are described as "the biggest pigs at the Federal trough."

A more substantive criticism applies to the important issue of how the various rights to Federal land resources should be allocated initially once they are clarified and made transferable. For example, should grazing permits be given to current permit holders? Should they be sold to current permit holders at the capitalized value of the current grazing fee? Or should they be auctioned to the highest bidder? The eventual distribution of such rights—and thus the ultimate economic and environmental outcomes—will depend on alternative users' willingness to pay, and may not depend on how the transferable rights are allocated initially, *as long as markets are made to work efficiently and the costs of achieving such transfers are low*.

Even if this is the case, however, initial distributional considerations are important and are certain to be controversial. This means that the political and bureaucratic costs the authors trace to the existing management practices will not be eliminated, as argued, but simply moved forward to the first stage of the management reform process. On the other hand, if transactions costs remain high, as seems likely given the complex legal and economic nature of the rights involved, the initial distribution of rights will also be important in terms of its ultimate effect on economic and environmental outcomes.

In light of these considerations, readers who are willing to think critically will find interesting arguments in this book against which to compare other perspectives on Federal land management. Those seeking a balanced overview of the complex political, economic, and environmental issues involved will need to look elsewhere.

Reviewed by Keith Wiebe, an economist with ERS-RED.

The Farm Family Business

Ruth Gasson and Andrew Errington. Oxon, UK: Cab International, 1993. 290 pages. IBSN 0-85198-859-8 (paper) $40.50. To order, call Wallingford 0491-832111 or Fax 0491-833508.

No new analysis or material is presented in this book. Rather, the authors have compiled summaries of work done by others to illustrate farm family issues. The book's scope is limited to family farms in the developed countries in the western world. While most examples are drawn from the United Kingdom, work from the United States, Europe, Sweden, Australia, and New Zealand are included. The authors have thoughtfully included an introduction to their book, and well-written introductions and conclusions to each chapter.

What constitutes a farm family business? Developing a working definition is surprisingly difficult. Numerous definitions have been used in farm family studies. The authors examined these definitions then developed their own definition that consists of six components. First, business ownership and managerial control belong in the farm family. Second, farm family members are defined by kinship or marriage. Third, family members provide capital. Fourth, family members contribute to farm work. Fifth, ownership and control are transferred between generations. Finally, the family lives on the farm.

After defining farm family businesses, the authors reviewed studies to determine the importance of farm family businesses. However, the question of importance to whom or what remained unanswered. The authors conclude that farm families are important because farm families operate the majority of farms and they supply farm labor and farm capital. This struck me as a weak conclusion. To examine the importance of farm families one might ask what would happen if the percentage of farms operated by farm families declined? Would agricultural production be more or less efficient or remain the same? Would the environment suffer or improve? Would the allocation of agricultural resources change? How would a change affect rural communities and businesses? I was disappointed that none of these questions were addressed.

In chapter three, the authors introduce a reoccurring theme in their book. The authors assert that farmers lose some independence and control over their farm operations as their level of borrowing increases. Farmers without debt can accept lower rates of return on capital and remain in business. With debt, farmers need to earn sufficient returns to repay interest on borrowed capital while maintaining sufficient returns on their own capital. Increasing debt levels force farmers to focus more on the financial aspects of farming rather than the intrinsic aspects.

The authors argue that advances in farm technology have led to the increased use of borrowed funds. Adopting new technology frequently requires large capital investments financed by borrowed funds. Application of a new farming technology increases profit for those who first embrace it. Farmers who are reluctant to adopt the technology find themselves at a disadvantage with stagnant or falling incomes. Eventually they must start the new technology or leave farming.

The next chapter opens with a discussion on the objectives, goals, and values held by farm families. Not surprisingly, farmers consistently value job independence and love of nature. Operators of small farms place a higher value on independence and working with the land than operators of large farms who value achievement and creativity. Many farm families rank the continuation of the farm business as a major objective. This objective may encourage farmers to borrow funds for farm expansion with the hope that one of their children will inherit a viable farm operation. Again, the authors emphasize that farmers' use of borrowed funds results in some loss of the intrinsic satisfaction of farming. Profit maximization was rarely mentioned as a primary objective of farm families. The authors conclude with a short discussion on the objectives of other farm family members.

The application of labor and managerial skills in farm family businesses is emphasized next. Farm labor demand has seasonal and ad hoc components and varies with the growth and development of farm businesses. Farm families are uniquely suited to meet the labor demands of agricultural production due to the flexible nature of labor they can supply to meet seasonal or emergency needs. The authors recognize that managerial skills are increasingly important to the success of farm businesses. Although farm family members' still supply much of the labor needed for the farm operation, farm businesses are increasingly using contractors, accountants, consultants, and hired labor. This rise in the use of nonfamily labor occurs because farm family members do not possess all the specialized skills to manage a viable farm operation today. The authors continue with other interesting topics related to labor use in farm family businesses.

The authors explore the implications of marriage and the spouses' roles in farm family businesses. Farmers are increasingly marrying spouses with nonfarm backgrounds. This may have serious implications for farm businesses and farm families. Usually on large farms, where the bulk of the net income is generated through farming, both the husband and wife had parents who farmed. Presumably, both husband and wife received some farm assets from their parents through gifts, inheritance, succession, or other means. When a farmer marries a nonfarm spouse, the farmer's parents are reluctant to accept the nonfarm spouse as a partner in the farming business because they fear that the marriage may not last and any farm assets given to the farming couple may be lost in a divorce settlement. Spouses with nonfarm backgrounds frequently lack farm experience and knowledge; however, they may bring specialized skills that can be applied to farming businesses.

In the next two chapters the authors review the patterns and processes of succession, retirement, and inheritance. The authors emphasize that the goals held by farm families have important consequences for future of farm families and farm businesses. Some farm families feel it is important for one of their children to farm the land that has been in their family for years. This goal places constraints on the farm family business. Other farm families wish to retain the farm family business but they are not tied to a particular piece of farmland. This goal places fewer constraints on the farm business and farm family.

The authors outline the series of progressive steps taken by farm successors as they assume control of farm family businesses. The control and transfer of farm assets create stress and tension between generations in a farm family since the older generation has different goals than the younger generation. Farm families have dealt with this conflict in various ways. The authors note that there is some agreement that the most successful transitions between generations occur through a planned process of transferring managerial responsibilities over a long period.

The future of farm family businesses is explored in the final chapter. Farm family businesses will remain. They can survive recessions since they can accept lower rates of return on family labor and capital in exchange for nonfinancial compensation. In contrast, nonfamily farm businesses must focus on financial aspects to remain in business. Some farm family businesses are likely to evolve into partnerships and vertically integrated businesses, while others will slowly exit farming due to a lack of a successor or lack of sufficient net income. Many farm families will remain in farming but depend on off-farm income sources.

Anyone interested in the dynamics of farm family businesses will benefit from reading this book. The authors are comprehensive in their treatment of each topic and include statistics, tables, graphs, and boxed material. One downside to the book is the authors' wordiness. The authors provide references and an index.

Reviewed by Linda F. Foreman, an agricultural economist with ERS-RED.