

**Food Prices Booming, So Why Are Farm Values Sinking?**

July 22, 2011

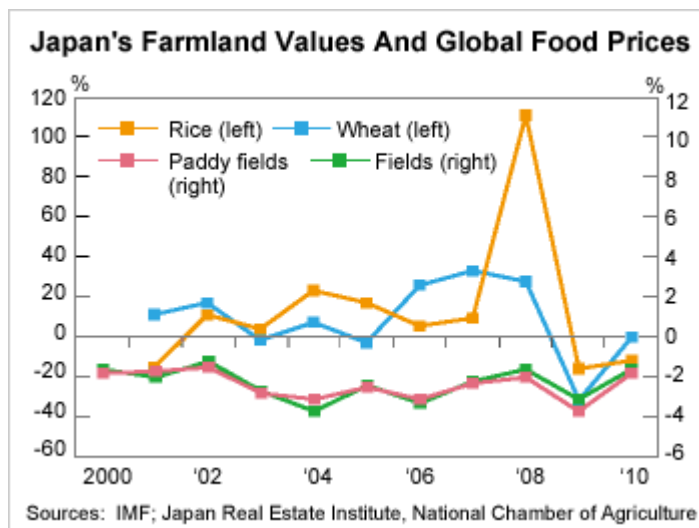
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Japanese farmland values have tracked in only one direction over the past decade, down, regardless of whether global food prices have risen or fallen. Even when global prices of rice and wheat have followed opposite trajectories, the values of the Japanese farmland on which they are grown have remained in perfect sync.

In principle, farmland values reflect the profitability or productivity of the land. By this logic, the recent surge in food prices should be sending prices of Japanese farmland higher. So why is this not happening?

The explanation lies in the fact that Japanese farmers have no real incentive to increase productivity. One reason for this is that Japanese farmland values are determined by residential land prices, not by productivity, so the impact of high food prices on land values is extremely limited.

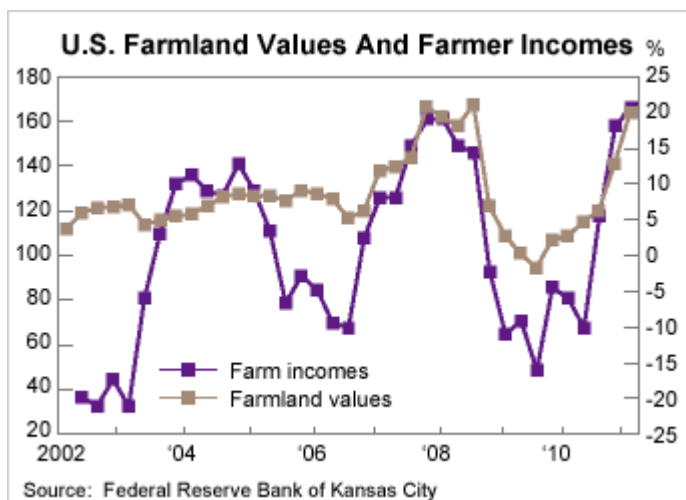


**Carrots galore**

Unlike in Japan, the surge in food prices is clearly benefiting food producers in the U.S. While it is true that the commodity price boom is pushing up the cost of fuel and fertilizer, rising grain and cattle prices, as well as expansionary monetary policies, are boosting land values, which is having a positive effect on American farmers' incomes and their ability to pay off their debts.

A recent survey on agricultural credit conditions by the Federal Reserve Bank of Kansas City shows an uptrend in farmland values and farm incomes. The

Kansas City Fed concluded that robust farm incomes have led to a swift uptick in farmland values. Even as residential land prices in the U.S. are tanking, farmland prices and rents, even for non-irrigated land, are skyrocketing.



Which system is better for farmers, one with a high correlation between farmland values and food prices, or one with little to none? Viewed from the supply side, high prices benefit net producers of foods and signal a need for increased production and investment, while low or volatile prices pose significant problems for farmers who are locked into strategies that assume prices will increase.

In the U.S., food producers enjoy high profits when demand for food is strong. As high food prices help lift farm incomes and farmland values there, farmers have strong incentive to increase productivity through greater investment.

In Japan, in contrast, farmers have not had to give serious consideration to how much they will invest in machinery and new technologies, because the wholesale prices at which the government purchases rice are guaranteed. This has helped narrow the income gap between urban and rural households. In this sense, both systems have their advantages and disadvantages.

### Need for incentives

Japan needs to give farmers an incentive to raise productivity and accelerate innovation.

If the global food price boom is not incentive enough for Japanese farmers to increase productivity, how, then, will they be able to compete with food-exporting countries in the long run, not to mention on a near-term basis? With international food prices closer than ever to Japanese prices, removing trade barriers and connecting to the global market would be less harmful.

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Considering Japan's huge budget deficit, heavy subsidies for farmers are no longer sustainable.

In the near term, however, the government needs to provide support for farmers hurt by the Fukushima nuclear crisis. Unfounded rumors about food safety triggered by the accident caused consumers and retailers to think twice about buying agricultural goods produced near the crippled reactor.

But on a longer timescale, Japan has to embrace alternative plans, given that the average age of the country's farmers is about 65. One option that cannot be ignored is opening the sector up to the world.

### **Time to talk trade**

It is crucial that Japan openly discuss and make decisions on whether to join the Trans-Pacific Partnership trade alliance or to forge a China-Japan-Korea free trade agreement. Entry into these pacts would provide the agricultural sector strong incentive for increasing productivity and promoting innovation.

Of course, free trade is not always beneficial for the agricultural sector. But the farm industry needs to acknowledge that such alliances offer some advantages and, with that thought in mind, adopt new strategic plans as soon as possible.

Failure to act will virtually guarantee that the country's farmland values will continue to sink.

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