

Agriculture by Susan B. Cohen

Pension funds making a land grab?

Investors claim it's productive; farmers fear a speculative price run-up in farmland.

Several years ago the Continental Bank of Illinois launched a bold new program for pooled funds investment in American farmland that set off a firestorm of opposition among farm groups, inspiring congressional investigations and the intervention of Secretary Bergland. The Ag-Land Trust had already received IRS approval for its activities when Continental management decided the political heat was too costly and quietly buried the entire venture.

Today Continental is watching with interest as a new venture in pension-fund investment in farmland gets off the ground. The American Agricultural Investment Management Company, based in a North Shore suburb of Chicago, is well on its way, according to its president, William Cotter, who has taken the offensive in the press and public forums in behalf of his controversial investment strategy.

Cotter has labeled his opponents the "Jane Fondas of agriculture," and insists that the so-called family farm is not being destroyed but has rather been "transmuted," largely by the advance of technology, since the Civil War, and that this process has involved the use of greater and greater amounts of capital. Cotter cites United Nations statistics showing a doubling or more of world food needs by the year 2000. If it takes \$157 billion in debt to produce the current output,

reason Cotter and the American Bankers Association, then it will take about three times that, or \$500 billion, to meet production demand in 2000.

That, according to Cotter, is where the particular needs of the nearly \$600 billion in pension funds comes in. They will supply the capital that is not internally generated or otherwise readily available to farm producers, because the funds are looking for a long-term, stable investment.

Furthermore, says Cotter, since pension funds are interested in long-term appreciation of land values, or capital gains, and since that depends on the quality and productivity of the farm, the funds will not stint on investments in land development and soil management. Cotter maintains it is for that very reason that AAIMC does not do any cash leasing, but rather share-leasing, where the tenant farmer is "a partner."

Cotter insists that this also provides a means of entry into farming for many young farmers.

It is well known that with farm returns at about 3 to 5 percent and mortgage rates at 12 percent or more, that an owner-operator is losing 8 percent a year on his purchase of farmland, or, say \$8,000 a year on a \$100,000 investment, until returns rise. He may have to wait as long as 8 or 10 years. In fact, by some estimates, as much as one-

third of American farmland is already owned by nonfarmers (these are principally retired farmers, rural residents, and estates) and often rented by practicing farmers to augment the acreage they own. It is common practice for owners of large land holdings to rent out hundreds of thousands of acres for cultivation, to spread out production costs and take advantage of economies of scale.

Yet every major farm organization has raised its voice in opposition to the type of pension-fund investment Cotter is promoting. National Grange Master Edward Andersen blasted the AAIMC at the Grange's annual meeting in Cedar Rapids several weeks ago, charging that such use of pension funds would drive the price of farmland so high that farmers couldn't afford to buy it. In an official statement Nov. 21, the American Agriculture Movement stated its opposition to the plan.

The National Farmers Union (NFU) argues that the sheer volume of capital the pension funds wield gives them the ability to remove the farmland market entirely from farm and rural residents who would be compelled to make a living off the land they bid for. Attributing the shortage of capital in the farm sector to the Federal Reserve Board's high interest-rate policy and the fact that "from time to time" farm prices and incomes are so low it is difficult to borrow capital, NFU spokesman Alan Burke told the *Chicago Tribune* on Nov. 16 that the pension funds could "create a whole new generation of sharecroppers." Even the staid American Farm Bureau Federation has come out editorially against the scheme.