THE REALITIES OF AGRICULTURAL POLICY—A PRODUCER PERSPECTIVE

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Introduction

I want to address some of the realities of agricultural policy from my perspective as a diversified grain and livestock farmer, as well as from the National Farmers Organization's perspective. The National Farmers Organization represents independent producers nationwide in negotiating contracts and other terms of trade for grain, livestock and dairy. We are in the marketplace doing so on a daily basis. The specific purpose is to help independent producers extract the dollars they need to cashflow their operations, pay their expenses and earn a living from what they produce and sell.

My definition of an independent producer is one who, with his or her family, resides on their farm, provides day-to-day management, makes the decisions, controls the marketing of the production, whose capital is at risk, and who owns or wants to own that business.

"Who Will Control Agriculture?"

The choice of who will produce our food and fiber is coming down to the independent producers I described above or the industrialized vertically-integrated model. The broiler industry is one of the first examples. Current trends in hogs and cattle are the latest examples. There are signs of similar trends emerging in the dairy and grain industries.

In 1962, the Committee for Economic Development (CED), made up of prominent economists and business leaders, suggested a program to "permit and induce a large, rapid movement of resources, notably labor out of agriculture" (p. 25). A 1972 report by USDA executives cited the need to reduce labor inputs in agriculture even to the extent of not providing "employment opportunities sufficient to preserve the Nation's rural towns and communities" (U.S. House of Representatives, p. H5907).

In the 1970s, authors of the *Who Will Control Agriculture?* series warned that "...today the corporations themselves, and growing numbers of integrated or displaced farmers know that corporations can succeed in various parts of both field crop and livestock production" (University of Illinois, p. 1).

Economists and others seem to be good on predictions and short on solutions other than following the trends. We find ourselves at the crossroads of choice on land and production ownership; what we want for our rural communities, schools, churches and businesses; the environment and consumer choice.

For over a century United States' farm policy has not been based on the reality of what is actually taking place both in agriculture and within the national economy. Rather, it is based on self-serving, contorted explanations of reality by various policy planners and implementers who have represented the concerns of an ever-narrowing community of economic interests.

What Hath Economic Policy Wrought And Do We Really Want It?

One of the hallmarks of U.S. agriculture over time has been diversification. Farmers had a variety of livestock and crops over which to spread their risk. Current trends in agriculture are away from diversification and emphasis on specialization and efficiency. We see declining farm numbers, increasing farm size and specialization. A result is farmers' increased risk and subjection to increased market volatility. More and more eggs are in one basket.

An example is U.S. coarse grain reserves have trended towards their lowest level in history in recent years. Not only has this brought risk to farmers, but it could also severely affect global markets and the U.S. role as a stable supplier of the world's grain (Raup, p. 17). One has to ask whether this is good policy.

A second question arises from the term farmers hear used over and over again by economists: "efficiency." Specifically, what constitutes efficiency? In agriculture, productive efficiency is the one most often used as the benchmark at the farm level. A very simplistic definition is input per unit of output. I am not implying that productive efficiency is not important; it is. But, I also believe it is only part of the total equation and I am not alone in this line of thinking. Marty Strange, formerly with the Center for Rural Affairs, in a discussion of efficiency, notes that "Our habit of measuring farm size by volume of output is largely analytical convenience" (Strange, p. 99). Paul Thompson, formerly Texas A&M Center for Biotechnology Policy director and now at Purdue University, aptly points out in making a case against efficiency as a measure that, "The point here is that though efficiency is a viable norm, it may not be particularly applicable to an ethical evaluation of the more contentious issues in agriculture and environmental policy" (Thompson, p. 110). What society and farmers want for agriculture may not fit the economic definitions and framework economists use for analysis.

What we find ourselves measuring with declining farm numbers is farm units dividing roughly the same amount of income dollars among fewer units, not increased income to agriculture as a whole. Dr. Stewart Smith, Joint Economic Committee of the U.S. Congress' senior economist, points out that, "In real terms from 1910 to 1990, the value of the marketing sector grew from $34.5 to $216.3 billion, the input sector from $12.6 billion to $57.9 billion, while the farm sector shrank from $24.2 billion to $22.6 billion. The absolute values of the market sector and the input sector increased 627 percent and 460 percent respectively, while the value of the farm sector declined over the same time period. The industrial component of that system reaped the benefits of the increased growth in the agricultural system at the expense of the farmer" (Smith, p. 3). I see nothing in the current movement towards industrialization that would alter the direction of these trends unless fundamental changes are made in the way we think about agriculture. Today, the purchasing power of the prices received for many farm commodities is what it was 25 to 30 years ago. The bottom line is that even with increased farm size, which farmers interpret to equate with efficiency, they are no better off than they were and, in some cases, are worse off than two decades ago.

Markets

The traditional economic model used to analyze agriculture is the purely competitive model. The model characteristics include: many buyers and sellers, homogeneous products, no entry or exit barriers, no economic profits in the long run, diffused market power and no control over price. Some of these characteristics fit the farm side of the equation, but certainly not the markets farmers sell into. The traditional model allows for producer access to markets that are open, competitive and fair.

Farmers are asking some serious questions about what is open, competitive and fair. What is the correct price and who determines the price? I have found few instances when people or entities have the ability to dictate terms of trade including prices that they do not take full advantage of the opportunity to do so. The concentration of agricultural markets is in the hands of three or four buyers in most major commodities, ranging from 46 percent in broilers to over 72 percent in meat packing (Heffernan). It is hard to believe that price determination even resembles the competitive economic model.

At the same time, farmers face increasing price volatility at the whims of these firms. For instance, the recent recall of over 25 million pounds of hamburger by Hudson Foods should have shorted the availability in the market. Markets could have reacted favorably by rising. Instead, the market prices on livestock offered to farmers fell across the board out of fears over decreased demand. On a cull cow, prices dropped a minimum of $5 per cwt., or roughly $25-30 per head, strictly through what appears to be company mismanagement. Hudson Foods did not even directly buy livestock from farmers. The end result was an average loss per animal of $25-30 per head on 22,000-25,000 head of cull cows marketed per day, or $625,000 per day to producers nationwide (Graf).

In some agricultural sectors, markets are foreclosed to independent producers and are becoming totally integrated. Today, very few broiler producers have control over much of the decision making on their farms. Options and independent decision making available to hog producers and cattle feeders are dwindling as the industrialization process continues, and as packers pursue their own captive supplies.

All this leads to increased risk and market volatility to which independent producers are subjected. How does the independent operator survive today? He or she is told that to survive, he or she must acquire a greater number of sows, cows or so many more acres of land and the corresponding debt that goes with it. In addition to that, today's buyers want quality, quantity and consistency which is beyond the reach of most independent producers.

Producers can help solve some of these demands simply by pooling their production together with a nationwide agricultural organization that will market their production for them, and securing greater market access and more competitive pricing than they can achieve individually. If they make use of this kind of mutual marketing, they can extract the dollars they need to cash flow their operations without assuming the debt load they would have operating on their own.

There are some risk management tools available. The National Farmers Organization works with its producer-members to utilize them. However, they will not entirely compensate for the full risk and market volatility or all the production costs they incur.

Economics has long touted the consumer as being supreme in feeding back through the system exactly what his or her wants and needs are. Supposedly, the system will respond to meeting those needs. What consumers ultimately get to buy is far removed from what leaves the farm gate and, in many cases, the price at the farm gate has little bearing on what consumers pay. A recent example of this is the Northeast Dairy Compact. Our members and other farmers had a good reminder of this. Before the Compact was even implemented, grocery stores raised the price of milk to consumers 20 cents per gallon.

With such concentration, not only is the farmer deprived of available competitive markets where commodities can be sold at competitive prices, but consumers are likewise forced to pay an increasingly quantitative and qualitative price for their food.

A.V. Krebs, Corporate Agribusiness Research Project director, cited the following incident that makes the point: "In southern California for example, the supermarket industry is dominated by three chains; Safeway Stores which recently bought up a remaining financial interest in Vons, Ralphs and Lucky Stores. In May of this year, Consumers Union surveyed 77 of these food markets in Los Angeles and Orange counties and found that specific gouging by supermarket chain retailers continues to be a primary cause of high milk prices in the area. The latest survey of

Louisiana milk prices showed an enormous range of prices Louisiana consumers pay for a gallon of milk. Prices varied from $2.19 per gallon at the low end to $3.39 per gallon at the high end, a difference of $1.80 (or 82 percent) per gallon.

"Large supermarket chains in the Los Angeles area continue to charge among the highest prices in the area—as much as $1.80 more for a gallon of milk than the local mom and pop grocers," Elisa Odabashian, Policy Analyst for Consumers Union and the author of the report, pointed out. Consumers Union, publisher of *Consumer Reports*, is an independent nonprofit testing and information organization serving only the consumer (Krebs).

"There is little competition on milk between the big chains, as evidenced through the lack of advertising and price-cutting....Milk retailers know that there is no reasonable-priced nutritional alternative to milk, particularly for the healthy growth of children, and that consumers will continue to buy it at almost any cost," Odagashian said.

Supermarkets move a great volume of milk and most of them process the milk themselves, driving down their costs considerably. The fact that supermarkets are charging so much more for a gallon of milk than many smaller markets runs counter to economic sense, and certainly to what most consumers expect. Retailers are taking advantage of consumers need for milk (Krebs)."

What is the Industrial Agricultural Model Record to Date?

Few people would argue the success of American agriculture. A long-standing policy is to provide consumers with an abundant supply of cheap food. Up until recently, independent producers have been the bulwark of that success. Now, that is being challenged by the industrialization process. We have to take the discussion of industrialized agriculture versus independent producers to a new level. It is not simply a matter of what is the trend, but what do we really want our agriculture to look like?

The industrial model's serious flaws are beginning to show. Independent producers have a positive impact on local communities in job creation, support of local business and the local tax base and family involvement in schools and the community.

The Kansas City Federal Reserve Bank report on the rural heartland uses the term "consolidation" to address the effects of industrialized agriculture. This type of agriculture purchases more inputs from nonlocal sources, and more of the profits from agricultural endeavors go to nonlocal owners of the firm. The report's authors are not overly optimistic about the prospects for good-paying professional jobs to replace what proprietary agriculture once supported. One of the report's authors, Glen Pulver, notes that, "The notion that market efficiency should be the primary goal of rural policy is now more frequently challenged. Issues such as equity, environment, ethics and esthetics have surfaced as important justifications for intervention" (Federal Reserve Bank, p. 111).

Independent farm operators do not have an unblemished record when it comes to how they farm and the environment. They do stand in stark contrast to large industrialized units where manure spills, ground water contamination, odor problems, the amount of water pumped from aquifers, lawsuits and tens of thousands of dollars in fines seem to be a common occurrence. There have been some skirmishes between independent operators and local citizens over farming practices, but they are minute compared to what is happening now. All-out war is breaking out in any number of states over local citizens' right to control what goes on in their backyard through zoning versus pre-emption by state governments. Bulldozing through the "right to farm" over local citizens' concerns will not be good for agriculture in the long run.

Corporate industrialized farms have tried to gain competitive advantage by seeking tax incentives and other favors from local units of government to locate in a particular area. In one such case, financial difficulties and eventual reorganization under bankruptcy laws resulted in company officials seeking reduced interest rates on overdue taxes. The company operated at a loss continuously from 1991 to 1995, amassing total losses in 1995 alone of $71.1 million for nine months of operation. This was on top of $471 million in debts. What independent operator could do this and where does this enter into the efficiency equation (Center for Rural Affairs)?

Throughout rural America today, people, communities and farmers are being pitted against each other in a no-win situation. Between 1994 and the year 2005, the occupation with the highest job loss of 273,000 jobs is projected to be farming. Some of the fastest job growth is projected for cashiers, janitors, cleaners and guards (Saltzman). Michael Martin, University of Minnesota College of Agriculture, Food, and Environmental Sciences dean, noted recently that, "A complex set of social and demographic factors have given rise to a very steep decline in the number of young people entering the work force with "farm backgrounds." He cites the single most binding constraint to genuine progress will be a shortage of well-educated, adaptable professional managers (Martin, p. 20). What the research does not tell us is how many of the jobs related to agriculture will replace independent farm operators with a few "professional managers" and workers who sit up with the corporate cow or sow at bottom scale wages and few, if any, benefits?

The Role of Policy Makers and Extension

For some reason, discussion by policy makers, extensionists and others seems to center on issues that divert farmers' attention away from the real problems at hand. A natural is what free trade will offer U.S. farmers in the way of hope for more income. First, there was the advent of the General Agreement on Tariffs and Trade

(GATT). Then, there was the North American Free Trade Agreement (NAFTA). The benefits seem pretty slow in trickling down to farmers in the way of improved income.

The USDA recently reported the positive impact of NAFTA on U.S. agriculture. The report concluded NAFTA was a continuing success due to increased exports to both Canada and Mexico (U.S. Department of Agriculture). The report's shortcoming is that it only focuses on the dollar value of exports and not on loss of jobs, wages, the trade deficit, environmental laws and the peso crisis (Economic Policy Institute).

Let me illustrate my point. While many economists discuss trade in terms of being free from regulations and rules, in reality this could not be further from the truth. GATT is over 22,000 pages of rules governing trade. NAFTA follows a similar pattern.

What we see is farmers in one country played against farmers in another; namely U.S. farmers against farmers in Mexico or Canada. In 1996, while farmers in the United States—including myself—were taking one of the worst price beatings in history on cattle, a record 1.6 million head of Mexican feeder cattle came into this country. Our members in Green Bay, Wisconsin see truckload after truckload of Manitoba and Alberta cattle coming in for slaughter. From our contacts in Canada, those same processed cattle go back to Ontario to be sold there. Canadian cattle prices closely follow the U.S. market. U.S. and Canadian farmers were suffering under low prices. The only added value accrued to meat packers and retailers, showing that U.S. exports to Canada were up under NAFTA.

U.S. farmers are forced to compete with production, particularly from Mexico, that is produced without supporting the health and social systems that farmers in this country do. Without supporting education systems, most people in Mexico do not have to deal with child labor laws or minimum wage laws, and they do not have to deal with the same pesticide and herbicide regulations that U.S. farmers do. Yet, we are told we must compete with that production as it comes into this country.

In 1988, the National Farmers Organization and the National Farmers Union jointly commissioned a study, *The Economic Structure of Agriculture: Rhetoric Versus Reality*. The authors of that study, Daryll E. Ray and James S. Plaxico, Oklahoma State University professor and professor emeritus of agricultural economics, respectively, noted that, "based on the evidence to date, it appears that U.S. agricultural export volumes are at best very loosely related to U.S. prices. Thus it appears unlikely that, at least over the short run, aggressive pricing of export commodities will materially affect the volume of U.S. exports" (Ray and Plaxico, p. 25).

The National Farmers Organization is not opposed to trade as long as it is fair trade. We define fair trade as parties on both sides negotiating on equal terms and abiding by the same rules for production, health, the environment and other laws.

However, U.S. farmers should not hold their breath waiting for international trade to solve their problems. In all the discussion that surrounds this issue, the reality of what is happening out on farms across our country gets lost in the shuffle.

Access to Capital and the Role of Debt

Access to capital and the debt carried by independent operators as a substitute for adequate cashflow is an important factor in determining the future direction of U.S. agriculture. The industrialized sector uses stockholder and other risk capital which independent producers usually do not have access to, or choose not to use. What is hastening the industrialization process and trends towards captive supply is industrial agriculture's willingness to entice independent producers to access these capital sources. In return, many producers give up production and marketing decisions under contracts, while continuing to bear much of the risk. This whole scenario leads to the question of the future of new entrants into farming and how will they access capital.

The Future of University Extensionists and Researchers in the Industrial Model

Dr. Oran Hesterman of the W. K. Kellogg Foundation made a point at the 1996 American Society of Agronomy meetings. He noted that farmers possess considerable expertise already and farmers do not turn to extension as their primary source of information (Bird).

A 15-state Cooperative Extension poll showed that 69 percent of farmers agree that research and extension should address concerns of small- and medium-size farms. Many feel this is not happening. In September 1996, the National Farmers Organization, along with the National Farmers Union, the Center for Rural Affairs, the National Family Farm Coalition and the Sustainable Agriculture Coalition, advised Secretary of Agriculture Glickman that research and extension programs "must provide efficient and effective alternatives to the industrialization of agriculture." We pointed out that agricultural concentration, declining rates of farm entry, an aging farm population and low quality non-farm employment are tearing at the fabric of rural communities (National Farmers Organization, p. 1).

University extensionists and researchers face dwindling budgets and increased criticism. One example is an article in a statewide Wisconsin farm magazine. The article points to a range of problems from Extension's production of outdated agricultural information to actually accelerating the spread of industrial farming (Gutknecht).

As an independent producer, I think it is time for a new look at the future direction of agriculture. Researchers, extensionists and other professionals have a lot to offer to the debate and future direction if they will take heed. All of us need to discuss what we really want for agriculture and our food system. But, we should not just stop with discussion—we must act.

Let's Start Getting It Right

Dr. Harold Breimyer, University of Missouri Extension economist emeritus, recently wrote, "Proprietary farmers are being displaced for one reason above all others: they do not fit into the corporate business pattern that is taking over an ever larger part of the U.S. economy."

He went on to note that we are drifting into what amounts to a reversion, a throwback, to the feudalism from which our European ancestors escaped to the "Colonies." Europe's feudalism was agrarian; that which is now emerging is industrial (Breimyer, p. 2). I agree.

Dr. Breimyer's colleague, University of Missouri economist, John Ikerd, asked the question, "Why should we stop promoting the industrial paradigm of farming? Because there is growing evidence it is obsolete and may well be doing more harm than good." He also wrote, "...Finally, universities need to stop because it fundamentally detracts from their fundamental purpose as an academic institution. That purpose is to build the productive capacity of people—to promote the public good by empowering people to be productive in the post-industrial century of human progress." Ikerd anticipated a response from the academic community that they do not promote industrialization or any other model. His self-critical answer was "But we do. The agricultural establishment, including agricultural colleges, may not intentionally promote industrialization, but it is none the less promoted by their attitudes and actions" (Ikerd, p. 50-52).

Ray and Plaxico cited four points in their study on the objectives of commodity programs as identified by Luther Tweeten. Even though the commodity programs have drastically changed since then, the points made are still valid in discussion of the future direction of agriculture. They are:

- Parity of earning power of farm with nonfarm income.
- Economic vitality of the farming industry to provide adequate supplies of quality food at reasonable cost for domestic and export needs.
- Preservation of the environment.
- Maintenance of the family farm structure (Ray and Plaxico, p. 34-35).

I would add a fifth point—rigorous enforcement of antitrust laws that are already on the books and authority granted for their use.

The challenge is for independent operators to be able to extract the dollars they need to cashflow their operations, pay the mortgage, buy health insurance and support their families in rural communities that have served us well. We need to look at ways to move the next generation of farmers into an agriculture that has afforded people like myself an opportunity to be independent operators with the freedom to make economic decisions unencumbered by the shadows and tentacles of corporate industrialized agriculture.

Dr. Breimyer summed up his argument for traditional proprietary agriculture as a question. He said "In the business structure now emerging we will still be well fed. But in the dispossession—the lowering of status—of our highly educated cadre of responsible farmers, and in being enveloped in corporate bureaucracy, what is gained?" (Breimyer, p. 2). We all bear that responsibility, and independent farm operators nationwide who are National Farmers Organization members take it very seriously. That is what we are all about.

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