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WHO WILL CONTROL AGRICULTURE?

Presented before 22nd. National Ag. &
Rural Affairs Conference
J. Carroll Bottum, Professor-Emeritus
Purdue University
December 12, 1973



DEPARTMENT OF AGRICULTURAL ECONOMICS

Purdue University

Lafayette, Indiana

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Agricultural bankers who are interested in rural development have a real stake in the structure of agriculture, or who is going to make the decisions in agricultural production and marketing. If the decisions are made by centralized organizations then both the present rural leadership and credit structure will be materially modified.

Probably in agriculture the most important issue in the decade ahead is who will control agriculture. Who will make the production and marketing decisions? An analysis of the data indicates that while, for the major farm commodities, the individual commercial farmer is competitive in farm production, the changes which have taken place on the input side of farming and on the marketing side as well have put many economic pressures on the independent farmer today.

When this country was founded, there was much debate whether the land was to be distributed in large blocks to corporations and plantations or to family farmers. Those who favored the family farm land pattern won out. The government supplemented this pattern of farming by the Homestead Acts, the establishment of the Land-Grant Colleges and much other legislation.

The march of technology has brought this question before us again. I believe as Kenneth Boulding has said, "That once man has worshiped at the tree of knowledge there is no going back." We must learn to ride the new technology. It does not mean, though, that we have to be entirely victims of it in our economic and social structure. Man can shape his social and governmental destiny now just as he did in the founding days of this nation.

Present Situation

According to the 1970 census we have about 2 3/4 million farms, with about one million of them producing 90 percent of the agricultural sales. Ninety-eight and two-tenths percent of them are organized as individual, family or partnership units. Corporations including family owned and others make up the remaining 1.8 percent.

A U.S.D.A. study shows that 22 percent of total farm output in 1970 was marketed under production contracts or vertical integration. This percentage is increased some by the inclusion of fluid milk marketed through cooperatives as production contracts.

Forward contracting and integration as estimated by the U.S.D.A. increased at a modest rate between 1960 and 1970. Among the significant gainers in the proportion of total output produced under the control of some form of contracting or vertical integration between 1960 and 1970 were fed cattle up from 13 to 22 percent; eggs up from 15 to 40 percent; turkeys up from 34 to 56 percent; and vegetables for processing up from 75 to 95 percent. Ninety-eight percent of the broilers were already produced under contracting or integration in 1960. At the other extreme, less than 1 percent of feed grains and only 2.5 percent of food grains were produced under contracts or integration in 1970.

Concentration of control in food manufacturing and distribution is substantial and a rapid decline in plant numbers has occurred. The number of food manufacturing plants dropped from 42,000 in the early 1950's to less than 27,000 now. Four out of five firms in the supermarket industry acquired their own central warehouses or affiliated with a retailer-owned co-op or wholesale sponsored voluntary chain.

Terminals and market mechanisms of open offer and sale have basically gone as a major force in many areas.

- a) We don't even report a live quotation for broilers any more.
- b) The egg industry has been exploring for years how to substitute for lack of real exchange markets.
- c) Chicago Market - center and grand-daddy of livestock is gone.
- d) Contracting and pre-arranged sales have increased in almost all areas.

Concerns of Various Groups

Concerns about the future organization and control of agriculture are numerous and varied. Traditional farmers themselves have a major concern that farming is becoming a large-scale business and that smaller producers are being squeezed out. Another concern is that interests outside of agriculture, particularly large corporations, will take over farming. Some farmers feel that outside investors, including corporations and wealthy individuals, are using tax shelters and other investment incentives to compete unfairly with family-scale farmers. They also feel that firms in the farm supply and marketing sectors will, through production contracting and vertical integration, reduce the decision making freedom of farmers, relegate their role to that of hired workers and restrict their earnings.

Many nonfarmer residents of rural communities are concerned that any takeover of farming by large-scale production units will result in the squeezing out of small farmers and small farm supply and marketing businesses. They also feel that large corporations will be less inclined to support high quality public services such as schools, health care services, roads and recreational facilities.

Concerns of the general public, including consumers and taxpayers, center on at least four broad issues: (1) they want dependable supplies of low cost and high quality food; (2) they want to curtail agricultural practices which adversely affect environmental quality and the availability of open spaces; (3) they want tax costs of any policy to be in line with the benefits realized; (4) they want a fair share of the benefits of farm programs to accrue to smaller (as contrasted to large-scale) producers. Though some think that large-scale farming will be low cost and efficient, others think big farm corporations will try to gain monopoly controls and raise food prices.

A different type of concern is the one of some individuals, firms and corporations, including a number of agribusiness firms and many farmers, who see their increased control over some facets of agriculture as a necessary condition for the continued growth and profitability of their operations. In fact, a high proportion of today's large-scale farmers and agribusiness firms became large by the growth process of adding more land and/or other capacity to their previously moderate sized units.

The Choices

In broad prospective we have five choices. In details we could have many modifications of each choice. To keep the ideas manageable we shall speak of the five broad choices. Each would require emphasis on certain types of legislation.

The choices are: an independent farmer-open market system, a corporate system, a cooperative system, a government system, and a combination in which all of the four were kept viable.

Under the independent-open market system, open markets would be maintained even if they required government sanction. Only if the farmer can freely buy the supplies he needs and sell the products he produces can he be said to be a part of an independent-open market system. If the family farm is to be maintained it means tilting legislation in favor of the family farm.

Under the corporate system, we would move towards a system where farming would be conducted through large production plants or feedlots and by tight production contracts with individual producers as now occurs in broilers and some specialty crops.

Under a cooperative system, all or nearly all commercial producers would be members of a cooperative. It would have the power to limit output. With this, alternative bargaining would be particularly important. The present AMPI might be an example of this approach.

Under a government system, the functions of marketing to first point of sale might be conducted by government. The government really performs in three roles: (1) it sets the rules for all groups in marketing, (2) it may supplement the other three approaches, or (3) it may itself perform the actual functions of marketing.

Under a combination it is assumed that all three systems, the independent farmer-open market, the corporation, and the cooperative would be kept viable with the government programs supplementing them.

Probably at this point in time many people would opt for a program where government served as a supplement for the other three choices, allowing corporations to operate when they fit best and then putting the emphasis

on the independent farmer-open market or cooperative approaches. This would involve legislation to strengthen both the open-market and voluntary cooperatives.

Policies to Strengthen Open-Market
and Cooperative Systems

Policies to strengthen the independent farm and cooperatives might include:

- 1) Legislation requiring processors of certain size to purchase a given proportion of their products in an auction type market.

Let me be specific at this point. Suppose we had legislation which required all packers who slaughter more than half a million hogs annually to purchase 50 percent of them at an auction market. Tele-auctions could be set up by cooperatives so that the hogs need not physically move to the central market such as the U.S.D.A. study by Armstrong and others have proposed. If such legislation prevailed, central markets would be set up by private enterprises if the cooperative did not.

My experience in the public policy area would lead me to believe that setting up such markets for a major part of the supply would be more acceptable and as effective as trying to force all hogs through one system. If hogs were sold on grade and yield, the inspection would be more manageable if confined to the larger packers. Other livestock could be handled in a similar manner.

- 2) A more adequate price reporting system.
- 3) More emphasis on the antitrust area.
- 4) Maintaining access to the central money markets on a competitive basis.
- 5) A strong research and educational program which prevents any group getting a monopoly on knowledge.

- 6) End volume discounts on farm supplies to large buyers when such discounts are not warranted by actual savings in handling costs.
- 7) Eliminate all tax advantages to nonfarm investors, to large-scale land owners, and to agri-business integrators.
- 8) Adapting environmental and pollution regulations to recognize varying characteristics of different size farms.
- 9) Adjusting Federal farm program provisions to benefit independent family farms.
- 10) The establishment of organizations to serve the interests of U.S. producers more directly involved in foreign markets.
- 11) Improving the effectiveness of voluntary farm cooperatives where they are necessary to maintain the competitiveness of the independent farm.
- 12) To absolutely assure dispersed farming policies: (a) Prohibit agribusiness corporations from engaging in agricultural production. This does not apply to the family farm that is incorporated, but it does exclude the conglomerate or contractually integrated operation that has farming as one of its activities. (b) Put limits on amount and terms of land ownership by nonfarmers.

Policies to Strengthen Corporate System

- 1) Do nothing to modify the present economic climate.
- 2) Weaken some of the previously mentioned factors that are necessary to maintain the independent farm system.

Policies to Strengthen the Cooperative System

- 1) Pass legislation that requires the independent producer to market through a cooperative.
- 2) Give cooperatives the power to limit output.

Policies to Strengthen the Governmental System

- 1) Pass legislation which gives to agencies of government the power to control output and market agricultural products at first point of sale.

Policies to Strengthen the Combination System

- 1) Under the combination we would need to do some of the things previously listed to strengthen the independent farm.
- 2) Probably some limitations would need to be placed on the agribusiness activities and compulsory participation in cooperatives would have to be avoided.

Some Considerations

Moving to centralized controlled agriculture whether by agribusiness, compulsory cooperatives or government might result, in the short-run, in some coordination and efficiency in production and marketing. However, over the long-run, there are fundamental considerations.

When an industry is controlled by a few large organizations or institutions and their investment in facilities become large, it is difficult to bring about innovations. With many independent farms the adoption of cost saving innovations by a few forces the others to change. This is one of the reasons for the United States' great progress compared to many other countries in the last half century. At least before we give up the independent farm we should look at what has happened to other industries with a high degree of centralized control. We should also look at the experiences of a centrally controlled agriculture in other countries.

At this time when many industries are experimenting with approaches to give workers more satisfaction and pride in their work, it is questionable whether we wish, in agriculture, to move in the same mold. An individual needs identity with either the control of his tools or with the quality or volume of his output. Independent family farming provides the satisfaction and rewards for this individual need.

We also have to weigh if we go the agri-business or compulsory cooperative route, what happens to the leadership in the rural areas. Fragmentary data indicates that the independent rural supply and marketing organizations tend to be eliminated as well as the independent farm. These groups have provided much of the rural leadership in the rural communities. Rural banking likewise tends to move to the larger centers.

There are those who say, why shouldn't agriculture go the agri-business route? Many other industries have gone that way. What is unique about agriculture? Many who have studied this problem believe that this is the way we will gradually drift unless we change the economic climate more in favor of the independent farm.

Summary

We will be facing, during the next decade, the same nature of question that the leaders of this nation faced nearly 200 years ago. The technical and economic environment is different but the issue is the same. Now, as then, it will mean reaching some public consensus concerning this issue and then as we pass bits and pieces of legislation, tilt it in the direction we wish to go. My concern is that we understand and face the issue and do not automatically drift unconsciously into something we do not desire.