Charles G. Scruggs on Agricultural Capitalism

Pathway to Economic Power

All in American Agriculture must realize that 70-80 percent of all economic activity (power) in food and fiber production occurs after the product leaves the farm or ranch gate!

Thus, producers must devise ways to add value to their raw, primary, generic, unbranded commodities through additional processing and marketing.

The quickest and easiest way to do this is to buy shares in businesses that are already operating successfully and profitably: Kellogg, General Mills, Campbell Soup, Kraft, Avondale Mills, McDonald's, ConAgra, Archer-Daniels Midland, and dozens of others.

Long range, however, producers and their organizations must determine new ways to add value, then finance and control the needed entities.

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Capitalism Is On the Farm

Most people in the world believe that the capital of capitalism is located on Wall Street. It is in the business of operating farms and ranches where competitive capitalism is found in its truest and most nearly free form. It is in the hearts and minds of America's rural landholders where the flames of competitive capitalism and private enterprise still burn brightest. And a fiery crucible it is!

During the past few years, U.S. farmers and ranchers have found it very difficult to operate in the most nearly free competitive enterprise system to be found in the world. The returns from the marketplace have not been what farmers or ranchers wanted or deserved. Many have experienced declines in the value of their land. And some 5 percent of our farmers and ranchers have reaped the bitter harvest of our capitalistic system—failure and bankruptcy—in these years. As much as we regret the failures in human terms, we know that our capitalistic system is still working. And our U.S. system is superior to any known alternative.

On the other hand, it's also true that we find in American agriculture the most dynamic evidence of the capitalistic system—amazing wealth! American farmers and ranchers in 1986 had farm assets in the magnitude of over \$700 Billion dollars. That's billion—spelled with a capital B.

The USDA says that farmers and ranchers have farm debts of only \$158 billion. That means farmers and ranchers together have farm net worths of \$550 billion—an incredible sum. Put another way, American farmers and ranchers have \$4.50 OF FARM ASSETS FOR EACH \$1.00 OF FARM DEBT!

This asset-to-debt ratio is much higher than that of most American businesses.

Thus, there is great farm wealth in the hands of America's rural landholders, farmers, and ranchers. But this is not liquid wealth and not easily converted into cash.

Here is a real economic paradox—great rural and agricultural wealth on the whole, and yet inadequate returns on investment for many.

For farmers, the answer to this paradox lies not in turning to more government aid. Instead, they need to be using the American capitalistic system more effectively to their advantage.

Farmers as Capitalists

Farmers and ranchers must become AGRICULTURAL CAPITALISTS—as aggressive in their marketing and management of capital as they have been in managing production.

Agricultural capitalism requires a whole bundle of management efforts that include the following: profit planning, adding value to raw generic products, investment in successful agribusiness enterprises.

Most individual primary food producers are powerless beyond the farm gate.

Organized selling and focused market efforts by hundreds of thousands of producers have always seemed to fail because disciplined organization is lacking.

What Is To Be Done?

Every producer must begin to "Plan for a Profit" on every enterprise, every year. True, this goal cannot be reached all the time. But profit does not just happen—it must be planned. Basic to the effort is an effective accounting system and discovering the full cost of producing a unit of a product.

Producers must begin to devise ways to add value to their primary, generic, unbranded commodities through better marketing and processing.

Farmers cannot—or will not—collaborate in selling their commodities at a profitable price. Therefore, they should invest modestly at least in the enterprises that handle, process and sell their products. These firms claim 70 percent of the money consumers spend on food.

The quick and easy way to make these investments is to make prudent purchases of stock of processing and marketing companies. This is a legitimate extension of farmers' primary investment in agriculture.

We all know that farm prices are more volatile than are prices of food at retail. Up to now the farmers' answer to this challenge has been to form a

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new cooperative that literally tries to reinvent the wheel. Unfortunately, the results are often ineffective.

Invest in Agribusiness

Why not invest instead in stocks of a thriving company with established procedures, brands, and personnel? Farmers can afford—and should consider—off-farm investments in industries and companies that take their products to the consumer. For example, a grain farmer might consider investing in the Kellogg Company, a dairy producer in Kraft and Borden.

Clearly, the returns of these firms have exceeded those returns from cattle, corn, and wheat during the past years.

They should invest modestly at least in the enterprises that handle process and sell their products.

There is a very good way—a uniquely American way—to have a part of whatever returns there are to be gained through processing, marketing, transporting, and retailing of food and fiber.

It's this: Every producer should consider investing from 1 to 5 percent of their gross annual cash flow in the stock shares of American businesses that move food and fiber products from the farm gate to consumers. In 1985, farm cash flow was estimated to be more than $200 billion. One percent of that means $2 billion would be available for stock share purchases per year.

In short, many more farmers and ranchers should study capital management and investments as much as they study production techniques. Investments in off-farm businesses would give producers a much better insight into the operation of such enterprises. And, generally, returns on the investment would be satisfactory. Every farmer should start studying and investing tomorrow if he so chooses.

As to the 5 percent suggestion: I don't know what the "correct" percent should be. Each "agricultural capitalist" should decide this for himself. Perhaps a percent of his net income or X number of dollars or cents per head or bushel.

Finally, if farm producers own 20 percent to 50 percent of a company, and if the company is not producing the desired returns, "ag stockholders" could band together, conduct a stockholder campaign, and elect board members who would be responsive to their wishes. This would be much better than the methods stock raiders of Wall Street are using via leveraged buyout. This way, if a farmer doesn't make it on price from his commodities, he'll at least get some returns from his off-farm investments.

However, the good thing about purchasing shares in a thriving food processing or retail business is that you can buy just a few shares at a time, and you can sell them at any time. And you can still continue to make prudent land and equipment investments.

Admittedly, off-farm businesses can and do fail. You can lose money on stock share purchases. There is no guarantee that even a well run firm will always do well in the future. Investing in very solid companies does not guarantee a profit on stock market purchases.

Buying shares in an American agribusiness or a farm product business, however, would be preferable in many ways to farmers and ranchers attempting to start new firms from the ground up.

If the principle of family dominance in American agriculture is to be preserved, the economic power of farmers and ranchers must be organized through the competitive market-enterprise system beyond the farm or ranch gate.

One way to do this is for each primary producer to invest in stock shares of American businesses that move food and fiber from the farm gate to the final consumer. ■

Stock market prices increase for selected agricultural processors and food marketers 1981-1985

	Percent of change during 5-year period
Allied Supermarkets	Up 243
Archer Daniels Midland	" 250
Avondale Mills	" 109
Beatrice Foods	" 139
Campbell Soup	" 226
Church's Fried Chicken	" 170
ConAgra	" 173
Dart & Kraft	" 172
Dean Foods	" 397
Flowers Industries	" 430
Food Lion	" 452
General Mills	" 154
Giant Food	" 848
Great A&P	" 259
Hormel Meats	" 214
Kellogg	" 242
McDonald's	" 239
Monfort of Colorado	" 460
Ralston Purina	" 345
Safeway Stores	" 139
Savannah Foods	" 581
Supermarkets General	" 420
Tyson Foods	" 706
Wendy's Hamburgers	" 366

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